The Determinants of Customer Loyalty in Telecommunication Industry of Pakistan

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Abstract: Purpose: The main purpose of this study is to propose an empirical conceptual framework to gauge the elements that would affect loyalty of telecommunication consumers of Pakistan.

Design/methodology/approach: This study intends to use the quantitative approach by getting the responses from actual customers of telecommunication industry. The SEM approach will be used via PLS for data analysis.

Findings: The expected findings of the study will mostly be hypothesized in the same direction as in previous studies.

Research limitations/implications: The study selected only four determinant factors of customer loyalty focused on the telecommunication sector of Pakistan.

Practical implications: This study is envisaged to benefit the telecommunication industry, the customers and the government that is involved in providing excellent service in the telecommunication industry.

Originality/value: This study used Oliver’s theory to explain customer loyalty in telecommunication industry of Pakistan. It proposed a unique combination of variables to be studied in one conceptual framework which are hardly available together in other telecommunication models of customer loyalty.

Keywords: customer loyalty, structural equation modelling, telecommunication industry.

I. INTRODUCTION

According to Richard L. Oliver (1999), the customers who stay loyal to an organization are considered as its asset. Moreover, according to Moisescu and Allen (2010), many practitioners and researchers acknowledged customer loyalty (CL) as a key to success and survival of a business. Hence, in the era of hypercompetitive environment, it’s not a wonder to come across many studies conceptualizing CL and finding its predictors to understand the process of CL in different service settings(Dick & Basu, 1994; Fraering & Minor, 2013; Han & Hyun, 2012; Han, Kim, & Kim, 2011; Kuusik, 2007; C. Oliver, 1997; Yuksel, Yuksel, & Bilim, 2010).

Due to intangibility and heterogeneity in the service sector, CL is more difficult to achieve. Fierce competition among the market players in service sector stressed upon keeping loyal customers with the firms to stay profitable (Tariq, Awan, & Ghouri, 2014). Since a couple of decades, telecommunication industry proved to be highly profitable industry among all other service sectors of Pakistan. Along with this, the rapid growth of telecommunication industry in Pakistan is also under the influence of market saturation and fierce competition. In the Year 2014, telecommunication industry of Pakistan contributed 243 billion rupees to the national exchequer. Moreover, it’s the major FDI attracting industry of Pakistan as it has local and foreign market players(Pakistan Telecommunication Authority, 2014). These market players are Mobilink, Telenor, Warid, Zong and Ufone. The diversity of these telecom players in Pakistan and more than 70% market penetration of telecom services make this sector a tough place to retain consumers and attract new ones (Tariq et al., 2014).
Therefore in this highly volatile environment, marketing managers are facing the challenge of not only finding the determinants of customer loyalty but they are also looking for intervening variables to grasp the fruits of loyalty at maximum (Gustafsson et al., 2005; Richard L. Oliver, 1999; Taylor, Celuch, & Goodwin, 2004). Review of extant literature reveals that customer satisfaction (CS) (Kumar, 2002; B. Mittal & Lassar, 1998; V. Mittal & Kamakura, 2001; C. Oliver, 1997; Taylor & Baker, 1994), service quality (SQ) (Lai, Griffin, & Babin, 2009; Raza & Rehman, 2012; Ryu, Lee, & Gon Kim, 2012), perceived price (PP) (Adeleke & Suraju, 2012; Jacoby & Olson, 1977; Jiang, Chou, & Tao, 2011) and corporate social responsibility (CSR) (Barcelos et al., 2015; B. Choi & La, 2013; E. M. Lee, Park, Rapert, & Newman, 2012) have significant influence on CL. Moreover, past studies on CL declares that satisfaction is an imperative mediating variable to develop CL (Alireza, Ali, & Aram, 2011; Barcelos et al., 2015; Han & Hyun, 2015; Kuo, Chang, Cheng, & Lai, 2013).

The following section discusses the extant literature on CL and its determinants. Afterwards, the conceptual framework is proposed. Then it goes to discuss research design, data collection, data analysis method and conclusion.

II. THEORETICAL BACKGROUND

This section explains the theoretical underpinning and the review of past studies.

CL and Underpinning Theory

Past studies revealed that it is more costly to win a new consumer than to keep the current customer loyal. This fact necessitates retaining existing customers by keeping them loyal for long-term profitability of firms. Jones and Sasser (1998) describe CL as “a feeling of attachment to or affection for a company’s people, products, or services”. In addition, Jones and Sasser (1998) described that there are three components of CL which are rebuying intentions, primary level behaviour and secondary level behaviour. According to them, repurchase intentions refers to the future repurchase of product or service. Primary behaviour is actual revisiting behaviour of the consumer, while secondary level behaviour is referring the product or service to others in a positive manner. Similarly, Richard L. Oliver (1999) defines loyalty as “a deeply held commitment to rebuy or re-patronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behaviour”. He demonstrated that CL can foster customer retention as loyal customer possibly make repeat purchases, give references and generate positive word of mouth in public. CL is well explained by the four-stage loyalty model of Richard L. Oliver (1999) whereby, cognitive loyalty is based upon cost-benefit analysis, affective loyalty deals with emotional attachment with seller, conative loyalty is about showing intentions toward a brand while action loyalty is actual purchase or repurchase of a brand (Richard L. Oliver, 1999).

CS and CL

Extant literature provides substantial evidence of the impact of CS on CL (Ahmad, Hussain, & Rajput, 2015; Anjum, Rizwan, Khaleeq, & Rasheed, 2013; Barcelos et al., 2015; George & Upadhyaya, 2015; Raza & Rehman, 2012). In addition, CS is the prime objective of many firms. It is part and parcel of every business strategies into today’s highly competitive environment (Barcelos et al., 2015; Nimako, 2012). P Kotler and Keller (2006), explains that customer satisfaction is a customer’s state of pleasure or displeasure due to its performance relative to the expectations. According to Richard L Oliver (1981), CS is defined as “the summary of the psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with the consumer’s prior feelings about the consumption experience”. Cronin Jr and Taylor (1992) and Nimako (2012) said that CS has two types: attribute specific which is associated with particular product or service while overall performance is based upon the overall performance of product or service provider. There is another perspective to see the CS that is transactional or cumulative. Transaction specific satisfaction is based upon aone-time post-purchase evaluation of service encounter (Richard L Oliver, 1980). While cumulative satisfaction is developed upon the overall service experience and post-purchase behaviour developed over the time (Anderson, Fornell, & Lehmann, 1994; Fornell, 1992; Wang & Lo, 2002). This study operationalized CS as a cumulative phenomenon.

Previous studies hypothesized CS as direct antecedent of CL (Ahmad et al., 2015; Anjum et al., 2013; Barcelos et al., 2015; George & Upadhyaya, 2015; Kumar, 2002; B. Mittal & Lassar, 1998; V. Mittal & Kamakura, 2001; C. Oliver, 1997; Raza & Rehman, 2012). These studies revealed that CS has a significant positive affect on CL. Subsequently, Minarti and Segoro (2014) and Nasir, Mushtaq, and Rizwan (2014) in the telecommunication
industry, Sundari (2014) in the tourism industry, Haghighi, Dorosti, Rahnama, and Hoseinpour (2012) and Hyun (2010) in the hospitality industry have studied CS as a direct determinant of CL.

So we can hypothesize that:

H1: CS has a positive significant impact on CL.

SQ and CS

SQ has been differently explained by different authors in the service sector. SQ is defined by Asubonteng, McCleary, and Swan (1996) as the level to which it meets the customer’s needs or expectations. On the other hand, Grönroos (1984) conceptualize SQ as two-dimensional factors: technical quality and functional quality. Technical quality is the core quality of the product or service while functional quality is based on the interaction of the customer with the service provider. While Parasuraman, Zeithaml, and Berry (1985) explained SQ through RATER model called SERVQUAL. This scale measured SQ on expectation-perception gap score on five dimensions which are: reliability, responsiveness, assurance, empathy, and tangibles (H. S. Lee, 2013). After three years of proposing SERVQUAL model, Parasuraman, Zeithaml, and Berry (1988) confirmed the SERVQUAL model and defined SQ as “the consumer’s judgment about the superiority or excellence of a product”. Many authors used this conceptualization of SQ in telecom sector previously (H. S. Lee, 2013; Raza & Rehman, 2012). Moreover, it’s a well-established model and its psychometric properties are tested by previous researchers (Asubonteng et al., 1996; Zhao, Bai, & Hui, 2002).

A detailed review of literature highlighted SQs as a main determinant of CS. Many authors as Moul Potluri and Hawariat (2010) (Ethiopia), Han and Hyun (2015) (Korea), Lai et al. (2009) (China), Malik, Ghafoor, and Hafiz (2012), Raza and Rehman (2012) and Nasir et al. (2014) (Pakistan) have studied SQ as direct determinant of CS both in telecom, and non-telecom service sectors. Results of these studies support the postulate that SQ is a positive significant determinant of CS.

So we can hypothesize that:

H2: SQ has a positive significant impact on CS

PP and CS

Philip Kotler and Armstrong (2010) stated that price is the value trade-off for some other benefit of using a product or service or amount of money being paid for that benefit. Chen, Gupta, and Rom (1994) defined PP as “the customer’s judgment about a service’s average price in comparison to its competitors”. In today’s highly saturated and competitive markets where consumers have multiple options to buy a product or service, pricing plays a very important role to differentiate service offerings. Many prior studies supported the notion that price plays an important role in developing expectations regarding quality of product or services (D. H. Choi, Kim, Kim, & Kim, 2006). In telecom sector, there is head-to-head competition, and price wars are common. Telecom operators used competitive pricing to retain the existing consumers and to add new consumers in the customer pool (Jiang et al., 2011; Kollmann, 2000). Moreover, past studies reveal that if the consumers assume that the PP is not fair, they will switch to some other service provider (Oyeniyi & Abiodun, 2010). Another study claims that when the consumers are satisfied with the price they tend to be more loyal to the service provider (Haghighi et al., 2012).

Due to high price sensitivity in telecom, a group of researchers have conducted research on the impact of PP on CS and found it a significant positive determinant of CS (Haghighi et al., 2012; Hyun, 2010; Malik et al., 2012; Raza & Rehman, 2012).

So we can hypothesize that:

H3: PP has a positive significant impact on CS

CSR and CS

CSR is basically the relationship between different entities: organizations, society and environment including human resource management (B. Choi & La, 2013). Carroll (1979) Conceptualized CSR with the help of four levels of responsibilities: legal, economic, ethical and discretionary responsibility. Economic responsibility is concerned with the economic wealth of an organization to fulfill consumption needs. Legal responsibility state that organizations should operate within the legal framework and look after their legal obligations. The next level is an ethical responsibility which demands the organizations to exhibit morally responsible behaviour while
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the last level is the broader one which is discretionary responsibility. At this level, organizations try to contribute toward the betterment of society with a philanthropic approach. Few organizations reached this level of CSR.

So while planning for organizational strategies, managers should include societal concern in consideration as CSR influence consumers satisfaction and help to keep them loyal (Luo & Bhattacharya, 2006; Swaen & Chumpitaz, 2008).

So we can hypothesize that:

H4: CSR has a positive significant impact on CS.

Mediating Role of CS
Past studies showed that CS plays the role of a mediator for different loyalty linkages (Caruana, 2002; Stank, Goldsby, & Vickery, 1999; Zins, 2001). SQ, PP and CSR are considered as drivers of CS which ultimately leads toward CL (Alireza et al., 2011; Barcelos et al., 2015; Kim, Park, & Jeong, 2004; Lai et al., 2009; Qu, 2014; Turel & Serenko, 2006).

So we can hypothesize that:

H5a: CS plays the role of a mediator for the linkage of SQ and CL.
H5a: CS plays the role of a mediator for the linkage of PP and CL.
H5a: CS plays the role of a mediator for the linkage of CSR and CL.

III. METHODOLOGY

Conceptual Framework
The proposed conceptual framework is given in figure (1). It states that CS is the direct predictor of CL while SQ, PP, CSR are the indirect predictor of CL whereby CS plays the role of a mediator.

![Diagram of Conceptual Framework](image)

Figure 1: CONCEPTUAL FRAMEWORK

IV. Research Philosophy, Population and Sampling
When there are structured hypotheses, quantitative approach is the suitable choice so this study proposed to use quantitative approach for data collection (Creswell, Plano Clark, Gutmann, & Hanson, 2003). Additionally, many authors have used quantitative approach for data collection and analysis in similar studies (Back & Parks, 2003; Evanschitzky & Wunderlich, 2006; Han et al., 2011). The population of this study comprised of all telecom consumers/users of five telecom operators in Pakistan namely: Mobilink, Telenor, Zong, Ufone and Warid. Non-probability convenience sampling will be used for data collection of 400 questionnaires from telecom consumers in the city of Lahore, Karachi, Quetta and Peshawar.

V. Data Collection Method and Analysis
This study will use a self-administered structured questionnaire for data collection.
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Table I: Instrument Adapted From Literature

<table>
<thead>
<tr>
<th>Variable</th>
<th>Setting</th>
<th>No. of Items</th>
<th>Authors</th>
<th>Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>CL</td>
<td>Telecom</td>
<td>10</td>
<td>Karjaluoto, Jayawardhena, Leppäniemi, and Pihlström (2012)</td>
<td>0.92</td>
</tr>
<tr>
<td>CS</td>
<td>Telecom</td>
<td>3</td>
<td>Edward, George, and Sarkar (2010)</td>
<td>&lt;.70</td>
</tr>
<tr>
<td>SQ</td>
<td>Telecom</td>
<td>22</td>
<td>Parasuraman et al. (1985)</td>
<td>.93</td>
</tr>
<tr>
<td>PP</td>
<td>Telecom</td>
<td>8</td>
<td>Chakraborty and Sengupta (2014)</td>
<td>0.88</td>
</tr>
</tbody>
</table>

The instrument comprises of two sections: the first part consists of demographic details of respondents while the second part has the measurement items for CL, CS, SQ, PP and CSR. These items will be measured on seven points Likert scale from 1 being strongly disagree to 7 being strongly agree. Measurement items for the variables under study have been adapted from previous studies as given in table (1). For data analysis, SEM will be used through PLS.

VI. CONCLUSION

Customer loyalty results in long-term profitability, sustainability and growth of the business. There is fierce competition with increasing churn and high market saturation in Pakistan’s telecom sector which calls for maintaining loyal consumers for success and survival of telecom operators. So this study provides a valuable input to service providers on how to maintain loyalty in telecommunication consumers. The uniqueness of this study is; it focuses on SQ, PP and CSR to focus on cost-benefit analysis in terms of SQ, perceived pricing and societal benefits. Additionally, it studies the mediating role of customer satisfaction.

It is expected that the proposed framework will confirms the result of previous studies(Ahmad et al., 2015; Anjum et al., 2013; Barcelos et al., 2015; Dobers, 2009; George & Upadhyaya, 2015; Lai et al., 2009; Malik et al., 2012; Nejati & Ghasemi, 2012; Oyeniyi & Abiodun, 2010; Raza & Rehman, 2012). Literature supports the notion that CS is an important and strong predictor of CL(Anjum et al., 2013; Raza & Rehman, 2012). It also plays the role of mediator for the proposed linkage in previous studies (Alireza et al., 2011; Barcelos et al., 2015; Lai et al., 2009; Qu, 2014). SQ and PP also have significant influence on CS(George & Upadhyaya, 2015; Haghighi et al., 2012; Nimako, 2012). These previous results help to understand the importance of pricing along with SQ that even though the customers have satisfaction regarding the quality of service; they also look at value for money. This cost-benefit analysis helps to increase the level of satisfaction among price-conscious consumers.

For CSR, the literature states that CSR has a significant positive impact on CS(De Bakker, Groenewegen, & Den Hond, 2005; Dobers, 2009; Luo & Bhattacharya, 2006; Nejati & Ghasemi, 2012). These findings focused the importance of CSR and suggest that if organizations prefer profit motives rather than focusing on societal wellbeing, it can lead to low CS. This will ultimately result in low CL. So it is necessary that organizations should keep societal considerations into account while developing corporate strategy. For example: setting reasonable price, improving SQ, developing policies for wellbeing society at large. This investment in CSR activities will lead towards CS and ultimately CL(B. Choi & La, 2013).
So this study provides a guideline for telecom operators to look for quality and pricing as important factors to generate CS. Most of the telecom operators are focusing on both quality and competitive pricing. That means if there is no difference among the quality and price offered; CSR will help to differentiate them from each other. It will give customers a reason to attach with a service provider emotionally. This will, in turn, hinder the switching from one to another operator. So this study will help Pakistan’s telecom operator to develop those marketing strategies which will help to achieve the goal of CS and hence loyalty.

This is a cross-sectional study and it is limited to telecom sector of Pakistan. Other studies can be conducted in other telecom settings to compare the results with Pakistan’s telecom. Moreover, other factors like sales promotions, perceived value and government support can be included in other telecom studies to analyse their impact on CS and CL.


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