

# The effect of employees Performance on Customer Loyalty with special reference to unisex beauty salons in Tamilnadu

Dr.S.BALAJI

Assistant professor, Research Department of Business Administration,  
Rajah Serfoji Government College (Autonomous), Thanjavur – 613 005

[balaau82@gmail.com](mailto:balaau82@gmail.com)

## *Abstract*

*This research conceived and build upon exists results that employees performance is directly proportionate and positively reacts on customer loyalty. Further examine this result is carried out whether employees performance is a direct determinant of customer satisfaction and customer retention. This paper find out the result with conducted in unisex beauty salons in tamilnadu regarding employee's performance impact on customer loyalty. This research shows while performance delivering may help to acquire and retaining customers, it is service dependability that more strongly drive customer loyalty in the long term business.*

**Key words:** *beauty salons, customer loyalty drivers; employee's performance; service delivery; dependability, speed; quality*

## **1. Introduction**

Customer loyalty is one of the most frequently addressed subjects in the services marketing and service literature (Andreassen and Lindestad, 1998a; Kerr, 1999; Patterson and Smith, 2003; Eshghi, Haughton, and Topi, 2007; Heskett and Sasser, 2010). The subject has gained attention of service industries because of its importance to the successful running of any service oriented business. Realizing the prime importance of customer loyalty to organisations, a major concern is to determine how it is affected to profit and outcomes. Issues involving customer loyalty in service sectors have drawn the attention of various researchers concerned with finding the determinants of customer loyalty and their implications in service industries.

Most of the studies shown on this matter have concluded that customer satisfaction is one of the major determinants of customer loyalty (Parasuraman et al. 1988; Anderson and Sullivan, 1993; Andreassen and Lindestad, 1998a; Lin and Wang, 2006). Besides customer satisfaction, low perceived value compels customers towards switching to their rivalries in order to increase perceived value, which consequently contributes to a decline in retention rate and loyalty (Anderson and Srinivasan, 2003). Recent research has found that perceived trust directly and positively influences customer satisfaction and customer loyalty (Chiou, 2004). This aspect was strengthened by Lin and Wang (2006), whose study concluded that trusting beliefs could lead to customer satisfaction, which, in turn, influences customer loyalty. Corporate image and Brand image also positively affects customer loyalty and customer satisfaction (Andreassen and Lindestad, 1998a; Javalgi and Moberg, 1997). Other studies have found that service quality is a strong determinant of customer satisfaction and customer loyalty (Buzzell and Gale, 1987; Zeithaml et al. 1996; Kumar et al. 2008).

Many researchers have studied the influence of waiting time over customer satisfaction/loyalty (Taylor, 1994; Pryun and Smidts, 1998; Antonides et al. 2002; Bielen and Demoulin, 2007). Their studies concluded that although waiting time does not affect loyalty directly, it influences service satisfaction which has direct effect on customer loyalty. According to Bielen and Demoulin (2007), waiting time issues arise due to imbalance between demand and capacity. Previous research has shown that operations performance of service delivery can positively affect customer satisfaction (Stank et al. 1999). This study builds upon this by pointing out employee's performance as a direct determinant of customer loyalty.

Specifically, the research studies the effect of employee's performance on customer loyalty in one area of personal services that is unisex salons service industry. In this paper, it has been argued that poor performance of service delivery negatively affects customer loyalty. This research uses Path Analysis as a framework to demonstrate the effects of critical performance factors of employees in unisex salons on customer loyalty.

## 2. Theoretical background

In any service industry customer satisfaction is the fundamental importance and potentially offers a broad range of benefits for business is well established in the literature. Previous studies revealed that a satisfied customer is more likely to repeat and consume service, which leads to increased sales and improve business (Cronin and Morris, 1989; Innis and La Londe, 1994). Although there is evidence that customer satisfaction enhances financial performance (Oliva et al. 1992), its direct effect on market share has been questioned. Different authors argued that customer satisfaction per se does not necessarily assure continued purchases when, for example, competitors offer attractive promotions (Anderson et al., 1994; Jones and Sasser, 1995). As repeated patronage motivated by favorable cognitive attitude towards the supplier is essentially a customer loyalty aspect (Dick and Basu, 1994), customer satisfaction is increasingly viewed as a necessary first step, but not a sufficient condition, for creating customer retention and impacting market share (Anderson et al., 1994; Jones and Sasser, 1995; Reichheld, 1996). Furthermore, as customer acquisition is an expensive and difficult task for companies, requiring considerable investment, time and effort, customer retention has become a major concern for organisations, which are increasingly focusing upon strategically building a strong base of loyal customers rather than focusing upon attracting new ones. Indeed, it has been found that retaining customers is more profitable for firms than investing huge sums in attracting new ones (Ennew, 2003; Weinstein, 2002). As a matter of fact, customer retention is an inherent outcome of customer loyalty, which has been positively linked to financial performance indicators such as profitability and market share (Anderson et al., 1994). This aspect is reinforced by Reichheld and Sasser (1990), whose study has shown that enhanced customer loyalty results in increased revenue, increased market share, reduced customer acquisition costs, and overall profitability. Rust and Zahorik (1993) have also reported a sequential linkage between customer satisfaction, loyalty and market share. Under the service profit chain framework, service quality drives customer satisfaction, which creates customer loyalty leading to growth and profit (Heskett et al., 1994).

### Drivers of Customer Loyalty

Since customer loyalty has become paramount for any service industries, a major concern is to find out the determinants or drivers of customer loyalty. The marketing and service literature abound with studies which pointed out customer satisfaction as one of the prime determinants of customer loyalty (Parasuraman et al., 1988; Anderson and Sullivan 1993; Andreassen and Lindestad, 1998a; Cronin, 2000; McDougall and Levesque, 2000; Chiou et al. 2002; Lin and Wang, 2006; Chi and Qu, 2008; Heskett and Sasser, 2010). Customer satisfaction is considered a strong predictor of behavioural variables such as customer loyalty, word of mouth, repeat buying intentions, etc. (Eggert and Ulaga, 2002). Many researchers as well as service profit chain literature have reported that there is a positive correlation between customer satisfaction, customer retention and customer loyalty which ultimately leads to profitability (Heskett et al., 1994; Parasuraman et al., 1988; Anderson and Sullivan, 1993; Hallowell, 1996; Mittal and Kamakura, 2001)

Service quality has one of the main drive for customer loyalty. While some researchers have reported that customer satisfaction exerts a stronger influence on purchase intentions than service quality (Cronin and Taylor, 1992), others provided strong empirical evidence supporting the notion that service quality increases customer intentions to remain with a company. For instance, Buzzell and Gale (1987) have found that service quality results in repeated sales and increased market share, which leads to customer loyalty. A research by Zeithaml et al. (1996) concluded that when organisations enhance the quality of their services, customers' favourable behavioural intentions are increased while unfavourable intentions

are decreased simultaneously.

Corporate and brand image have also emerged as determinants of customer loyalty (Gronroos, 1988, Andreassen and Lindestad, 1998b). According to Anderson et al. (1994), higher levels of customer satisfaction increases loyalty by building a positive corporate image. Andreassen’s study (1999) has also confirmed that there is a positive relation between corporate image and customer satisfaction, which leads to loyalty. Further studies have also concluded that corporate image plays a significant role in developing customer loyalty amongst existing customers (Andreassen and Lindestad, 1998a, 1998b).

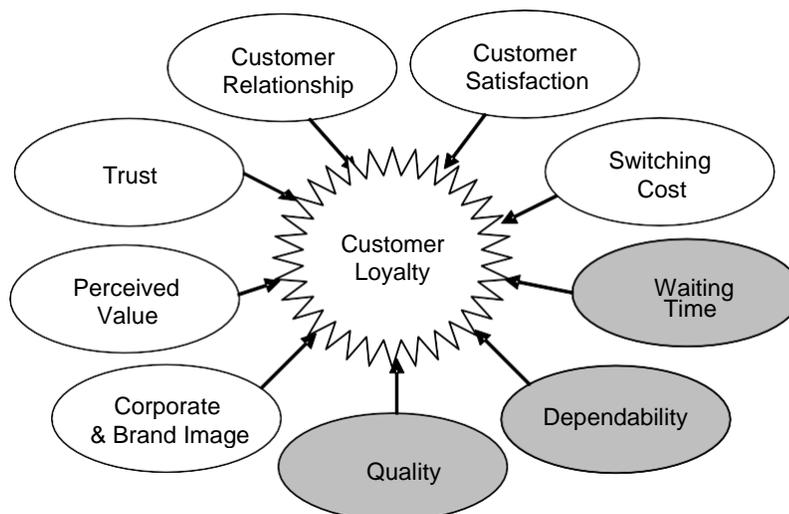
Perceived value expressed as the ratio of perceived benefits to perceived costs is also considered as a determinant of customer loyalty (Zeithaml, 1988; Costabile, 2000; Lam et al. 2004). Customers develop loyalty towards a particular firm when there is a feeling that they are receiving greater value as compared to competitor firms (Bitner and Hubbert, 1994; Sirdeshmukh, et al. 2002). A study by Lam et al. (2004) showed that customer value positively correlates with customer satisfaction and customer loyalty.

Other studies showed that trust directly and positively influences customer satisfaction and customer loyalty (Costabile, 2000; Chiou, 2004). For Gommans et al. (2001) trust is a crucial factor that leads to customer loyalty. This issue was further explored by Lin and Wang (2006) who argued that trusting beliefs lead to positive attitudes (customer satisfaction), which, in turn, influence intention to engage in repeated purchases (customer loyalty). They have also posited customer satisfaction as a mediating variable between trust and customer loyalty.

It has been also found that the development of good relationships with customers also plays a key role in generating customer loyalty. For Buttle (1996), marketing concerns have progressively shifted from developing, selling, and delivering products/services to developing and maintaining a mutually satisfying long-term relationship with customers. Enduring relationships with customers provide a unique and sustained competitive advantage that is hardly duplicated by competitors. Such a strategic orientation is reputed to improve customers’ satisfaction and loyalty as well as raising financial performance (Andreassen, 1994).

Switching cost has also emerged as one of the factors that affect loyalty (Zeithaml, 1981; Gronhaug and Gilly, 1991; Heide and Weiss, 1995). Switching costs involve investment of time, money, and psychological effort. Due to these factors customers are likely to refrain from shifting to another supplier of the same product/service (Guiltinan, 1989; Dick and Basu, 1994). Lam et al. (2004) have found that switching cost is positively correlated to customer loyalty and it also affects customers’ tendency to recommend other customers.

**Figure 1 Main Drivers of Customer Loyalty**



Other scholars have turned their attention to the investigation of organisational performance aspects

and their impact on customer loyalty. Bielen and Demoulin (2007) have reported that waiting time has a significant influence on customer loyalty, especially in service industries. 'Customer satisfaction with waiting time' was used as a construct to represent customer post-experience and judgmental evaluation related to cognitive and affective aspects of waiting. By measuring the extent to which perceived waiting time period matches customers' expectations for a specific transaction, they have also found that long waiting time negatively affects customers' perception of service delivery, which reflects negatively on loyalty.

Moreover, reliability/dependability (Slack 2004) has also emerged as an operations element of prime importance in service quality studies (Zeithaml et al., 1990; Parasuraman, 1991; Heskett et al., 1994; Berry, 1995; Bloemer et al. 1999; Stank et al. 1999). Patterson and Marks (1992) and, more recently, Lai and Yang (2009) also identify a positive relationship between perceived dependability and user satisfaction. A summarised view of the main drivers of customer loyalty that were the focus of several studies conducted by different researchers over the last years is shown in Figure 1.

As evident in Figure 1, just a few studies have hitherto investigated the impact of operations performance elements on customer loyalty. More specifically, the studies of Bielen and Demoulin (2007), which looked at waiting time (speed) effects on customer loyalty, and studies which looked at the impact of dependability on loyalty, were the ones that more distinctively focused upon operations performance aspects in their investigation. Besides speed and dependability, quality was an important operations performance element that has been widely investigated in previous research concerned with drivers of customer loyalty. Our study builds upon previous knowledge on the impact of speed, dependability, quality on customer loyalty by investigating the joint effect of these three elements on customer loyalty. Furthermore, we have also investigated the inter-relationships among these three elements, i.e. how they affect each other.

### 3. Research Methods

The study was developed in a unisex salon. The company has a turnover of approximately \$19,100 in profit every year. The average salon profit margin is 8.2% which is above the general business average of 7.7% and is improving year on year. Salon profit margin range from 2% to 17% depending on how well the salon is managed and service to customers and attain satisfaction.

This study consists of large monthly sample size (of 750 adults) data collected through the unisex salon outlets. The 'quality' variable was measured by the firm on a Likert 10 point scale where 1 = strongly disagree and 10 = strongly agree by asking following questions;

- Do you feel employees were proper response?
- To what extent do you feel we take care of your desires?
- How convenient to deal with this salon outlet?
- Do employees provide sense of trust/security?
- Do you feel we have favorable attitude towards our customers?

These questions closely resemble to some of the items of SERVQUAL measures (empathy, responsiveness, trustworthiness and assurance), however firm did not employed SERVQUAL tool while assessing the quality construct. The data was converted into single item scale as all the measures of the 'quality' construct were strongly correlated with each other and reliability test result showed that Cronbach's Alpha value was  $> 0.70$  (0.90). The proxy variable for 'dependability' is 'arrival on first promise'. Dependability means doing things in time and as promised (Slack et al., 2004). Performing well on keeping delivery promises made to customers represents individual ability to deliver dependable services. In this sense, low measurements for 'arrival on first promise' suggest low dependability performance and, conversely, high 'arrival on first promise' means high dependability. Finally, 'customer loyalty' was observed in terms of customer likeliness to recommend the service provider. Dick and Basu (1994), truly loyal customers are the ones who, besides developing preferential attitudes towards the selling firm, motivate others about the services provided by the firm through recommendation or positive word of mouth.

Path Analysis was the main methodological framework used to depict the inter-relationships between

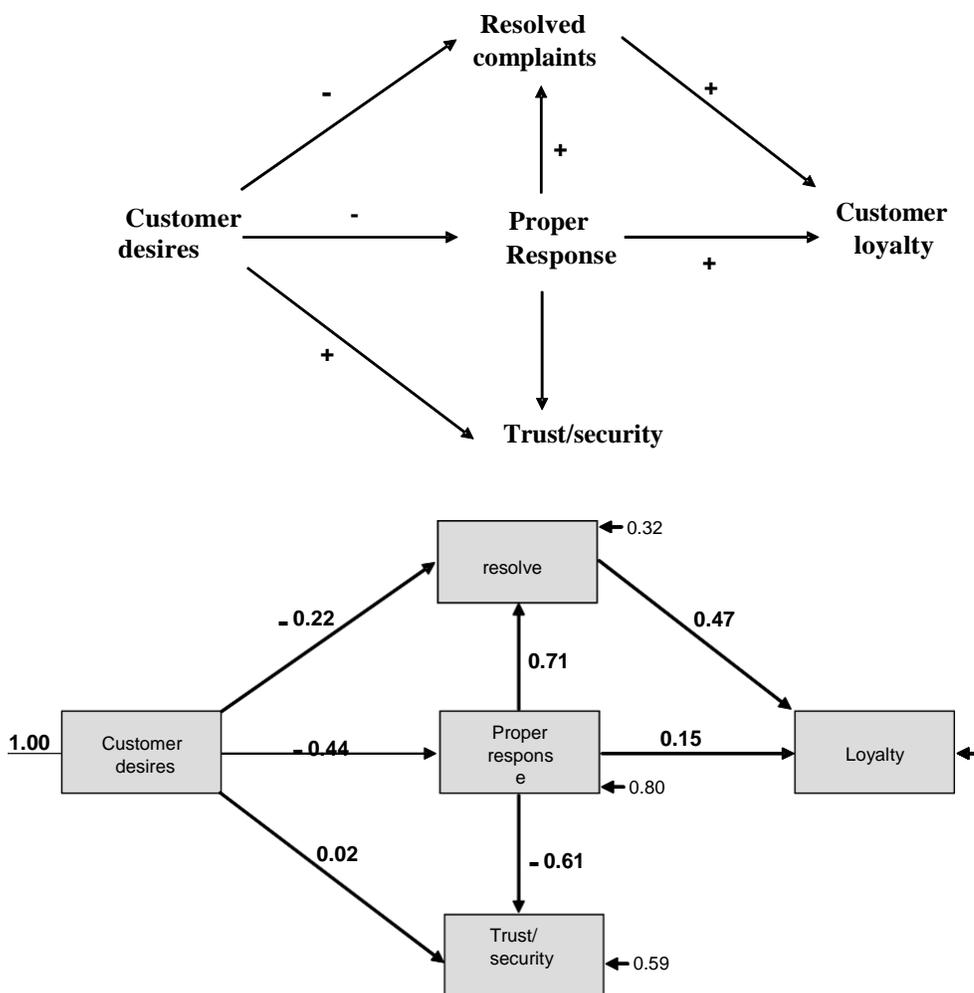
the variables considered and, most importantly, to show the effect of the observed operations performance elements on customer loyalty. In practice, it is a straightforward extension of multiple regressions, aiming at providing estimates of the magnitude of hypothesised causal connections between sets of variables (Everitt and Dunn, 1991). Another important aspect of Path Analysis is that it deals only with measured variables. Accordingly, all variables analysed were directly measured by the company studied. The ability to of path analysis to decompose the correlation between any two variables into a sum of simple and compound paths yields information about casual processes, which provides a more explicit approach for the explanation of the relationships under investigation (Ullman, 1996; Kline, 1998; Yang and Trewn, 2004; Kumar et al. 2008). In structural equation modeling as a rule of thumb, any number above 200 (critical sample size) is understood to provide sufficient statistical power for data analysis (Hoelter, 1983; Hoe, 2008) and this study thus meets the minimum requirements of the sample size (2000 adults) for the path analysis.

#### 4. Analysis

A positive correlation was found between ‘proper response’ and ‘customer loyalty’. Similarly, a positive correlation between ‘customer desires’ and ‘customer loyalty’ was evident. On the other hand, it was positively correlated with ‘Trust/security. Further analysis of the correlations showed that ‘proper response’ was positively correlated with ‘Trust/security.

Our path analysis started with the definition of an input path diagram, which is a path diagram drawn beforehand to help plan the analysis and represents the causal connections predicted by our propositions. To construct a path diagram an arrow is drawn from each variable to any other variable we believe that it affects (Everitt and Dunn, 1991). Based on the initial correlation analysis, the following input path diagram was idealised (Figure 2).

**Figure 2 Input Path Diagram**



Chi -Square=3.19, df=3, P-Value =0.36383, RMSEA=0.039

**Figure 2 Output Path Diagram**

**Figure 3 Output Path Diagram (Best Fit Path Model)**

An output path diagram represents the results of a statistical analysis. Our output path model was built based on the input model above (Figure 3). In order to find the model that best fits with the empirical data, a number of alternative variations from the initial input diagram were tested. Careful consideration was given so that the models tested did not violate the theoretical assumptions. The model with the best fitness confirmed the initial input idealised and the resultant output path diagram is shown in Figure 3 below. The resultant path diagram had a Chi- square value of 3.19, degree of freedom (df) of 3 and RMSEA value of 0.039 as evident from the Figure 3. Apart from Goodness of Fit Index (GFI), Comparative Fit Index (CFI) and Normed Fit Index (NFI) were looked at to check the fitness of the best fit model since they are relatively less sensitive to the sample size. The Incremental Fit Index (IFI) was also measured since it addresses the issue of parsimony and sample size, and takes into account the degree of freedom. Non Normed Fit Index (NNFI) value ranges from 0 to 1 and value close to 0.95 for large sample is indicative of good fit. Relative Fit Index (RFI) value ranges from 0 to 1 and value close to 0.95 indicates superior fit (Byrne, 2001). The fitness values for the best fit model are shown in Table 1

**Table 1 Fitness Values for the Output Model**

<b>Fitness Indices</b>	<b>Fitness Values</b>	<b>Acceptable Ranges</b>
Goodness of Fit Index (GFI)	0.96	> = 0.90
Relative Fit Index (RFI)	0.92	> = 0.90
Comparative Fit Index (CFI)	1.00	>= .95
Normed Fit Index (NFI)	0.98	> = 0.90
Non-Normed Fit Index (NNFI)	0.96	>= .95
Incremental Fit Index (IFI)	1.00	>= 0.90

The outcome path model indicates that there is an inverse relationship between customer desires and ‘proper response’. This suggests that when desires rise responses falls. From this, one can imply that the arrival of the more customers in single time become less dependable rise. By its turn, dependability (‘proper response’) has a positive relationship with ‘resolve problems’. This suggests that as customer desires falls ‘resolve problems’ falls as well.

Considering the Preposition P1 ‘*The processes of a service delivery system do not perform in an isolated manner; the performance of specific activities in the system affects the performance of other activities*’, the outcome path model shows that variations in ‘proper response directly impacts ‘resolve problem’ and ‘trust/security’. The implication of this aspect is that poor responses negatively impacts resolve problems. This provides evidence to support P1. The evidence indicates that dependability has a strong influence over the other two performance elements studied. This finding is in accordance with, and extends the conclusions of, previous studies which showed that dependability is an operations factor of prominent importance (Zeithaml et al., 1990; Berry, 1995; Stank et al., 1999).

The path model also provides support for Proposition P2 *'When operations performance is negatively affected by increased demand, there is a resulting negative impact on customer loyalty'*. The outcome model shows that 'resolve problems' and 'proper response' have a direct and positive relationship with loyalty. This suggests that as 'proper response falls (with rising orders) then loyalty is likely to fall as well. Similarly, as resolve problems falls (due to increases in orders and failure to giving attention) then loyalty is likely to fall as well. An interesting outcome in the model is that there is no direct relationship between trust/security and 'loyalty'. A possible explanation for this aspect is that 'Trust' is in practice an order winning criteria (Hill, 2005), setting customers' expectation for the Trust, whereas the other two variables ('proper response and 'resolve problems') are post sale attributes. This implies that it is the post sales activities which more strongly affects loyalty, not those attributes which help contribute to the increase profit. The implications of this aspect for parlors are considerable. While promising Trust might help in acquiring customers, being dependable and delivering consistent quality are performance factors that drive loyalty.

Taking into account all aspects above, it is possible to depict an overall scenario for the company studied: when customers increased and 'proper responses' declined, after capacity was reached, Additionally, when 'proper responses' fell then the 'Trust/security' rose, as those delivering the service responded to failure to meet promised customer expectations. Ultimately, poor employee's response in both customer desires and Trust directly and negatively impacted customer loyalty.

## 5. Implications

The research findings strongly suggest that the continuous growth of demand over time increasingly requires delivery capacity until a certain point that full capacity will be reached. If requirement continues to increase and no extra capacity is provided, there will be a situation of imbalance between satisfaction and loyalty, where employees is insufficient to cope with increased demand. Our findings show that this latter situation compromises the employee's performance in terms of dependability, quality and Trust. The pressure on dependability aspects of the operations, due to high demand and insufficient capacity, affects the quality of service. Finally, poor performance on quality aspects also directly and negatively impacts customer loyalty, escalating the overall impact of operations performance on customer loyalty.

Adding to previous studies which analysed the impact of operations elements such as quality and speed on customer loyalty, an important outcome of this research is the evidence that dependability is a driver of customer loyalty. This represents a key finding of the study, as it not only adds to the knowledge and understanding of the driving forces of customer loyalty, but also highlights how critical dependability is to sustain the overall performance of employees impacting customer loyalty. Another important aspect to consider is that Trust, not only sets the reference for the internal assessment of dependability performance, but, most importantly, it also sets the level of customers' expectation for the dependability of the service. According to our findings, failure to meet promised deadlines harms customer loyalty. Responding to this by offering a higher lead time with the purpose of bringing customers' expectations down might complicate instead of solving the problem as lead time is often an order winning factor (Hill, 2005). Rather than increasing demand parlors should actually review their processes with the purpose of reducing the grievances in the different stages comprising the service delivery system. The parlors can then offer competitive strategy without compromising the employee's dependability.

Finally, the results show that different elements or processes that form a service delivery system do not work in an isolated manner. More specifically, employees involved in a service delivery system impact each other, but not necessarily to the same extent and direction. Our results provide evidence that processes related to the dependability of the delivery system have strong impact on other elements of the system. The managerial implication of this is that optimising processes to improve the dependability of a person is likely to produce better results in customer loyalty than the optimisation of other processes related to other specific aspects of the delivery system. This is not to say that processes

other than the ones related to dependability are not important and should not be optimised. However, it is important to bear in mind that changes in some processes of a service delivery system do not necessarily guarantee improved performance of the delivery system as a whole. For instance, our findings suggest that the unisex salons under study tend to increase lead time when dependability is affected by increased demand. This sort of change produces a palliative effect on customers' expectations only and it does not necessarily impact their loyalty or contribute to the overall performance of the effective output.

## 6. Conclusions

This study has developed knowledge on the drivers of customer loyalty. Previous studies have pointed to the relationship between employee's performance and customer loyalty. This research adds considerably to the knowledge in the area by introducing dependability as an important driver of customer loyalty. Trust may help in customer acquisition but in the long term customer retention is mainly affected by dependability and consistent quality. Limited capacity to match demand usually offer longer lead times for delivery of any service industry. Our findings suggest that this practice is a palliative measure that negatively affects dependability performance, which, consequently, impacts on customer loyalty negatively on the long term.

It is important to bear in mind that the study here reported was conducted in a unisex beauty parlors. Therefore, the generalisations we make refer, and are limited to, the personal service sector. Wider generalisations require the replication of this study in other service sectors.

The evidence provided by this study strongly points to the inter-relationship between three elements of response handling: trust, customer desirability. While the literature tends to treat these three variables independently, the outcome of this research shows that like any system the elements are closely linked. Looking at these relationships over time is vital and this requires alternative methods of research. In general, it seems to us that more studies that attempt to identify relationships through time and draw upon systems theory are required. Systems provide an intellectually coherent framework that fundamentally allows for multiple causality of outcomes. We hope that this paper helps to spawn new research in systems and causality that will begin to turn "black boxes" more transparent and begin to explain why relationships between operations and customer loyalty are so important.

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