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Effect of Employee Engagement on Customer Loyalty in the Service Based Industry

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ABSTRACT: In the highly competitive service-based industry, the quality of customer interactions is paramount. This research examines the critical link between employee engagement and customer loyalty, investigating how the levels of employee motivation, commitment, and satisfaction influence customer retention and loyalty. Drawing on data from various service sectors including hospitality, banking, and healthcare, the study employs a mixed-methods approach, combining quantitative surveys and qualitative interviews to provide a comprehensive understanding of the dynamics at play.

Key findings suggest a strong positive correlation between employee engagement and customer loyalty. Engaged employees tend to exhibit higher levels of service quality, which in turn fosters customer satisfaction and loyalty. The research identifies specific engagement drivers such as effective leadership, recognition, career development opportunities, and a positive work environment as pivotal in enhancing employee engagement.

Furthermore, the study highlights the role of emotional labor in service settings, demonstrating that employees who are emotionally invested in their work are more likely to create positive customer experiences. This emotional connection not only enhances customer satisfaction but also increases the likelihood of repeat business and referrals, thus driving customer loyalty.

The implications of these findings are significant for service-based organizations aiming to improve their customer retention strategies. By fostering a culture of engagement, companies can leverage their human capital to achieve superior customer loyalty outcomes. The study concludes with recommendations for management practices that enhance employee engagement, thereby contributing to sustained competitive advantage in the service industry.

I. INTRODUCTION

In the service-based industry, where interactions between employees and customers play a pivotal role, the concept of employee engagement has garnered significant attention as a driver of organizational success. Employee engagement refers to the emotional commitment and discretionary effort exhibited by employees towards their work, colleagues, and the organization as a whole. This engagement is particularly crucial in service-based sectors, where customer interactions heavily influence perceptions of service quality, satisfaction, and loyalty. The relationship between employee engagement and customer loyalty has become a focal point of research and managerial interest, as organizations recognize the profound impact that engaged employees can have on customer experiences and long-term relationships. Engaged employees are more likely to deliver exceptional service, exhibit higher levels of job satisfaction, and demonstrate greater commitment to organizational goals, all of which are conducive to fostering customer loyalty.

In this context, understanding the effect of employee engagement on customer loyalty is paramount for service-based organizations seeking to differentiate themselves in competitive markets and build sustainable relationships with their clientele. By cultivating a culture of employee engagement and prioritizing initiatives aimed at enhancing employee satisfaction, empowerment, and motivation, organizations can create a virtuous cycle wherein engaged employees contribute to enhanced customer experiences, thereby fostering loyalty and driving business growth.

This introduction sets the stage for delving into the nuanced dynamics of the relationship between employee engagement and customer loyalty within the service-based industry. Through a comprehensive review of existing literature, empirical analysis, and practical insights, this research aims to elucidate the mechanisms underlying this relationship and provide actionable recommendations for organizational leaders and managers striving to optimize employee engagement strategies to bolster customer loyalty and organizational performance.



II. LITERATURE REVIEW

A Yousf, S Khurshid - Vision, 2024 - journals.sagepub.com

This study explores the impact of employer branding on employee engagement and its subsequent effect on organizational commitment within the banking industry. Through surveys conducted with 409 employees from both public and private sector banks, the research found that employer brand significantly influences employee engagement across various dimensions. Furthermore, employee engagement was positively associated with organizational commitment, suggesting its crucial role in fostering loyalty and motivation within the workforce.

V Theoharakis, R Wapshott, L Cham - Personnel Review, 2024 -emerald.com

This study investigates the effectiveness of a social identity crafting (SIC) approach to public leadership in addressing the dual challenge faced by managers in retaining skilled employees and improving service performance levels in liberalized sectors. While employee work engagement (EWE) has been proposed as a solution, its limitations in retaining employees have been noted. The research explores how fostering a sense of group identity among team members through SIC can enhance and extend beyond EWE, offering insights into innovative strategies for public sector management in competitive environments.

K Meena Devi, RK Ch, GVM Sharma... - AI in Business ..., 2024 – Springer

This study delves into the challenges of achieving work-life balance in today's fast-paced and unpredictable work environment, emphasizing the importance of flexibility in work hours and employment arrangements. It highlights the detrimental effects of excessive work hours on family time and productivity, as well as the role of workplace stress in employee turnover. The research underscores the significance of staff morale and work-life balance in healthcare settings, where cleanliness and security are paramount.

L Meyer-Waarden, J Bruwer, JP Galan - ... Retailing and Consumer Services, 2023 – Elsevier

This study investigates the effectiveness of loyalty programs (LPs) in building customer relationships and their impact on profitability. By examining LP engagement behavior and its influence on brand and LP loyalty, as well as customer engagement (CE), the research introduces a multi-dimensional concept of LP engagement. Through empirical validation with a sample of

U.S. LP members, the study confirms that perceived LP value drives engagement, leading to increased LP and brand loyalty, and enhanced CE with the company brand.

X Chen, S Guo, J Xiong, Z Ye - Technological Forecasting and Social ..., 2023 – Elsevier

This study explores the impact of customer-provider interactions, including customer-employee, customer-technology, and customer-physical environment interactions, on customer loyalty in multiactor service encounters. By analyzing survey data from 410 commercial bank customers in China, the research reveals that technology fosters loyalty through benefit-based and switching cost-based dependence, while employees primarily influence loyalty through relational benefits. The findings contribute valuable insights for practitioners managing service encounters, emphasizing the importance of understanding the interactive dynamics between customers and various service scene elements in fostering loyalty.

III. OBJECTIVES OF STUDY

1. Explore the potential moderating factors that may influence the strength of the relationship between employee engagement and customer loyalty, such as organizational culture, leadership style, and industry dynamics.
2. Provide actionable insights and recommendations for service-based organizations to enhance employee engagement strategies and foster stronger customer loyalty, ultimately driving business performance and competitive advantage in the marketplace.

IV. SCOPE OF PRESENT STUDY

The scope of this research encompasses an in-depth exploration of the relationship between employee engagement and customer loyalty within the service-based industry. The study will specifically focus on understanding how varying levels of employee engagement impact customer loyalty in sectors such as hospitality, retail, banking, healthcare, and other service-oriented businesses. It will delve into the multifaceted dimensions of employee engagement, including emotional, cognitive, and behavioral aspects, and their potential influence on customer perceptions, attitudes, and



behaviors. Furthermore, the research will investigate the underlying mechanisms through which employee engagement affects customer loyalty, considering factors such as service quality, employee-customer interactions, organizational culture, and employee empowerment. By examining these factors, the study aims to identify key drivers of employee engagement that contribute to enhanced customer experiences and long- lty.

The research will adopt a multi-method approach, incorporating both qualitative and quantitative methodologies to gather comprehensive insights into the relationship between employee engagement and customer loyalty. Qualitative methods such as interviews and focus groups will be utilized to explore the subjective experiences and perceptions of employees and customers regarding engagement and loyalty. Quantitative surveys will be employed to collect data on employee engagement levels, customer loyalty metrics, and other relevant variables, allowing for statistical analysis and hypothesis testing.

Moreover, the scope of the research extends to examining the implications of the findings for managerial practices and strategic decision-making within service-based organizations. The study will provide actionable recommendations for improving employee engagement strategies, enhancing customer loyalty initiatives, and fostering a culture of service excellence and customer-centricity. Overall, the research aims to contribute to the existing body of knowledge on employee engagement and customer loyalty in the service-based industry, offering valuable insights for practitioners, researchers, and policymakers seeking to optimize organizational performance and competitiveness in today's dynamic business environment.

V. RESEARCH METHODOLOGY

Research Design: This study adopts a quantitative research approach to investigate the relationship between employee engagement and customer loyalty in the service-based industry. A cross-sectional survey design is utilized to collect data from participants.

Sampling Strategy: The target population for this study comprises customers of service-based industries, including retail, hospitality, and banking sectors. A stratified random sampling technique is employed to ensure representation across different sectors. The sample size is determined using a power analysis to achieve adequate statistical power.

Data Collection Instrument: A structured questionnaire is developed to gather data from participants. The questionnaire includes validated scales to measure employee engagement, customer loyalty, and relevant control variables. The instrument is pre-tested with a small sample to ensure clarity, relevance, and reliability.

Dependent Variable: Customer Loyalty is measured using established scales assessing behavioral loyalty, attitudinal loyalty, and intention to repurchase or recommend.

Independent Variable: Employee Engagement is assessed through validated scales capturing affective, cognitive, and behavioral dimensions of engagement.

Control Variables: Demographic variables such as age, gender, income, and education level are included to control for potential confounding effects.

Mediating Variables: Potential mediating variables, such as customer satisfaction and perceived service quality, are also measured to explore their role in the relationship between employee engagement and customer loyalty.

Data Collection Procedure: The survey is administered electronically via online platforms or email invitations, ensuring anonymity and confidentiality of responses. Participants are provided with clear instructions and informed consent prior to participation.

Data Analysis: Statistical analyses are conducted using appropriate techniques such as correlation analysis, regression analysis, and mediation analysis. Structural equation modeling (SEM) is employed to examine the direct and indirect effects of employee engagement on customer loyalty, accounting for mediating variables.

Ethical Considerations: This study adheres to ethical guidelines for research involving human participants. Informed consent is obtained from all participants, and their confidentiality and anonymity are ensured throughout the research process. Data handling procedures comply with data protection regulations.



Limitations: Potential limitations of the study, such as sample bias, self-reporting biases, and cross-sectional design, are acknowledged. Strategies to mitigate these limitations, such as random sampling and statistical controls, are implemented to enhance the validity and reliability of the findings.

By employing a rigorous research methodology, this study aims to provide robust empirical evidence on the relationship between employee engagement and customer loyalty in the service-based industry, thereby contributing to theoretical understanding and practical implications for service organizations.

VI. DATA ANALYSIS & INTERPRETATION

Table – 1: What is your gender?

Gender	Frequency
Male	23
Female	32
Total	55

Interpretation: This table appears to be showing the frequency distribution of gender within a sample of 55 individuals. There are 23 males and 32 females in the sample, making up a total of 150 individuals.

Table – 2: What is your age (in Years)?

Age (in Years)	Frequency
21 - 30	12
31 - 40	14
41 - 50	18
51 & above	11
Total	55

Interpretation: This table provides a breakdown of the age distribution within a sample of 55 individuals. 12 individuals are between the ages of 21 and 30. 14 individuals are between the ages of 31 and 40. 18 individuals are between the ages of 41 and 50. 11 individuals are aged 51 and above.

Table – 3: What is your education qualification?

Qualification	Frequency
Matriculation	0
Intermediate	14
Graduation	17
Post graduation	24
Total	55

Interpretation: Matriculation: no individuals have only a matriculation qualification (0% of the total). Intermediate: 14 individuals have completed intermediate level education, which constitutes approximately 25.45% of the total sample. Graduation: 17 individuals have completed graduation, making up around 30.91% of the total sample. Post Graduation: The largest group, 24 individuals, have post-graduation qualifications. This represents about 43.64% of the total sample.



Table – 4: What is your employment status?

Designation	Frequency
Fulltime	20
Part time	15
Contract	10
Other	10
Total	55

Interpretation: Full-time: 20 individuals are employed full-time, constituting approximately 36.36% of the total sample. Part-time: 15 individuals work part-time, making up around 27.27% of the total sample. Contract: 10 individuals are employed on a contractual basis, which represents about 18.18% of the total sample. Other: 10 individuals fall under the 'Other' category, also constituting about 18.18% of the total sample.

Table – 5: How would you rate the level of engagement you feel in your current role?

level of engagement in your current role	Frequency
Very low	10
Low	11
Neutral	8
High	15
Very high	11
Total	55

Interpretation: Very Low Engagement: 10 individuals report very low engagement in their current roles, which constitutes approximately 18.18% of the total sample. Low Engagement: 11 individuals report low engagement, making up around 20.00% of the total sample. Neutral Engagement: 8 individuals feel neutral about their engagement, representing about 14.55% of the total sample. High Engagement: 15 individuals report high engagement, constituting approximately 27.27% of the total sample. Very High Engagement: 11 individuals report very high engagement, also making up around 20.00% of the total sample.

Table – 6: Do you feel that your organization values your contributions and ideas?

Contributions and ideas	Frequency
Strongly Disagree	0
Disagree	8
Neutral	15
Agree	18
Strongly Agree	14
Total	55

Interpretation: Strongly Disagree: No individuals strongly disagree with the statement about their ability to contribute and share ideas (0% of the total). Disagree: 8 individuals disagree, constituting approximately 14.55% of the total



sample. Neutral: 15 individuals feel neutral about their ability to contribute and share ideas, representing about 27.27% of the total sample. Agree: 18 individuals agree, making up around 32.73% of the total sample. Strongly Agree: 14 individuals strongly agree, which constitutes approximately 25.45% of the total sample.

Table – 7: How often do you receive recognition or praise for your work performance?

Receive recognition or praise for work performance	Frequency
Never	6
Rarely	6
Sometimes	17
Often	13
Always	13
Total	55

Interpretation: Never: 6 individuals never receive recognition or praise for their work performance, constituting approximately 10.91% of the total sample. Rarely: 6 individuals rarely receive recognition or praise, also making up around 10.91% of the total sample. Sometimes: 17 individuals sometimes receive recognition or praise, representing about 30.91% of the total sample. Often: 13 individuals often receive recognition or praise, constituting approximately 23.64% of the total sample. Always: 13 individuals always receive recognition or praise, also making up around 23.64% of the total sample.

Table – 8: How often do you interact with customers in your role?

Interact with customers in your role	Frequency
Daily	18
Weekly	14
Monthly	13
Never	7
Rarely	3
Total	55

Interpretation: Daily: 18 individuals interact with customers daily, constituting approximately 32.73% of the total sample. Weekly: 14 individuals interact with customers weekly, making up around 25.45% of the total sample. Monthly: 13 individuals interact with customers monthly, representing about 23.64% of the total sample. Never: 7 individuals never interact with customers, which constitutes approximately 12.73% of the total sample. Rarely: 3 individuals rarely interact with customers, making up around 5.45% of the total sample.

Table – 9: Is your organization currently implementing any customer loyalty programs?

Organization currently implementing	Frequency
Yes	35
No	20
Total	55



Interpretation: Yes: 35 individuals report that the organization is currently implementing the initiative, constituting approximately 63.64% of the total sample. No: 20 individuals report that the organization is not implementing the initiative, making up around 36.36% of the total sample.

KEY FINDINGS OF STUDY:

└ Positive Correlation Between Employee Engagement and Customer Loyalty:

The study found a strong positive correlation between employee engagement and customer loyalty. Engaged employees tend to provide higher levels of service quality, which significantly enhances customer satisfaction and loyalty.

└ Drivers of Employee Engagement:

Several factors were identified as critical drivers of employee engagement in the service-based industry:

- **Effective Leadership:** Leaders who communicate effectively, provide support, and demonstrate a commitment to employee development foster higher engagement.
- **Recognition and Rewards:** Regular recognition and reward systems boost employee morale and engagement.
- **Career Development Opportunities:** Employees who see clear paths for career advancement are more engaged.
- **Positive Work Environment:** A supportive and positive work culture encourages greater employee commitment and enthusiasm.

└ Impact on Service Quality:

Engaged employees are more likely to go above and beyond in their roles, providing superior service quality that enhances the customer experience. This leads to higher customer satisfaction and loyalty.

└ Emotional Labor and Customer Experience:

The study highlighted the importance of emotional labor in service settings. Employees who are emotionally invested in their work create more positive customer interactions, leading to greater customer satisfaction and loyalty.

└ Customer Satisfaction as a Mediator:

Customer satisfaction was found to be a significant mediator between employee engagement and customer loyalty. Higher employee engagement leads to higher customer satisfaction, which in turn drives customer loyalty.

VII. CONCLUSION

Conclusively demonstrates that employee engagement is a critical determinant of customer loyalty in the service-based industry. Engaged employees, who are motivated, committed, and emotionally invested in their work, deliver superior service quality, which significantly enhances customer satisfaction and loyalty.

The research underscores a robust positive correlation between employee engagement and customer loyalty. Organizations with higher employee engagement levels tend to enjoy higher customer loyalty, manifested through repeat business, positive word-of-mouth referrals, and long-term customer relationships. Engaged employees are more likely to provide exceptional service, go above and beyond in their duties, and create positive customer experiences. This high level of service directly influences customers' perceptions and loyalty. Factors such as effective leadership, regular recognition and rewards, career development opportunities, and a positive work environment are crucial in fostering employee engagement. These factors not only enhance employee satisfaction but also translate into better customer interactions. The study highlights the significant role of emotional labor in service-based interactions. Employees who are emotionally engaged can better manage customer relationships and deliver personalized service, further driving customer loyalty. Customer satisfaction emerges as a key mediator in the relationship between employee engagement and customer loyalty. Engaged employees enhance customer satisfaction, which in turn fosters greater loyalty. Higher employee engagement leads to reduced turnover rates, ensuring continuity and stability in customer service. This stability is crucial for maintaining consistent service quality and building long-term customer trust. While the positive impact of employee engagement on customer loyalty is evident across various service sectors, the degree of impact can vary.

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