CUSTOMER LOYALTY FRAMEWORK OF TELECOMMUNICATION SERVICE MARKET

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ABSTRACT

This study investigates the relationship among customer satisfaction, customer trust, switching cost, and customer loyalty in mobile telecommunication service market of Pakistan. Built on the review of pertinent literature a research framework is developed based on the mediation of customer trust and moderation of switching cost on the relationship of customer satisfaction with customer loyalty. The data were collected from 515 customers in mobile telecommunication service market of Pakistan through convenience sampling. Correlation matrix and ordinary least squares regression analyses are used to determine the relationship among the variables. The findings confirm the framework that customer trust partially mediates the relationship of customer satisfaction with customer loyalty. Switching cost has no moderating effect in determining the relationship of customer satisfaction with customer trust and customer loyalty in mobile telecommunication service market of Pakistan. This study addresses the importance of customer satisfaction, customer loyalty, customer trust, and switching cost for the mobile telecommunication service firms. The findings suggest that the firms should enhance customer satisfaction in order to gain customer trust and customer loyalty. The significant relationships between the variables suggest that the research framework is applicable to the firms of mobile telecommunication service market of Pakistan. Further, this is probably among the first studies which look at mobile telecommunication service market of Pakistan in context of customer satisfaction, customer trust, customer loyalty, and switching cost. The most obvious finding to emerge from this study is that customer satisfaction and customer trust are the key determinants in predicting customer loyalty.

KEYWORDS

Customer Satisfaction, Customer Trust, Customer Loyalty, Switching Cost, Telecommunication, Service Market

1. INTRODUCTION

The growth rate of mobile telecommunication service market is remarkable in Pakistan for the past few years. Pakistan’s telecommunication industry particularly for cellular market is growing at above average growth rate as compared to its competitors [1]. There is a tremendous growth for mobile service users with a consistent increase of customers for past few years; moreover, approximate half of the population is using the mobile service in Pakistan [2]. Mobile telecommunication service market is becoming more competitive with the increase in the number of mobile phone service customers as well as the number of mobile phone service providers are...
expected to increase. The exponential growth of mobile telecommunication service market in context of cellular service users has heightened the need for investigation of customer satisfaction, trust, and switching cost to model customer loyalty. Additionally, the competitive mobile telecommunication service market is heading for maturity stage; where a cellular phone service firm not only has to satisfy its customers better with a competitive advantage as well as it has to retain its customers. So far, however, there has been little discussion about the determination of fact that customer satisfaction and customer trust are predictors of customer loyalty in mobile telecommunication service market of Pakistan. This paper seeks to address customer trust as mediator in determining the relationship between customer satisfaction and customer loyalty. Furthermore, this study gives an account of the moderating role of switching cost on relationship of customer satisfaction with customer loyalty in mobile telecommunication service market of Pakistan. Lastly, this study is to present implication of the framework for the industry so that the mobile phone service providing firms can be benefited through understanding the predictors of customer loyalty.

In the past two decades a number of researchers have examined the determinents of customer satisfaction for multiple industries [3]. A considerable amount of literature has been published on customer satisfaction [4]. Studies of customer satisfaction show the importance of customer satisfaction for future earnings of the firms [5, 6]. Literature has emerged that offers findings about to attract a new customer is more costly as compared to retain the current customer as well as the customer can be retained through satisfaction [7-9]. Some studies utilized econometric models to prove that customer satisfaction is also perceived to be associated with profit [10, 11] and productivity levels [12, 13]. Satisfied customers return to buy more, and help the firm to create a positive image of the firm through informing other customers [14]. The significance of customer satisfaction results in development of national consumer satisfaction indexes (CSIs) as Swedish customer satisfaction barometer is operating since 1989 [5], American customer satisfaction index since 1994 [14], Norwegian customer satisfaction barometer since 1996 [15], and customer satisfaction index model for Turkish mobile phone sector [16]. Several investigators are still working to develop these indexes for multiple industries of various countries. However, far too little attention has been paid to the mediating role of customer trust in determining the relationship between customer satisfaction and customer loyalty in mobile telecommunication service market of a developing country. Therefore, this study endeavors to compensate this empirical research gap through investigating the mediating role of customer trust in context of telecom industry. In addition, no research has been found that surveyed moderating role of switching cost on the relationship of customer satisfaction with customer loyalty in mobile telecommunication service market of Pakistan; therefore, this study examines the moderating role of switching cost in determining customer loyalty in the context of mobile phone service customers in a developing country like Pakistan.

2. LITERATURE REVIEW
2.1. Customer Loyalty

Several attempts have been made during past few years to determine the antecedents of customer satisfaction and customer loyalty in various industries along with telecommunication industry across the globe. Woo and Fock [17] investigated mobile phone users in Hong Kong and concluded that customer satisfaction is effected due to transmission quality, network coverage, pricing policies, and customer service. Telecommunication service provider of France was investigated through moderating effects of switching cost on customer trust and customer loyalty.
relationship [18]; it was found out that switching cost has a moderating effect on customer trust and customer loyalty relationship. Wang and Lo [19] conducted a research on China’s telecommunication industry; the study concluded that network quality was one of the most significant driver of service quality, service value, and customer satisfaction. Korean mobile users were investigated in a study [20]; it concluded that service quality, call quality, value added services, customer support, and customer-oriented services effect the customer satisfaction; while, switching barrier has an adjustment effect on customer satisfaction and customer loyalty. Mobile phone users in Turkey were investigated [21] to understand the effect of switching cost as a moderating variable on customer loyalty, trust, and customer satisfaction; the study found out that switching cost directly affected customer loyalty and it showed moderating effect on customer satisfaction and trust. Turel and Serenko [22] conducted a research on mobile phone users in Canada; they examined the antecedents of customer satisfaction and loyalty through adapting the American customer satisfaction index [14, 23]. This study concluded that age factor played a very important role in determining the customer satisfaction and loyalty.

2.2. Customer Trust

Trust is identified as a critical factor for creation of association with stakeholders [24-26]; moreover, previous studies reported direct association of trust with customer loyalty [27, 28]. Therefore, trust plays a significant role to increase customer loyalty [27]. When a customer feels good about a particular brand then she will develop a positive attitude towards the purchase of that brand in case the brand is trustworthy for the customer [29]. Morgan and Hunt (1994) described that “Good relationship among stakeholders is resulted by trust by having cooperation with stakeholders”. Furthermore, switching cost in connection with trust can affect customer loyalty such as a raise in switching cost can directly affect trust and customer loyalty [26, 30, 31].

2.3. Customer Satisfaction

Customer satisfaction originates when the customer compares the actual performance of a product with expected performance [32]. Customer satisfaction can generate customer retention; ultimately, it leads to increase market share with enhancement of sustainable competitive advantage [5, 33]. Previous studies have reported that call quality, value added services, and customer support provided by cellular service firm results in customer satisfaction that increases customer loyalty [20]. Customer satisfaction describes how customers rate a specific brand based on the past experiences of customers with a particular brand [34, 35]. Empirical evidence suggests the positive effect of customer satisfaction can originate customer loyalty [36]. Customized, specific, and better-tailored services that meet customer’s needs and expectations would lead to higher level of customer satisfaction [37]. Corporate image is a vital indicator that influences the perceived quality of customer, evaluates customer satisfaction, and customer loyalty [15]. Literature suggests that customer satisfaction operates in two different ways such as transaction-specific and general overall [3, 38]. LISREL analyses were conducted that suggested an overall customer satisfaction had a significant impact on customer loyalty that influenced customer's intention to terminate or extend the contractual relationship with the mobile cellular service providing firm [22].
2.4. Switching Cost

Switching cost is referred as costs that customer relates with the process of switching from one supplier to another. Switching cost according to a definition is the cost involved in switching from one service provider to another service provider [39]. Switching cost is the cost which is born by the customer when switching, it includes time, money, and psychological cost [40]. Jackson and Bund [41] defined switching cost as “the combination of financial, psychological and physical costs”. Switching cost is not only the financial cost but it also comprises the mental effort of the customer when the customer switches from one brand to another [42, 43]. Economical or financial switching cost can be thought of as a “sunk cost”, which happens when customer switches the brand [43]. Psychological cost is thought to be the cost which is linked with the insecurity and risk associated with switching to an unknown brand [26, 31]. Switching cost is one of the factors that directly influence customer’s sensitivity to price level; therefore, it bestows some advantages to the firms, with a direct consequence on customer loyalty [44, 45]. Klemperer (1987) proposed three various types of switching costs: learning costs which is the effort needed by the customer to reach the same level of satisfaction with the new product as compared to previous one, contractual costs are created by planned actions of firms when a firm develops attractive schemes, such as loyalty benefits or withdrawal penalties, to encourage retention of existing subscribers, transaction costs occur when changing providers i.e. starting a new relationship with a provider and to terminate a relationship.

3. RESEARCH FRAMEWORK AND HYPOTHESES

This study focuses on the relationship of customer satisfaction, trust, switching cost, and customer loyalty of mobile phone service customers in Pakistan. The major objectives of this study are to determine the relationship between customer satisfaction, customer trust, and customer loyalty; to investigate the impact of customer trust and customer satisfaction on customer loyalty; to investigate the intervening role of customer trust in determining relationship of customer satisfaction with customer loyalty; furthermore, this study investigates the moderating effect of switching cost on the relationship of customer satisfaction with customer loyalty as well as the moderating effect of switching cost on relationship of customer trust with customer loyalty for mobile phone service customers in Pakistan as shown in Figure 1. This study aimed to test the following hypotheses.

H₁. There is a positive effect of customer satisfaction on customer loyalty.
H₂. There is a positive relationship between customer trust and customer loyalty.
H₃. There is a positive association of customer satisfaction with customer trust.
H₄. Customer trust intervenes between customer satisfaction and customer loyalty.
H₅. Switching cost moderates the relationship of customer satisfaction with customer loyalty.
H₆. Switching cost moderates the relationship of customer trust with customer loyalty.
After analysis of results later some practical implications are suggested which may be helpful in determining the factors of customer satisfaction, customer trust and switching cost leading to customer loyalty of mobile phone service users in Pakistan. To support our objectives following hypotheses are constructed:

4. METHODOLOGY AND DATA COLLECTION

It was decided that best method to adopt for this investigation was cross-sectional questionnaire survey with convenience sampling from existing customers of mobile service providers in Pakistan. This study contained individual level as unit of analysis; data were gathered through a questionnaire survey with utilization of convenience sampling from two cities Rawalpindi and Islamabad. The sample size of 250 was decided for this study; therefore, target sample consisted of 750 customers of mobile phone service providers. Questionnaires were distributed to various customers; one week time was given to fill the questionnaire.

Questionnaire was formed through utilization of 5-point Likert scale (1 for Strongly Disagree) and (5 for Strongly Agree). A total of 535 questionnaires were returned out of 750 which lead to a response rate of 71.30%. Only 20 questionnaires were discarded due to incompletion. There were 151 female respondents (29.3%) and 364 male respondents (70.7%) out of 515 respondents. The average age of the sample was 24 years. The qualifications of the respondents were such as master degree (49.9%), bachelor degree (41.2%), intermediate (6.4%), basic primary education (2.1%) and illiterate (0.4%). The respondents were the customers of five mobile phone service providers such as Ufone (39.6%), Mobilink (20.8%), Warid (13.6%), Telenor (16.1%), and Zong (9.9%). Mostly respondents were using prepaid service (89.5%); while, very few respondents were utilizing postpaid service (10.5%).

Data management and analysis was performed using SPSS 11.5. Firstly, reliability of data was tested through Cronbach-α. Ordinary least squares (OLS) regression and Bivariate analysis were used to test the hypotheses: to investigate the effect of all independent variables (customer satisfaction and trust) on dependent variable (customer loyalty) as well as the effect of moderating variable (switching cost) on relationship between independent variables and dependent variables. Correlation matrix was carried out to investigate the association among variables.

5. FINDINGS AND DISCUSSION

It is apparent from Table 1 that there is positive association among all variables; moreover, it is revealed that customer trust, customer satisfaction, and switching cost are significantly associated with customer loyalty. Correlation between customer satisfaction and customer loyalty is 0.74.
This result is significant at the \( p = 0.01 \) level; further analysis shows that this correlation is the highest amongst all other correlations. Correlation between trust and customer satisfaction is 0.67 and it is significant at the \( p = 0.01 \) level. Correlation between customer satisfaction and switching cost is 0.55 and it is significant at the \( p = 0.01 \) level. Correlation between trust and customer loyalty is 0.67; this result is significant at the \( p = 0.01 \) level. There is a significant positive correlation between switching cost and customer loyalty that is 0.61 at the \( p = 0.01 \) level.

Table 1 Correlation Matrix

<table>
<thead>
<tr>
<th>Construct</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Customer Satisfaction</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Customer Trust</td>
<td>0.67**</td>
<td>1.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Switching Cost</td>
<td>0.55**</td>
<td>0.63**</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>4. Customer Loyalty</td>
<td>0.74**</td>
<td>0.67**</td>
<td>0.61**</td>
<td>1.0</td>
</tr>
</tbody>
</table>

**\( p < 0.01 \)**

Further statistical OLS regression analyses were carried out for dependent variable of customer loyalty and independent variables customer satisfaction and customer trust as shown in Table 2. As well as the second part of Table 2 presents the regression results for dependent variable customer trust and independent variable customer satisfaction. The adjusted \( R^2 \) for customer satisfaction is 0.55; it means that 55% of variance for customer loyalty is explained through customer satisfaction. However, adjusted \( R^2 \) for customer trust is 0.44; it means that 44% of variance for customer loyalty is explained by customer trust. The adjusted \( R^2 \) for customer satisfaction is 0.46 on customer trust; it means that 46% of variance in customer trust is explained by customer satisfaction. The results indicate that customer trust and customer satisfaction both are significant predictors of customer loyalty.

Furthermore, customer satisfaction is highly significant predictor of customer loyalty having a value of 0.75 and this result is significant at the \( p = 0.01 \) level as compared to customer trust with a value of 0.67 significant at the \( p = 0.01 \) level. Moreover, the results indicate that customer satisfaction is also significant predictor of customer trust with a value of 0.67 significant at the \( p = 0.01 \) level.

Table 2 Regression results for customer loyalty and customer trust

<table>
<thead>
<tr>
<th>Predictor</th>
<th>Criterion</th>
<th>( \beta )</th>
<th>Adjusted ( R^2 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer satisfaction</td>
<td>Customer loyalty</td>
<td>0.75**</td>
<td>0.55</td>
</tr>
<tr>
<td>Customer trust</td>
<td>Customer loyalty</td>
<td>0.67**</td>
<td>0.44</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>Customer trust</td>
<td>0.67**</td>
<td>0.46</td>
</tr>
</tbody>
</table>

**\( p < 0.01 \)**

We now turn to first part of Table 3 that presents the mediation analysis by analyzing the combine effect of customer satisfaction and customer trust on customer loyalty. When combining the effect of customer satisfaction and trust over customer loyalty the results indicate that \( \beta \) value of customer satisfaction reduces from 0.75 to 0.50; this proves partial mediation effect of customer trust. If we turn to second part of Table 3; the results indicate the moderating effect of switching cost on the relationship of customer satisfaction with customer loyalty and on the relationship of customer trust with customer loyalty. The results prove that interaction of customer satisfaction with switching cost yielded \( \beta \) value of (-.0.11) as well as interaction of customer trust with switching cost yielded \( \beta \) value of (-.0.12); both are significant at \( p = 0.01 \)
level. This indicates that high switching cost is not leading to high customer loyalty in mobile telecommunication service market of Pakistan.

It can be concluded that customer satisfaction is significantly related to customer loyalty; it has a significant positive effect in determining customer loyalty that supports H₁ hypothesis. H₂ is also supported through results; there is a significant positive relationship between customer loyalty and customer trust. H₃ is supported; customer satisfaction has a positive relationship with customer trust. H₄ is supported through results; there is partial mediation effect of customer trust in determining the relationship between customer satisfaction and customer loyalty.

Finally, the results do not support H₅ and H₆; which deal with moderating effect of switching cost on the relationship of customer satisfaction with customer loyalty and on the relationship of customer trust with customer loyalty. Contrary to expectations, this finding is different to the previous research findings. This finding was unexpected and suggests; that as the switching cost to switch from one mobile telecommunication service provider to another is very low is Pakistan; therefore, it does not have an impact on customer loyalty. However, results support that customer satisfaction is the strongest predictor to determine customer loyalty in mobile telecommunication service market of Pakistan.

### Table 3 Mediation and moderated regression analyses

<table>
<thead>
<tr>
<th>Predictor</th>
<th>Customer Loyalty</th>
<th>β</th>
<th>Adjusted R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mediator analysis Step 1</td>
<td>Mediator analysis</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer satisfaction</td>
<td>0.75 **</td>
<td>0.55</td>
</tr>
<tr>
<td></td>
<td>Mediation: customer trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer satisfaction</td>
<td>0.50**</td>
<td></td>
</tr>
<tr>
<td>Step 2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer trust</td>
<td>0.39**</td>
<td>0.67</td>
</tr>
<tr>
<td>Step 3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Moderator Analysis 1 Step 1</td>
<td>Customer satisfaction</td>
<td>0.51**</td>
<td>0.41</td>
</tr>
<tr>
<td></td>
<td>Switching cost</td>
<td>0.23 **</td>
<td></td>
</tr>
<tr>
<td>Step 2</td>
<td>Customer satisfaction x switching cost</td>
<td>- 0.11**</td>
<td>0.42</td>
</tr>
<tr>
<td>Moderator analysis 2 Step 1</td>
<td>Customer trust</td>
<td>0.33**</td>
<td>0.27</td>
</tr>
<tr>
<td></td>
<td>Switching cost</td>
<td>0.29**</td>
<td></td>
</tr>
<tr>
<td>Step 2</td>
<td>Customer trust x switching cost</td>
<td>-0.12**</td>
<td>0.29</td>
</tr>
</tbody>
</table>

**p < 0.01**
6. CONCLUSION

The evidence from this study suggests that customer satisfaction and customer trust are the stronger predictors of customer loyalty in mobile telecommunication service market of Pakistan. Therefore, the mobile phone service provider firms should primarily focus on satisfying the customers through establishing trust in order to retain the customers. As in case of Pakistan’s mobile telecommunication service market; the switching cost does not have moderating effect on customer loyalty due to low switching cost and low mobile number portability cost. Customers can easily switch from one mobile telecommunication service provider to another service provider in the market. Furthermore, this study proves that customer trust partially mediates the relationship of customer satisfaction with customer loyalty; this suggests that customer satisfaction contributes towards building customer trust which ultimately leads to customer loyalty. The firms in mobile telecommunication service market should acutely focus on this issue and try to satisfy needs of the customers in a way that will build customer trust in association to customer loyalty. An implication of this study is that the firms in mobile telecommunication service market should satisfy the customers through provision of good service and network coverage. In general, therefore, it seems that the firms in mobile telecommunication service market of Pakistan should create trust for the customers through reliable services.

This research has thrown up some questions in need of further investigation. Future research can focus on identifying other key variables which play mediating and moderating role over the relationship of customer satisfaction with customer loyalty in association of antecedents for customer satisfaction in mobile telecommunication service market of Pakistan. The most important limitation lies in the fact that data were analyzed from response of only 515 respondents from Rawalpindi and Islamabad in Pakistan. However, there are about eighty million mobile phone subscribers in mobile telecommunication service market of Pakistan. Through inclusion of sample across several geographic regions may produce better findings.

REFERENCES


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