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Restaurant Formality and Customer Service Dimensions in the Restaurant Industry: An Empirical Study

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Abstract – The purpose of the study was to examine the different customer service dimensions in the restaurant industry. Survey-based data collected from customers that dined regularly in restaurants classified as fast food, casual dining, and fine dining was used. Our study makes an imperative contribution by applying Resource-based view theory in the field of services marketing. The results show that restaurant formality has an adverse impact on customer loyalty, but this impact is positive when restaurant formality interacts with customer gratification. There are other important findings that lead to repeat sales and improved profits for restaurants. We conclude by discussing some limitations in our study as well as suggesting future research directions.

Keywords - Customer loyalty, Restaurant formality, Customer gratification, Brand rapport, Resource-based view, ServQual dimensions, Structural equation modeling.

Relevance to Marketing Educators, Researchers and/or Practitioners – The findings of this paper are beneficial for both academic researchers and professionals working in the restaurant industry. Managers can use the findings from the paper such as the negative relation between restaurant formality and customer loyalty to improve customer loyalty and in turn the bottom line. Researchers can use the findings in this paper to further advance theory development in the field of services marketing.

Introduction

Americans have started eating out more in the new millennium, as compared to that in the 80's and 90's (Kant & Graubard, 2004). Consequently, Americans ended up spending more on dining than on traditional grocery in the year 2015 (Jamrisko, 2015). With people eating out more than ever before, we found it compelling to take a look at the tangible and intangible resources in the restaurant industry that can contribute to the success of these firms. A quick review of the service failure literature revealed that around 30% of restaurants fail in their first year of existence (Parsa, T.Self, Njite, *et al.*, 2005). Service failure can be one of the reasons that can be attributed to this failure (Dutta, Venkatesh & Parsa, 2007). As a result of high failure rate in the restaurant industry, growing competition and rapidly changing customer requirements, attracting and retaining customers can be considered to be a vital part of survival in this sector. As our study encompasses a wide variety of restaurants, we have introduced a new construct, restaurant formality which classifies restaurant based on fast food, casual dining, and fine dining. Restaurant formality will help us to see the effect of different service dimensions across restaurants. The central research question in our paper is the effect of the tangible and intangible assets on customer loyalty in the restaurant industry and how this can positively contribute to the firm bottom line, as building customer loyalty can lead to increased sales and higher profits. Our study uses Structural Equation modeling (SEM) to test the effects of marketing service dimensions on customer's perception of loyalty, brand rapport, and customer gratification, considering the interaction and the dependency that occurs between different services in the restaurant industry. This paper contributes to the theory of services marketing by taking an approach to studying the combined interaction effect of customer equity and services marketing dimensions. Our paper uses the resource-based view of the firm and our empirical findings can lead to a sustained competitive advantage for the restaurants.

Literature Review

Customer service dimensions

Service quality and customer satisfaction have been influential constructs in marketing theory and practice (Spreng, R.A. and MacKoy, 1996). ServQual dimensions are one of the important factors which determine the effect of the product on the customer (Asubonteng, McCleary & Swan, 1996). Scholars have argued that service loyalty and brand equity are interrelated with each other and customer loyalty is further a derived product of service loyalty (Rauyruen, Miller & Groth, 2009). Service loyalty is seen to affect the high-level market performance attributes which are related to the final outcome of the service which includes a high market share and high price premium (Chaudhuri & Holbrook, 2001). Accordingly, retaining customers to increase customer loyalty and hence achieve and maintain high market share and high price premium has become a trend in successful organizations (Kramer, 2002). Taking business to consumer nature of the industry with dining

services into consideration, it is seen that when considering same purchases, customer loyalty has a significant influence on the financial success of the supplying firms. Consuming the same product multiple times assures that the consumer believes in the quality which further saves consumers time, money, disappointment, and self-disappointment (Langer, 2000). Most repeat purchases are seen to be as a result of the product class or brand and are not necessarily a direct function of psychological process (Beatty, Homer & Kahle, 1988). Loyalty theory considers habitual or repetitive purchase behavior to be an indicator of loyalty (Chaudhuri & Holbrook, 2001). Repetitive purchase has a significant effect on customer loyalty and brand equity, where both the attributes are seen to have a strong effect on each other (Beatty, Homer & Kahle, 1988). Earlier research shows that customer loyalty can be a result of habit (Jacoby & Kyner, 1973).

Resource-based view

The resource-based view of the firm explains that sustained competitive advantage of a firm can be derived from resources and capabilities of a firm that are valuable, rare and inimitable (Barney, Wright & Ketchen, 2001). Barney (2001) argues that the resources and capabilities can be considered to form a bundle of tangible and intangible assets. Intangible assets can comprise of firm's management skills, organizational process and routines and the information and knowledge controlled.

Marketing researchers have given little thought on the application of RBV as a reference point in advancing marketing theory (Barney, Wright & Ketchen, 2001). Marketing may help in understanding the need for rare resources to be seen in the form of customer needs (Barney, Wright & Ketchen, 2001). We aim to fill the gap by applying the resource-based view of the firm in the field of services marketing.

Firms in our study are the restaurants. Based on the resource-based view of the firm, we classify the constructs used here as tangible assets (Interior environment) and intangible assets (Empathy, Customer gratification, and brand rapport), as tangible assets are assets in physical form and intangible assets are assets without a physical form. Customer loyalty is one of the outcome variables that lead to higher market shares and profits (Kramer, 2002). Maintaining customer loyalty over time can lead to a sustained competitive advantage for the restaurants.

Customer loyalty

Customer loyalty has been the center of marketing research receiving a lot of empirical attention. The majority of the literature available focuses on customer's willingness to visit a particular service provider again and tries to relate it with customer loyalty (Oliver, 1999). Customer loyalty is seen to be the basis for future sales, further developing brand equity (Aaker, 1991). As purchases keep on repeating, the relationship with the organization also keeps on improving. Furthermore, customer loyalty has a strong influence on the relationship and strong relationship further develops bigger profit margin (Aaker, 1991).

Brand rapport

There hasn't been any research to identify the combined effect of both the customer relationship and brand equity on customer loyalty. We extend the theoretical concept to understand the combined dimension (factor) from the interaction of brand equity and customer relationship. The combined factor is called as brand rapport, which means an emotional linkage to the brand earned through the repetitive purchase. Based on this, the following hypothesis was proposed:

H1. Brand rapport is positively related to customer loyalty.

Restaurant formality

Respondent's responses came over from three formalities of restaurants, which include fast food, casual dining, and fine dining. We have named this ordinal variable as restaurant formality, as this variable focuses on the different restaurant formalities. ServQual dimensions were common for these formalities, with the items being same.

Prior research on the effect of hedonic and utilitarian values on customer satisfaction in the fast-casual restaurant industry found a significant positive relationship between hedonic and utilitarian values on customer satisfaction (Ryu, Han & Jang, 2010). Utilitarian value (items: "Eating-out at the fast-casual restaurant was convenient", "Eating-out at a fast-casual restaurant was pragmatic and economical", "It was a waste of money when eating-out at a fast-casual restaurant" and "Service at the fast-casual restaurant was quick") can be considered to be task-oriented and rational (Ryu, Han & Jang, 2010). Since customer loyalty in this study is the frequency of visiting a restaurant (Appendix A), we hypothesize that restaurant formality has a negative effect on customer loyalty. This negative effect can be explained by the fact that people prefer convenience and cost, to increase their utilitarian value and hence are more likely to frequently visit fast food restaurants and casual dining restaurants, in comparison to fine dining restaurants. Therefore, the following hypotheses were proposed:

H2. Restaurant formality is negatively related to customer loyalty. H3. Brand rapport mediates the effect of restaurant formality on customer loyalty.

Customer gratification

In previous literature, there is empirical evidence that satisfaction is the main driver in repetitive sales. Repurchase and reorder are the combined effects of satisfaction derived from the product or service (Anderson & Sullivan, 1993). There have been several papers which have found a positive relationship between customer satisfaction and customer loyalty (Anderson & Sullivan, 1993). In this study, we examine the interaction between customer equity and customer satisfaction. The new factor is named customer gratification, gratification being the emotional pleasure derived through the satisfaction of desire. Extending the theory from brand rapport, the following hypotheses were proposed:

H4. Restaurant formality is positively related to customer gratification. H5. Customer gratification moderates the effect of restaurant formality on customer loyalty in the positive direction.

Interior Environment

Servicescape has been mentioned as the man-made physical surroundings which can be controlled by service firms to achieve both external marketing goals and internal organizational goals (Bitner, 1992). The effect of servicescape on customers' perceived service quality and pleasure-feeling was studied for theme restaurants which found evidence for the importance of an understanding of customers' perception process in relation to emotion and cognition (Kim & Moon, 2009). The effect of physical environment (décor and artifacts, spatial layout and ambient conditions) on customer loyalty through price perception and customer satisfaction has been studied, in which the three factors of physical environment had a strong relation to customer price perception and this price perception increased customer satisfaction level while having a direct/indirect relation with customer loyalty (Han & Ryu, 2009). The effect of facility aesthetics and ambience on customer pleasure was studied for fine dining restaurants, which found significant effects of facility aesthetics, ambience, and employees on the level of customer pleasure (Ryu & Jang, 2007). Servicescape of the restaurant, the appearance, and tidiness of the restaurant staff is captured in the variable interior environment. We investigate the impact of interior environment on customer loyalty in the restaurant industry (that covers fast food, casual dining, and fine dining). Based on this discussion, the following hypothesis was proposed:

H6. Interior environment is positively related to customer loyalty.

Empathy

Empathy reflects functional quality being one of the ServQual dimensions (Asubonteng, McCleary & Swan, 1996). Prior research has found a positive relationship of empathy with loyalty (Mittal & Lassar, 1998). Based on this, the following hypothesis was proposed:

H7. Empathy is positively related to customer loyalty.

Purpose

The purpose of the study was to collect observational data from customers that periodically visited restaurants, in order to run statistical analysis that helps us to test our proposed hypotheses.

Method

Measures

The constructs used in this study had multiple items, as used in previous studies. The items were designed such that they cover all the services marketing dimensions (Berry, Parasuraman & Zeithaml, 1990), with each item covering one of the dimensions. Likewise, items represented were three types of customer equity, brand

equity, value equity, and relationship equity (Lemon, Rust & Zeithaml, 2001). The service quality dimensions have been empirically studied in the previous literature, by applying in different industry domains (Carman, 1990). In this study, these service quality dimensions are used as measurement tools to measure aspects of services provided by the restaurant. The observed variables in the data set are reflective, which are appropriate to use in covariance-based SEM (Gefen, Straub & Boudreau, 2000). The scale used for measurement was a 7 point Likert scale measuring agreement and disagreement for each item (1 = “Strongly Disagree”, 2 = “Disagree”,...7 = “Strongly Agree”). Restaurant formality is a single indicator latent variable, where the single item is Res_type (which denotes the formality of restaurant which is ordinal in nature and can take 3 values: 0- fast food restaurant, 1- casual dining restaurant, 2- fine dining restaurant). For the single indicator latent variable, the factor loading has been fixed to one and the measurement error fixed to zero.

Data collection

The data was collected through an online survey. The survey consisted of 47 items and took an average of 42 minutes to complete. Customers from different restaurants across the United States were used for this study. A screener was implemented before the main survey to filter out the respondents who were not part of the subjective process. The subjective process consisted of selecting only those customers who dined in the restaurant of the research interest and not who preferred to take to-go orders. Accordingly, the survey was kept restricted to only those respondents, who had dined once or more in the restaurant. The selected respondents were sent an email link to the survey. The respondents who completed the survey were entered into a raffle draw of twenty \$25 gift cards. The survey was distributed to 3200 respondents and 2118 responses were collected with a response rate of 67%.

Demographics

The survey also consisted of a few questions which were nominal in nature and were used to record the demographics of the respondents such as age, gender, marital status of the customer. The demographic analysis revealed that 50.7% of the respondents were female and 49.3% were male. 58.8% of the respondents were single never married, 31.9% were married, 6.4% were divorced, 1% were separated and 1.8% were widowed. 40.6% of the respondents were employed full time, 23.4% were employed part time, 25.9% were students, 5.7 % were unemployed, 3.9% were self-employed and 0.5% were retired.

Statistical analysis

The missing data was taken care of by coding the missing values as -99. Handling missing data and Exploratory factor analysis were done in SPSS 21. EFA was conducted first for scale development, in accordance with scholars who have suggested using EFA first for scale development followed by CFA (Brown, 2006). CFA is appropriate to use when there is a strong theoretical background for hypothesized factor loadings (Hurley, Scandura, Schriesheim, *et al.*, 1997). All items were analyzed in exploratory factor analysis, the main purpose of which was to understand the

pattern in the data to see which items share common variance and form a factor. EFA resulted in 5 factors. All 5 factors had good reliability, as indicated by Cronbach's alpha (above the recommended cut-off of 0.7). Therefore, the reflective items have high internal consistency. Interior environment was measured using 5 items (ex: 'Has visually attractive dining area', 'Has staff members that are neat, clean and appropriately dressed'). Empathy was assessed by 10 items (ex: "Has employees that are sensitive to my individual needs and wants", "Serves me in a reasonable amount of time"), Customer gratification was measured by 5 items (ex: "Overall I am very satisfied with my decision to come to this place", "The quality of food is worth the price paid"). Brand rapport was assessed by 4 items (ex: "I know a great deal about this place", "Employees here recognize me"). Customer loyalty was measured by 2 items ("I am sure I will visit this restaurant again", "I will definitely visit this restaurant again"). Scale development can be found in Appendix A.

Multivariate normality

The histogram of residuals did not show a violation of normality.

Measurement model

The recommended two-step approach of testing the measurement model followed by testing the structural model was used (Anderson & Gerbing, 1988). All 5 factors from EFA were used in the measurement model (Figure 1). All latent variables have been allowed to covary and scaling was done in the phi matrix. After testing the initial measurement model (CFA), one item was removed from the factor tangibles and one item removed from the factor brand rapport due to comparatively low standardized factor loadings. The measurement model was run using Mplus version 7.31.

Chi-square for the measurement model is 3632.677, with a p-value of 0, indicating a significant chi-square at the 0.01 level. Nonetheless, the chi-square test is an exact test and suffers from many limitations such as its sensitivity to distribution assumptions and sample size (Bentler, 1990). Hu & Bentler's two index strategy recommends using stand alone fit index along with an incremental fit index (Hu & Bentler, 1999). Reporting SRMR is recommended as it is sensitive to model misspecification and less sensitive to sample size (Hu & Bentler, 1999). Stand alone fit index, SRMR is 0.061, which meets the criterion that SRMR should be less than 0.09 (Hu & Bentler, 1999). Type 2 Incremental fit index TLI is 0.918 (above 0.9) and Type 3 Incremental fit index CFI is 0.927 (above 0.9). From table 1, we can see that the standardized factor loadings are above 0.6 and significant (p-value = 0). Moreover, the standardized factor loadings are of the expected sign and magnitude with the correlations not being greater than one and having no negative variance estimates. Consequently, we do not have a Heywood case.

Overall, the measurement model has a good fit with the data set. As, the measurement model (Figure 1) has a good fit with the data set, we decided to proceed with testing the structural model.

Table 1: Standardized factor loadings

<i>Latent variable</i>	<i>STDYX Factor loadings</i>	<i>Two-tailed P-value</i>
EMP BY		
EMP1	0.818	0.000
EMP2	0.729	0.000
EMP3	0.779	0.000
EMP4	0.749	0.000
EMP5	0.709	0.000
EMP6	0.754	0.000
EMP7	0.794	0.000
EMP8	0.816	0.000
EMP9	0.849	0.000
EMP10	0.844	0.000
BRAP BY		
BRAP2	0.685	0.000
BRAP3	0.933	0.000
BRAP4	0.963	0.000
BRAP5	0.718	0.000
INT BY		
TANG2	0.741	0.000
TANG3	0.775	0.000
TANG5	0.785	0.000
TANG6	0.717	0.000
TANG7	0.764	0.000
LOYAL BY		
LOYL1	0.909	0.000

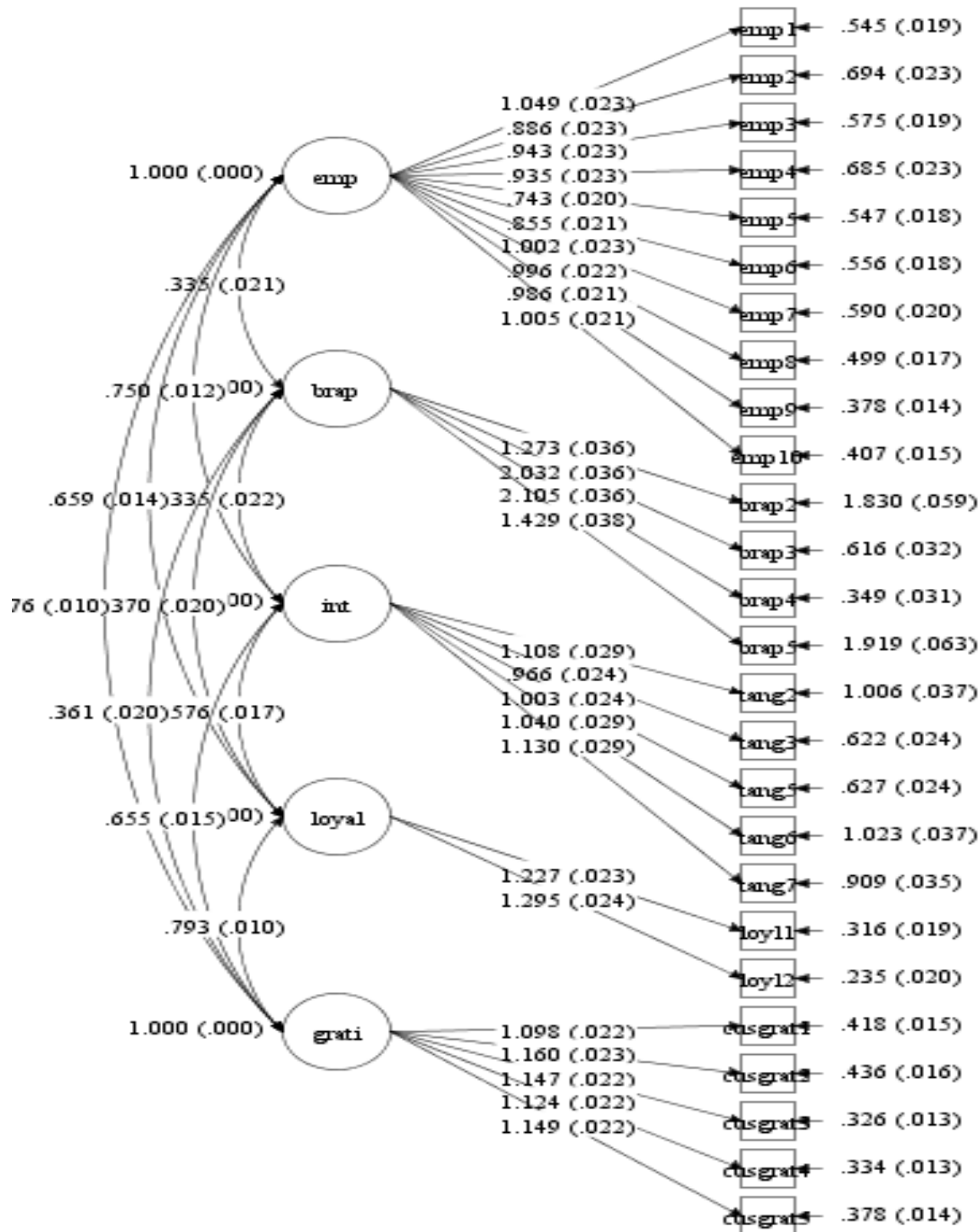


Figure 1: Measurement model

Where GRATI is Customer gratification, BRAP is Brand Rapport, EMP is Empathy, INT is Interior environment and LOYAL is Customer loyalty.

Structural model

In the structural model, the latent exogenous variables were allowed to covary (Figure 2). First, part of the structural model was run to test for the presence of direct effect and mediation. Mplus version 7.31 was used to run the structural model. The structural model with path coefficients is summarized in Figure 3.

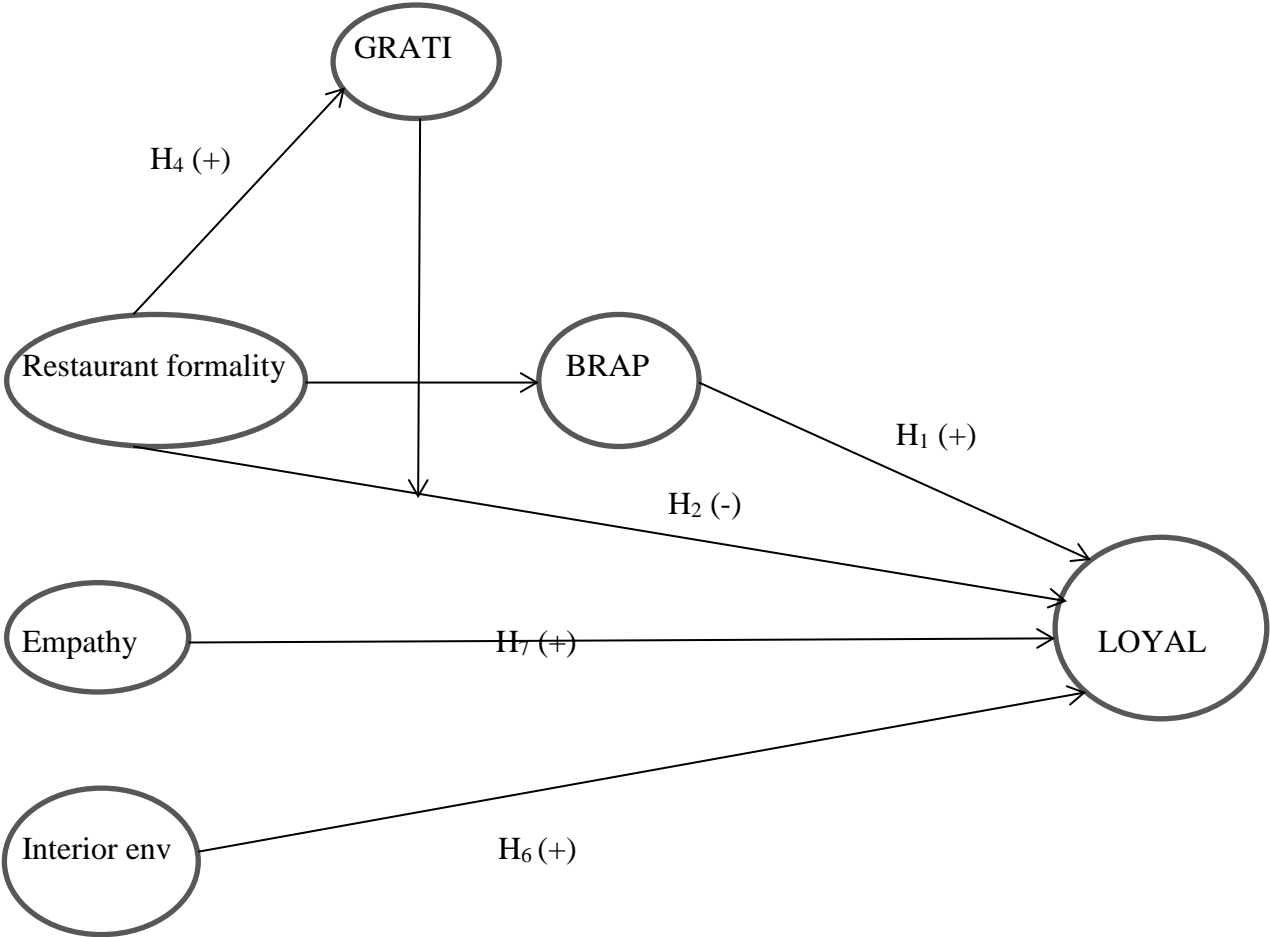


Figure 2: Structural model

Findings

All hypotheses are supported (Table 2). This indicates that interior environment has a significant positive effect on customer loyalty, empathy has a significant positive effect on customer loyalty, restaurant formality has a significant positive effect on customer gratification and significant negative effect on customer loyalty and brand rapport has a significant positive effect on customer loyalty. R-square of the latent endogenous variable customer loyalty is 0.445 (p-value =0), indicating a highly significant R-square.

Table 2: Standardized model results

<i>Hypothesized path</i>	<i>Unstandardized coefficient</i>	<i>Two-tailed p-value</i>	<i>Result</i>
H ₁ : Brand Rap to Customer loyalty	0.147	0.000**	Supported
H ₂ : Rest form to Customer loyalty	-0.156	0.000**	Supported
H ₄ : Rest form to Customer gratification	0.069	0.030*	Supported
H ₆ : Interior env to Customer loyalty	0.228	0.000**	Supported
H ₇ : Empathy to Customer loyalty	0.552	0.000**	Supported

*P<0.05, **P<0.01

Mediation finding

The modern approach of testing mediation that includes both direct and indirect effects (Preacher & Hayes, 2008) was used to test hypothesis 3. The unstandardized estimate for indirect effect is -0.013, which is significant at 5% significance level (p-value = 0.020). The indirect effect was bootstrapped using bias-corrected bootstrapped confidence interval. The 95% bias-corrected bootstrapped confidence interval of the indirect effect is from -0.024 to -0.003. As 0 is not in the confidence interval, the specific indirect effect is significant.

Brand rapport significantly mediates the effect of restaurant formality on customer loyalty at the 5% level, thus supporting hypothesis 3.

Moderation finding

The residual centering approach was used to test moderation (Little, Bovaird & Widaman, 2006), where the latent interaction variable was defined by the pair-wise product indicators from residual items. The proposed moderator is customer gratification. Customer gratification has 5 items and restaurant formality is a single item latent construct. Therefore, the latent interaction variable (GRATFORM) has been defined using 5 pair-wise product indicators. The unstandardized estimate for the regression of customer loyalty on the interaction variable is 0.066 and significant at the 1% level (p -value = 0.001). Since the unstandardized estimate for interaction is positive, customer gratification significantly moderates the effect of restaurant formality on customer loyalty in the positive direction, supporting hypothesis 5.

From the moderation plot (Figure 4), the line $y = 4.92 - 0.18*x$ represents low customer gratification, the line $y = 5.9 - 0.07*x$ represents medium customer gratification and the line $y = 6.88 + 0.04*x$ represents high customer gratification. For low customer gratification, the effect of restaurant formality on customer loyalty is negative whereas, for high customer gratification, the effect of restaurant formality on customer loyalty is positive. At high customer gratification, customer loyalty increases with restaurant formality.

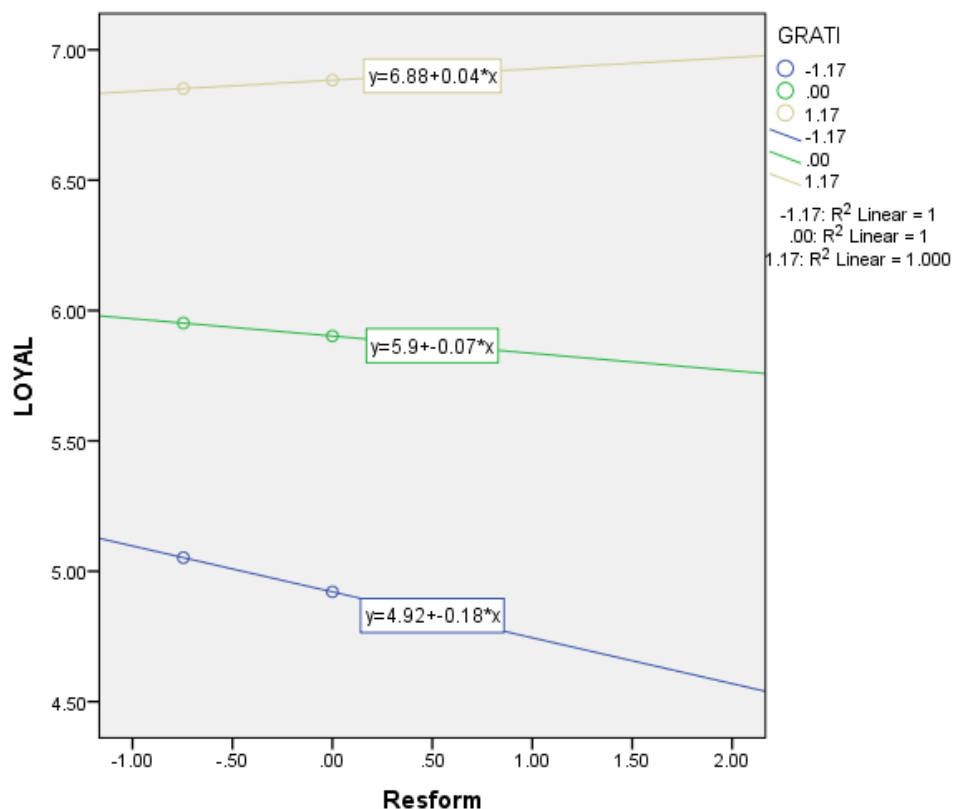


Figure 4: Moderation plot

Limitations

As with any empirical research study, our study has a few limitations. One limitation is that the data is cross-sectional. Consequently, causal inferences cannot be made.

Future research can incorporate the demographic variables such as age, gender to test if the demographic variables significantly predict whether a person visits a particular restaurant formality.

It would be interesting to test some of the hypothesis (such as the effect of interior environment on customer loyalty) in an experimental setting, to further validate our empirical findings.

Discussion

This study has several contributions to the field of services marketing. We have introduced a new construct restaurant formality, which classifies restaurants into 3 categories. Our paper contributes to the existing marketing services literature by showing the effect of internal environment on customer loyalty, the effect of restaurant formality on customer gratification, the mediating effect of brand rapport on the relation between restaurant formality and customer loyalty.

The resource-based view has been applied to categorize the assets of restaurants into tangible and intangible. The application of RBV in this paper answers the call of Barney (2001) for the use of the resource-based view to advance marketing theory.

Existing frameworks used in marketing such as ServQual dimensions (Asubonteng, McCleary & Swan, 1996) and servicescapes (Bitner, 1992) have been extended to introduce new factors such as interior environment, brand rapport, and customer gratification.

Managerial implications

Restaurant owners and managers can use this study to improve different aspects (both tangible assets and intangible assets) of their restaurants that affect customer loyalty, which in turn increases the profit of the business. This study has an important finding for fine-dining restaurants. Since we get a significant negative relation of restaurant formality with customer loyalty; fine dining restaurants can devise new schemes to increase the visiting frequency by a regular customer. At high customer gratification, customer loyalty increases with restaurant formality. Fine dining restaurants can use this finding and look at ways to improve customer gratification since this would lead to increase in customer loyalty.

Prospective new restaurant owners can consider opening a new restaurant formality: casual fine dining that combines the convenience and cost of casual dining restaurants with the aesthetics and ambience of fine-dining restaurants. Maintaining customer loyalty over time can lead to a sustained competitive advantage.

Appendix A

Scale development

<i>Factor</i>	<i>Items</i>
Interior environment	Has visually attractive dining area
	Has staff members that are neat, clean and appropriately dressed.
	Overall, place is thoroughly clean
	Has comfortable seats in the dining room
	Overall, this store is very attractive
Empathy	Has employees that are sensitive to my individual needs and wants
	Serves me in a reasonable amount of time
	Quickly corrects anything that is wrong
	Is dependable and consistent
	Provides an accurate guest check/bill
	Serves my food exactly as I ordered it
	Seems to handle busy times smoothly
	Has employees who can answer my question completely
	Makes me comfortable and confident in my dealings
	Has personnel who seem well trained, competent and experienced.
Customer gratification	Overall I am very satisfied with my decision to come to this place.
	The quality of food is worth the price paid
	For the price paid, this restaurant provides everything I asked for.
	The quality of service is worth the price paid.
	The restaurant on the whole is good value for money.
Brand rapport	I know a great deal about this place
	Employees here recognize me
	I am familiar with the employees at this place.
Customer loyalty	The loyalty program of this restaurant is important to me.
	I am sure I will visit this restaurant again
	I will definitely come to this restaurant again.

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