Revisiting Customer Loyalty in Telecom Sector: Insights from Oliver Four-Stage Loyalty Model, EDM and Principles of Reciprocity

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ABSTRACT

This paper is based on analyzing the impact of customer perceptions towards various antecedents of loyalty. Study proposed a research framework derived from Oliver 4 stage model of customer loyalty supported by Expectation Disconfirmation Model and Principles of Reciprocity. Various deterrents of loyalty like perceived service quality, perceived price fairness, perceived justice in service recovery, relational bonds, customer satisfaction and corporate image have been analyzed to find the differences in perceptions between stayers and switchers profiles. A Proposed methodology is developed at the end of the paper for the assistance of researchers in future research. Dearth of studies has analyzed the differences in perceptions towards various antecedents of loyalty in customer profiles. Apart from the literature gap, this study has also highlighted the practical and theoretical implications with respect to customer loyalty across different customer profiles in telecom sector.
1. Introduction

Telecom sector is the leading sector of Pakistan. As of March 2016, Rs. 299 billion has been earned from the sector. Moreover, Rs. 73.22 billion Fix in expressions of tax and Cellular Mobile subscribers reached to 133.4 million at the end of March, 2016 while at the end of March 2015, total subscribers were 139.1 million, and so there is a substantial decrease in the subscribers within a one year (Economic Survey of Pakistan 2015-16). Fast forward it to 2014 just from the auction of 3G/4G license the government raised $1.1 billion (Bhatti 2014). After independence, this sector remained under the control of Government. Pakistani telecom sector is not effective as compare to other countries and there are numerous reasons behind this. Nevertheless, few reasons will be addressed in this study. Pakistan telecommunication authority (PTA) monitors the telecom sector in Pakistan.

Deregulations policy was introduced in 2000, this policy laid down the foundations of enormous growth in this sector. Telecom sector was declared as industry in 2005. At present, there are five major telecom cellular operators in the country, Mobillink, Telenor, Warid, Ufone and Zong (china mobiles). Mobillink GSM (subsidiary of Oracom telecom) has started its operations in 1994. It’s the largest cellular company of Pakistan having 36 million subscribers in almost 10000 location of the country. Ufone is in second place and having almost 23 million subscribers in the country. Emirates Telecom Corporation (Etisalat) has holds 26 percent share of its share. Telenor (subsidiary of Sweden) holds more than 30 million subscribers in 1146 Areas of Pakistan. Warid (Abu Dhabi Group) started its operation in 2005 having 12 million subscribers in 117 areas of Pakistan (now Warid telecom is acquired by the Mobilink). Zong (china mobiles) is covering 291 Areas and started its operations in 2007

Telecom sector is operating in a very volatile industry; all the telecom service providers are striving hard for the similar customer segments. In these circumstances, customer retention is considered more important than customer acquisition. Customers share unique needs in different segments and in turn they are hard to satisfy(Kotler, Keller, Manceau, & Hémonnet-Goujot, 2015). Expectations of the customer are subject to change by the passage of time. Despite of heavy investments on infrastructure improvements, relationship programs and other notable efforts, telecom operators are incapable to maintain the long-term loyalty in mobile subscribers(Karjaluoto, Jayawardhena, Leppäniemi, & Pihlström, 2012).

Loyal customers are the enduring assets for the firm. Gaining customer loyalty is no doubt
amongst the most prioritized concern for the firm now days. It enables the firms to develop a long term mutual beneficial relationship with the customers (Saleem, Zahra, Ahmad, & Ismail, 2016). Loyalty has been emerged as a most attractive area of concerns for both practitioners and academic writers because of its proximity with the profitability (Nukpezah & Nyumuyo, 2009), organizational survival and growth. However, there have been a great fix in defining loyalty because of its universal importance, every scholar has defined loyalty from their own contexts. Nevertheless, one of the most comprehensive definition of loyalty was stated by Oliver (1999) as “ Deeply held commitment to repurchase and Re-Patronize a preferred product or service consistently in future causing repeat purchases”.

Recently, researchers have realized that increasing trend of customer switching have a direct impact on customer loyalty and profitability. For instance, in America, Firms lost striking amount of customers in last five years and in turn lost 25% to 50% Revenues (Reichheld & Teal, 1996). Furthermore, Researchers have realized that relationship with customers resulted less costly because of mutual learning and diminution in cost of serving. With the passage of time, firms can augment business with them and customer may be able to pay the premium prices in addition to that, they will becomes their advocates and attract new customers through positive word of mouth (Keaveney, 1995; O'Brien & Jones, 1995; Reichheld & Kenny, 1990). According to a financial sector study, five percent loyalty has increased the profitably up to 25 to 75 percent (Chen & Cheng, 2012).

2. Literature Review

2.1 Customer Loyalty

Loyal customers are the enduring assets for the firm. Gaining customer loyalty is no doubt amongst the most prioritized concern for the firm now days. However, Practical and conceptual significance of this topic is still accentuated even in the volume of studies being published in the good rated journals (Pan, Sheng, & Xie, 2012). Despite of the numerous studies published in multiple sectors and published in reputable journals, few issues has limit the understanding and generaliziabilty of the loyalty construct. First , there is lack of consistencies found on the conceptulazation of loyalty(Izogo, 2016; Kaur & Soch, 2012; Pan et al., 2012).

In view of few researchers, both attitudinal and behavioral loyalty are equally important and will produce the more generalized results when investigated together (Bove, Pervan, Beatty, & Shiu, 2009; Fullerton, 2005; Kumar, Shah, & Venkatesan, 2006; Lam, Shankar, Erramilli,
& Murthy, 2004), but in view of others, attitudinal loyalty not an effective antecedent of loyalty. For example, Labeaga, Lado, and Martos (2007) recommended corporate image as compare to attitudinal loyalty the more significant antecedent of behavioral loyalty. While, customer satisfaction was a significant antecedent of loyalty in view of (e.g., Meuter, Ostrom, Roundtree, & Bitner, 2000; Reynolds & Beatty, 1999; Russell-Bennett, McColl-Kennedy, & Coote, 2007). But in few studies customer satisfaction fail to provide significant influence on customer loyalty (e.g., Khatibi, Ismail, & Thyagarajan, 2002; Stoel, Wickliffe, & Lee, 2004).

Second, these inconsistencies in findings have been revealed because majority of the studies are conducted in different research context. Because of the heterogeneous findings and diverse contextual settings, the relationship between the various antecedents of loyalty cannot be determined.

These inconsistent findings encourage researchers to develop a more comprehensive understanding about the loyalty construct (Pan et al., 2012). Third, lack of consensus found on the conceptualization and operationalization of loyalty construct (i.e., Izogo, 2016; Kaur & Soch, 2012; Pan et al., 2012). Review of studies demonstrated that choice of loyalty instruments is arbitrary in nature, every researcher has operationalized it according to the context of the study as well as by considering the underlying relationship between various constructs, which will hamper the generalizability of the research findings in numerous contexts. Accordingly, there is inconsistency revealed among academic researchers and marketing practitioners which urges for the further investigation.

### 2.2 Underpenning and Supporting Theories

Dick and Basu (1994) have proposed to measure loyalty from three dimension affective, cognitive and behavioral. By following the same approach Oliver (1997) contend that these three are the main predictors of loyalty but after few years of research Oliver (1999) added an additional dimension as conative dimension and strongly recommended for the measurement of loyalty. So, from the perspectives of Four-dimensional approach loyalty should be measured from the dimensions of Cognitive, Affective, Conative and Action loyalty. In the current study customer loyalty in the telecom sector has measured by following the oliver 4 stage multi dimensional model. Moreover, Reciprocity and fairness theories are employed as supportive theories.
2.2.1 Perceived Service Quality and Loyalty

Service quality refers to a comparison between service performance and customer expectation. Improved service quality will enable the firms to remain competitive along with substantial business growth. Service quality has direct link with customer satisfaction and loyalty (B. L. Cheng & Rashid, 2015; Mokhtar, Maiyaki, & Mohd Noor, 2011). Service quality enables firms to achieve the competitive advantage through customer loyalty even in the competitive market like telecommunication (Al-Zoubi, 2013). Moreover, several studies (e.g., Agyei & Kilika, 2013; Al-Zoubi, 2013; Lee, 2015; Mokhtar et al., 2011; Nimako, 2012) concluded that service quality and customer loyalty has positive relationship.

Hence in the context of perceived service quality hypothesis can be concluded as:

H1: Perceived service quality has significant impact on customer loyalty in Pakistan telecom sector.

2.2.2 Perceived Price Fairness and Loyalty

According to Xia, Monroe, and Cox (2004) “Price fairness is a consumer’s assessment and associated emotions of whether the difference (or lack of difference) between a Seller’s price and the price of a comparative other party is reasonable, acceptable, or justifiable”. In telecom sector price is one of the dominating influencer of customer decision making. Moreover, several studies (e.g., Bassey, 2014; Haghighi, Dorosti, Rahnama, & Hoseinpour, 2012; Masoodul Hassan, Hassan, Nawaz, & Aksel, 2013; Jin et al., 2016; Nazari, Hosseini, & Kalejahi, 2014) concluded that perceived price fairness and loyalty has positive relationship.

Hence in the context of perceived price fairness hypothesis can be concluded as:

H2: Perceived price fairness perception has direct impact on customer loyalty.

2.2.3 Perceived Justice in Service Recovery and Loyalty

Service recovery can be served as an effective safeguard against the service failures. In academia, it refers to the strategies incorporated by the firms against the service failures (Sheth, 2002). Service recovery is essential to develop pool of satisfied and loyal customers. Furthermore, several studies (e.g., Abbas, Abdullateef, & Mokhtar, 2015; Awa, Ogwo, & Ukoha, 2014; DeWitt, Nguyen, & Marshall, 2008; Mostafa, R. Lages, & Sääksjärvi, 2014) concluded that perceived justice in service recovery has positive relationship with customer loyalty. Hence in the context of perceived price fairness hypothesis can be concluded as:

H3: Perceived service recovery has significant impact on customer loyalty in telecom sector.
2.2.4 Relational Bonds and Loyalty

Turner (1978) Defined bonds as “the psychological, emotional, economic or physical attachment in a relationship that are fostered by association and interactions, and that serve to bind parties together under a relational exchange”. Long term survival of business is heavily depending upon the development of long term relationship with the customers. Moreover, several studies (Gu, Oh, & Wang, 2016; C.-C. Huang, Fang, Huang, Chang, & Fang, 2014; Lima & Fernandes, 2015; Schakett, Flaschner, Gao, & El-Ansary, 2011) confirmed positive relationship between relational bonds and customer loyalty. Hence the hypothesis can be concluded as:

H4: Relational bonds have significant positive relationship with customer loyalty.

2.2.5 Customer Satisfaction and Loyalty

In the simple form satisfaction can be defined in terms of fulfilling the customer need and wants better than the competitors. Customer will only be satisfied when he perceived performance of goods or services as per the expectations. Customer satisfaction has a significant impact on loyalty in the telecom sector. Several studies (Aktepe, Ersöz, & Toklu, 2015; Chang, 2015; Kumar, Dalla Pozza, & Ganesh, 2013; Muhammad, Shamsudin, & Hadi, 2016) has confirmed positive relationship between customer satisfaction and loyalty. Hence, in this context hypothesis can be concluded as:

H5: Customer Satisfaction has significant positive relationship with customer loyalty.

2.2.6 Customer Satisfaction as a Mediating Variable to Customer Loyalty

Since, perceived service quality, perceived price fairness, perceived service recovery and relational bonds depends on the customer satisfaction if customer will be satisfied then he may feel some sort of psychological or emotional attachments with the firm which will leads towards loyalty and retention. Similarly, customer satisfaction is heavily depending upon the quality of services, customer fairness perceptions about prices and perception of justice in service recovery and relational bonds. So, based on this reciprocal relationship, customer satisfaction will be treated as a mediating variable to loyalty. Several studies (Abubakar & Mokhtar, 2015a, 2015b; Alireza, Ali, & Aram, 2011; Antón, Camarero, & Carrero, 2007; Gu et al., 2016; Han & Ryu, 2009; Kandulapati & Bellamkonda, 2014; Mansori, Tyng, & Ismail, 2014; Rashid, Ahmad, & Othman, 2014; Rothenberger, 2015; Sarkindaji, Hashim, & Abdullateef, 2015; Thakur & Singh, 2011) have confirmed mediating role of customer satisfaction between service quality, perceived price fairness, perceived justice in service
recovery and relational bonds and customer loyalty. Hence in these contexts the hypothesis can be concluded as:

H5a: Customer satisfaction mediates the relationship between service quality and customer loyalty.

H5b: Customer satisfaction mediates the relationship between perceived price fairness and customer loyalty.

H5c: Customer satisfaction mediates the relationship between perceived justice in service recovery and customer loyalty.

H5d: Customer satisfaction mediates the relationship between relational bonds and customer loyalty.

2.2.7 Corporate Image as Modifying Variable Between Customer Satisfaction and Loyalty

Review from the literature of past studies indicates that corporate image is a multipurpose construct, in some researches corporate image has been investigated as an independent variable (e.g., Giovanis, Athanasopoulou, & Tsoukatos, 2016; Jani, 2015; Rahman, 2012), as a mediating variable (B.-L. Cheng & Rashid, 2013; C.-F. Huang & Lien, 2012). Whereas, in few studies as moderating variable (e.g., Jha, Deitz, Babakus, & Yavas, 2013; Nguyen & Leblanc, 2001). In this study, we will investigate the corporate image as a moderator between the customer satisfaction and loyalty in the telecom sector. In this context the hypothesis can be concluded as:

H6: Corporate image moderates the relationship between customer satisfaction and customer loyalty in telecom sector.

3. Perceptions about Antecedents of Loyalty Among Stayers and Switchers

It is encouraging to note the increasing awareness that all customers are not alike (Peppers & Rogers, 2016; Venter, Wright, & Dibb, 2015), little is recognized that how and why they differ (Heinonen & Strandvik, 2015). From the review of past literature, it has been confirmed that psychological state and behavior of one customer segment is totally diverse from the psychological state and behavior of customers from other segments (Ganesh, Arnold, & Reynolds, 2000; Keaveney & Parthasarathy, 2001; Purwanto, 2013). If company can rightly identify the behavioral and attitudinal differences among the diverse groups of customers, service provider can easily utilize this information in customer acquisition and
more particularly in devising of suitable loyalty strategies. Customers can be divided into two
groups: customers who are switched from another service provider and those who have never
changed (i.e. “switchers” and first-time adopters or “stayers”) (Ganesh et al., 2000; Moreira,
Silva, & Moutinho, 2016; Peng & Wang, 2006). Moreover, preview of last studies directs
more focus on “switch from” firm rather than “switch to” firm (Moreira et al., 2016). In light
of the importance of investigating the differences among the customer various segments,
current study specifically focused on two customer segments i.e., stayer (who have never
switched to any other service provider) and switchers (who have recently joined the service
provider by switching from other service provider). Similar practice have been used by the
previous researchers (i.e. Adiwijaya, 2014; Bhutto & Laghari, 2012; Ganesh et al., 2000; Ho
& Yang, 2009; Moreira et al., 2016; Skogland, 2004; Wangenheim & Bayon, 2004). Hence in
this context the hypothesis can be concluded as:

H7: Perceived service quality and loyalty relationship is different between the stayers and
switched-in users.

H8: Perceived price fairness and loyalty relationship is different between the stayers and
switched-in users.

H9: Perceived justice in service recovery and loyalty relationship is different between the
stayers and switched-in users.

H10: Relational bonds and loyalty relationship is similar between the stayers and switchers.

H11: Customer satisfaction and loyalty relationship is different between the stayers and
switched-in users.

H12: Perceived service quality and customer satisfaction relationship is different between the
stayers and switched-in users.

H13: Perceived price fairness and customer satisfaction relationship is different between the
stayers and switched-in users.

H14: Perceived service recovery fairness and customer satisfaction relationship is different
between the stayers and switched-in users.

H15: Relational bonds and customer satisfaction relationship is different between the stayers
and switched-in users.

H16: Corporate Image and loyalty is different between the stayers and switchers.
4. Proposed Methodology

Study is based on the cross sectional data collected from the prepaid mobile subscribers from the four major provisional capital cities of Pakistan. Self-administrative questionnaire is used to collect the data from the customer care centers of telecom operators. Population frames is consisting of the prepaid telecom users of Pakistan till 2016 as per the statistics given by Pakistan telecommunication authority (PTA). Moreover, sample is based of 384 determined through the criteria proposed by (Krejcie & Morgan, 1970). Stratified random sampling technique have been used in this study. Particularly, disproportionate stratified sampling is followed. Data is analyzing trough SPSS followed by structural equation modeling SEM. Moreover, mediating effect of Customer satisfaction and Moderating role of corporate image are analyzed through SEM bootstrapping method while Multi group analysis techniques is used to analyze the direct and indirect effect of antecedents of loyalty within two customer groups.

5. Contribution of the Study

Despite of the significance of loyalty, dearth of studies addressed the generalizability of results across the various academic studies. This study is trying to fill the gap addressed earlier by incorporating the most significant predictors of customers’ loyalty with the help of proposed model based on the most relevant underpinning and supportive theories. This study has established several contributions in the literature of customer loyalty. First, it has enriched the loyalty literature by incorporating the customer profiles of stayers and switchers and results of the study will assist in understanding the antecedents of customer loyalty from stayer and switcher context. Such results will add in the generalizability as well as finding of most desirables antecedents in context of stayers and switchers. Second contribution of this study is that it has laid down the foundation of investigating the customer satisfaction and loyalty on grounds of customer profiles and it will respond to call for further studies. Third, Study is consisting of the least considered antecedents of loyalty like, perceived price fairness, Perceived service recovery and Relational bonds. Moreover, variables of the study were never aligned in a single model before. Fourth, Deepening and boarding of the Oliver model by integrating reciprocity and fairness theories. Fifth, current study has test a novel moderating relationship between satisfaction and loyalty in telecom sector.

Sixth, Review of previous studies confirmed that studies related to customer profiles are conducted in developed and developing countries like, Australia(Stein & Ramaseshan, 2015),
Portugal (Moreira et al., 2016) India (Shukla, 2014), Bangladesh (Hasan & Abdullah, 2013) and Turkey (Ulubaşoğlu, Şenel, & Burnaz, 2017). Whereas, up to the extent of researcher knowledge no study has been conducted in Pakistan telecom sector. Furthermore, majority of the studies on antecedents of loyalty are conducted on limited size of population like students (e.g., M Hassan, Malik, & Faiz, 2012; M. Ishaq, 2011), employees (e.g., I. M. Ishaq, 2012), specific geographical areas or cities (e.g., Ahmad, 2011; I. M. Ishaq, 2012; Sabir, Irfan, Sarwar, Sarwar, & Akhtar, 2013) and this will limit the generalizability of the findings. This study has filled these gaps by investigating on a more diverse population and geographical area. Seventh from methodological perspectives, this study is the pioneer for incorporating the third generation sophisticated data analysis techniques like, structural Equation Modeling SEM and Multi group Analysis. Eight from practical perspectives, investigating the effect of antecedents of loyalty on diverse groups of customer (stayer and switchers) will be benefical for understanding the attitudinal and behvriaol responses of these groups towards loyalty. particularly , results of the studfy will be helpful for the policy makers and practationers for devising the value based polieceis based on the requriments of dieverse groups (stayers and switchers)

6. Limitations and Future Research Directions

As of other research papers this paper has few limitations. This is a conceptual paper and need further modifications and the hypothesis must be tested empirically. Moreover, this study is conducted on telecom sector. Future studies can be conducted in other sectors like banking, education, retailing etc in a particular country or geographical context. As mentioned earlier this is conceptual/theoretical paper future researchers must address the issues like measurement, research design and survey techniques. Finally, this study was based on the cross sessional data future studies can used longitudinal data for the better generalizability.
References


