

# Customer Loyalty a Key to Success: A Case Study in Telecom Sector of Pakistan

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**Abstract.** This paper identified the role of the independent variable like service quality, taking perceived value, word of mouth and customer satisfaction (mediation/ intervening variables) in creating customer loyalty (dependent variable) among the telecom user (mobile phone users). The empirical portion have extensive literature regarding the mentioned variables and shown their impact towards the customer loyalty. The telecom industry has been facing cut throat competition due to the market saturation, decrease in ARPU (average revenue per user), and shift to internet based (cheaper sources) communication tools, unexpected mergers, higher cost and decreasing the margin. Thus, telecom companies have been thinking about devising the best possible suitable strategies for creating the customer to maintain their survival and growth. The simple random techniques are used for sample selection and self-administration questionnaire is the tool for collecting data. A sample of 300 universities students from Rawalpindi and Islamabad is base for analysis. Amos 20 is the software and SEM is the tool for extracting result. Dual relationship is tested likewise direct (service quality and customer loyalty) and indirect through mediating variables. Results showed that customer satisfaction is the strongest mediator in developing a high-quality customer loyalty service, and it has more effect than the direct link between quality of service and customer loyalty. It leads industrial professionals to develop a strategy based on customer satisfaction. It is concluded that customer satisfaction increases the level of the industrial professionalism. Hence the customer satisfaction increases the service quality and customer loyalty services. In nutshell, the cooperate image and switching barrier can be possible leads for the future research.

**Key words:** Service quality, perceived value, customer satisfaction

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## 1 Introduction

The new millennium had changed the total landscape of telecommunication sector (cellular phone sector) and emerged as one of the dynamic sectors of modern era economy. The fast

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connectivity, wider coverage, availability of 3G & 4G and decrease in prices make it one of the volatile fields of investment. As per PTA, the total number of cellular subscribers has crossed 130 million mark. Now cellular phone is taken as utility rather a luxury item as it was due to its countless facilities and benefits (Sattar and Sattar, 2012). The telecom sector is one of the leading sectors in bringing the FDI to country; the most recent is through the auction of 3G & 4G. The market is already reaching its saturation and margins are beginning to drop. The level of services is rising day by day and we are almost at the edge of information age. There is a flow of information through the power of social media, thanks to quality services of cellular companies (Izogo, 2017).

With all of the above, all the five existing companies (merged into four, after the merger of Warid with Moblink), are facing cut throat competition due to decreasing margins, saturation of user market, commonality of internet based means of communication, no switching barrier (Izogo, 2017). The average revenue per user is decreasing and making it hard for the companies to survive and grow (Dowling and Uncles, 1997). It has become the need of the hour for the companies to retain customers, not only to grow but to sustain as well, in this competitive market. Companies retain with the only feasible strategy of customer retention, can be achieved through creating loyalty among its users; as the cost of attracting one new customer is five to ten times greater than retaining the existing one (Slater and Narver, 2000).

All the cellular companies are devising different strategies to attract and retain customers, by offering different packages, internet bundles, free coupons, free minutes, double SIM number and other adjoining benefits and lastly through heavy comparative advertisement reminder to retain a customer with particular company. Thus all these circumstances are compelling companies to generate loyal customers that can stay for a longer period of time and company can cash their life time value (Sattar and Sattar, 2012).

The tremendous growth in telecom sector is because of deregulation by the government, liberalization of policies, decreasing prices of mobiles phones, more geographical coverage has encouraged companies to introduce services for better serving the customers and creating loyalty (Nasir et al., 2014).

This particular paper try to gauge the customer loyalty of telecom users through using customer satisfaction, perceived value, corporate image as intervening variable and service quality as an independent variable and the direct impact of service quality on customer loyalty without intervening variable.

A study by Ishaq (2012) has found the strong relation between perceived value and service quality on customer loyalty, while corporate image does not show any significant effect. A study by Jahanzeb et al. (2011) used the Xue and Liang (2005) model to measure the relation of loyalty and trust and found positive relation between them. However for this particular study Cheng et al. (2008) model has been adopted with few changes to measure the customer loyalty among the telecom users of Pakistan to assess the local.

This study will demonstrate the effect of service quality on customer loyalty and will contextualize the work of Cheng et al. (2008). When it comes to the importance of customer loyalty in relation to cellular service quality, the existence of casual relationships between the two could be indicative of significant opportunities for cellular companies to investigate and utilize these variables to the best of their ability to yield great results (Sattar and Sattar, 2012).

This study has used the Olivers theory to explain more about the customer loyalty in the telecommunication sector in Pakistan. Its proposed very unique and different variables like service quality, taking perceived value and word of mouth to be studied in the conceptual framework.

## 2 Literature Review

Overall assessment of the service by the customers is known as service quality (SQ). The renowned work on service quality was taken by [Parasuraman et al. \(1988\)](#) based on service expectation rather than services performance. Some has linked service quality as performance ([Boulding et al., 1993](#); [Zeithaml, 1988](#)). [Olorunniwo et al. \(2006\)](#) examined the dimensions of SQ in motel industry and revealed that the key constituents may vary from sector to sector depending upon the meaning of service in that sector. [Lympelopoulos and Chaniotakis \(2005\)](#) observed positive relation between SQ and satisfaction along with WOM in the health care sector. [Cronin Jr and Taylor \(1994\)](#) redefined the scale for SQ and found different dimensions of SQ. A study by [Lympelopoulos and Chaniotakis \(2005\)](#) revealed the positive relation between satisfaction and quality.

Perceived value is known as "the consumers evaluation of the utility of perceived benefits and perceived sacrifices". Our perception and acquisition are measured. According to other research, quality and value have a direct impact on customer loyalty ([Lai et al., 2009](#)).

A study in Korea by [Choi et al. \(2004\)](#) explained that SQ has more significant effect on satisfaction in comparison to perceived value in health care sector. While a study of Finland telecom sector by [Karjaluoto et al. \(2012\)](#) explained the positive relation between perceived value and loyalty, where trust is working as moderator and strengthens the described relation. Similarly, [Gallarza and Saura \(2006\)](#) studied perceived value, efficiency and quality as the key ingredients of gauging customer loyalty. [Chen and Hu \(2010\)](#) revealed the positive relation between perceived values and customer loyalty in coffee outlets of Australia. Corporate image is defined as the overall impression made on the minds of the public about a firm. According to [Kennedy \(1977\)](#), functional and emotional emerged as the two main components of image. [Dick and Basu \(1994\)](#) revealed image and reputation as two important components for creating loyalty.

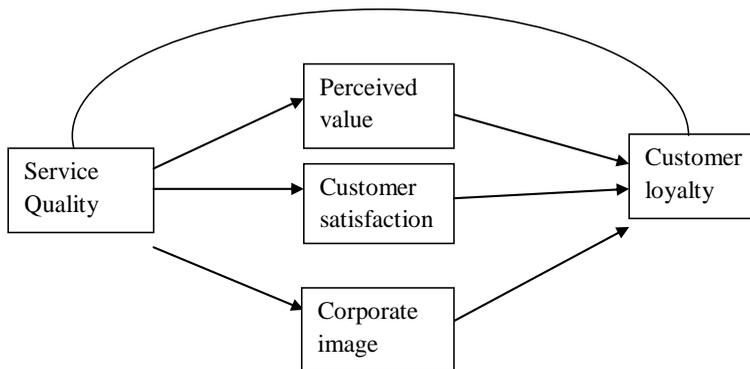
[Shapiro \(1982\)](#) has stated that reputation and good image help firms in gaining their sales and market share. [Andreassen and Lindestad \(1998\)](#) study in the Norwegian tourism industry revealed the image and satisfaction as the building pillars of customer loyalty. A study by [Nguyen and LeBlanc \(2001\)](#) revealed that loyalty level increases with the increasing level of perception of image and reputation. Similarly, [Kuo and Ye \(2009\)](#) posited that a significant relationship between the quality and customer loyalty exists. [Hart and Rosenberger III \(2004\)](#) has found the positive relation between image and customer loyalty at the mega stores in Australia. Similar relationship has been found in Taiwan super markets by [Chang and Thai \(2016\)](#). Customer satisfaction may be described as a level of pleasure from the consumed product or service and it becomes the great requirement for every company to maintain its optimum level. [Oliver and Swan \(1989\)](#) argues about two dimensions of satisfaction, intensity and Valence (positive or negative).

[Bodet \(2008\)](#) tested the [Jones and Suh \(2000\)](#) model in health fitness clubs in a French city and discovered satisfaction as a mediator between quality and loyalty. A study conducted in the United States by [Flint et al. \(2011\)](#) discovered a positive relationship between loyalty and satisfaction. [Da Silva and Alwi \(2008\)](#) discovered a strong positive relationship between image, satisfaction, and loyalty in UK online book stores in their study. Similarly, a study conducted by [Kim et al. \(2004\)](#) discovered a positive relationship between satisfaction, switching barrier, and loyalty in their study.

Companies today are struggling to build loyal customers because customer loyalty is a priority. A study by [Roy and Ganguli \(2008\)](#) found that loyalty can be measured by looking at the customers' propensity and their likelihood to return to the product or service. Based on previ-

ous research, which discovered that image and satisfaction both have an impact on customer loyalty in the hotel industry, [Kandampully and Suhartanto \(2000\)](#) found that image and satisfaction impact customer loyalty in the hotel industry. "Satisfaction and loyalty are related to one another, according to the results of the study by [Deng et al. \(2010\)](#)." [Pan et al. \(2012\)](#) have done a meta-analysis to determine the vital factors for building customer loyalty. They found that customer loyalty is mainly driven by trust, satisfaction, and perceived value. Moreover, literature posits that satisfaction, trust perceived value and switching barrier have positive impact on customer loyalty [Amin et al. \(2012\)](#). Quality of service and trust have a positive relation on customer loyalty, according to a study by [Jahanzeb et al. \(2011\)](#).

Many studies have revealed the positive relation of service quality on customer loyalty; while postulating that SQ has a positive impact on perceived value ([Cronin Jr and Taylor, 1994](#)). A positive and direct relation was observed among image and service quality ([Sirgy and Samli, 1985](#)); whereas, a study by ([Cronin, 2000](#)) found a link between customer loyalty and value, image, and satisfaction. The following model and hypotheses are developed based on the above literature support.



## 2.1 Hypotheses

*H<sub>1</sub>: Service Quality has a positive impact on customer satisfaction.*

*H<sub>2</sub>: Service Quality has a positive impact on perceived value.*

*H<sub>3</sub>: Service Quality has a positive impact on corporate image.*

*H<sub>4</sub>: Customer satisfaction has a significant positive impact on customer loyalty.*

*H<sub>5</sub>: Perceived value has a significant positive impact on customer loyalty.*

*H<sub>6</sub>: Corporate image has a significant positive impact on customer loyalty.*

*H<sub>7</sub>: SQ has a significant, positive effect on customer loyalty.*

### 3 Methodology

This study was carried out in a completely natural setting, without artificial elements. Primary data and questionnaires are the two pillars on which this study based. The respondents were the students of different universities (two universities from public sector and two from private sector), in this case SZABIST and Iqra were from private and Quaid-I-Azam and PMAS Arid Agriculture University from their Management Sciences department and are user of any cellular service provider, operating in Pakistan. A self-administered questionnaire was distributed among the students being selected through simple random sampling. A total of 450 questionnaires were distributed to the students, with 350 of them being returned (an 80% return rate), which is quite evident in this case. A total of 37 responses were rejected due to incomplete data and finally 313 were run for analysis.

Questionnaire was the tool for measuring primary data from students of different universities operating in twin cities of Rawalpindi & Islamabad. The service quality tool was taken from [Parasuraman et al. \(1988\)](#); five dimensions of service quality. Perceived value scale was chosen from [Zeithaml \(1988\)](#), while customer satisfaction scale chosen from [Stank et al. \(1999\)](#). Corporate image scale was adopted from [Zeithaml \(1988\)](#), along with single item from [Selnes \(1993\)](#). Lastly the loyalty scale taken from another article of [Zeithaml et al. \(1996\)](#). The responses were analyzed on five-point Likert Scale, with five indicating strongly disagree and one with strongly agree. SPSS was used for descriptive statistics; The Structural equation modeling was run using AMOS to measure the intervention of mediating variables.

### 4 Data Analysis

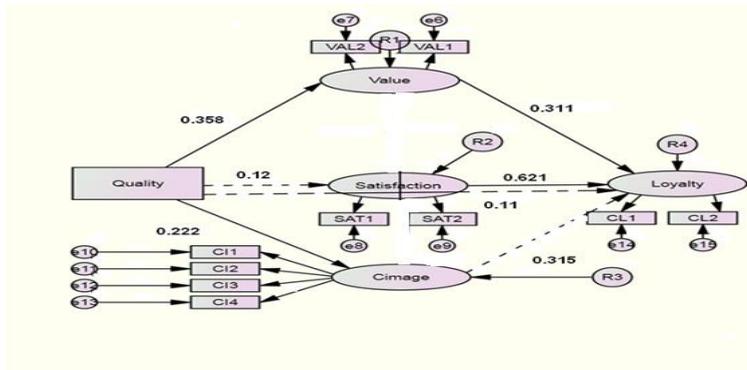
The study's main goal was to discover the direct and indirect links between service quality and customer loyalty. Before collecting actual data, a pilot study was conducted to test the scale's reliability and validity in a local setting. The total sample consisted of 53 percent males and 47% females, with 80% of the respondents being undergraduates and the remaining 20% being graduate students. A measure of skewness and Kurtosis lie within acceptable limits. All the variables have reliability of more than 0.70 and construct validity ranges from 0.80 to 1.2 that lies within limit ([Fornell and Larcker, 1981](#)). A weak to medium co-relation exists between variables, indicating medium strength relation between service quality and perceived value, while other relation are at par, but with acceptance. A comprehensive factor analysis shows a good fit of variable in the described model, with all the values RMSEA, CFI, GFI, NFI and PGFI etc. lies within limits.

#### 4.1 Structural Equation Modeling (SEM)

Quality = SQ, Value = Perceived Value, Satisfaction = Customer satisfaction, Cimage = Corporate Image, Loyalty = Customer Loyalty

All the indices of structural equation modeling also lie within the limits (RMSEA, GFI, AGFI, NFI, PNFI and df etc.) and validate the model.

The hypotheses testing was made on the basis of standardized coefficients weights and their acceptance level.  $H_1$  is rejected with ( $\beta = 0.12, p > 0.05$ ), indicates that service quality has no impact in generating customer satisfaction.  $H_2$  is accepted with a standardized coefficient of ( $\beta = .358, p > 0.01$ ), showing that customers perceive better if quality services are being provided.



H<sub>3</sub> is also accepted with following measures ( $\beta = .222, p > 0.01$ ), thus depicting that better service quality will build the image of the company. H<sub>4</sub> is accepted as strong coefficient weight indicates ( $\beta = 0.621, p > 0.05$ ) shows that customer satisfaction actually leads towards customer loyalty. H<sub>5</sub> is accepted as customers relate the perceived value to customer loyalty with ( $\beta = 0.311, p > 0.01$ ). H<sub>6</sub> is also accepted ( $\beta = .389, p > 0.01$ ) depicting that people do relate the image of the company in remaining loyal to that. H<sub>7</sub> is rejected with ( $\beta = 0.11, p > 0.05$ ), thus indicating that people who don't belong to the service quality to customer loyalty and can shift due to many factors.

The above results suggest that only customer satisfaction and corporate image emerged as mediating variable in creating loyalty among customers, out of these two customer satisfaction has greater influence as compared to corporate image.

## 5 Discussion and Conclusion

The study results negate the direct relation of service quality and customer loyalty, however it verifies the same relation through customer satisfaction and corporate image and thus these emerged as mediating variable. A company has to devise such policies and tactics to create satisfaction and build image to reap its results in the form of greater loyalty.

All the accepted relations confirm the relation being brought from the previous studies as discussed in review. The mediating effects is also supported by literature as higher service quality builds image and enhances value and thus creating satisfaction (Aydin and Ozer, 2005), along with satisfaction as mediator is in accordance (De Ruyter et al., 1997). However, all hypotheses have been accepted except H<sub>1</sub> and H<sub>7</sub>. Service quality decreases when the customer satisfaction increases, thus rejecting hypothesis one. Moreover, perceived value has positive effect with the service quality and increases when perceived value increases, service quality also increases and therefore hypothesis has been accepted. Moving forward, the results show the value of H<sub>4</sub> which is accepted because customer loyalty has a positive effect on the customer satisfaction. And it also accepted in hypothesis when perceived value has positive influence on the customer loyalty. Moreover, corporate image has a positive effect on the customer loyalty and gets accepted. Lastly, hypothesis customer loyalty decreases when service quality increases has been rejected.

## 5.1 Limitations

The study has few limitations as well; the small chunk of data had been selected for study along with respondent from universities, thus creating hindrance in generalizing the study results. Moreover, the data is being collected from twin cities and sample size is too small. The future study may be undertaken at a larger scale and by including all the sectors of population to better access the services and by incorporating more influencing variables like repurchase behavior and word of mouth, etc. Moreover, trust and repurchase intention may also be considered for measuring customer loyalty. The results indicate that perceived value and customer satisfaction must be taken into main stream for planning and implementing customer loyalty oriented policies. Like effective advertising to build image and better service quality tools to generate loyalty among telecom users in Pakistan.

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