Impact of Customers Satisfaction And Customers Retention on Customer Loyalty

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Abstract-The purpose of this study is to examine the importance of future customer's relationship using customer satisfaction, and customer retention on customer loyalty in telecom industry of Pakistan. Questionnaires were distributed through electronic mail and self administered for data collection and linear regression analysis was used. The results show that customer satisfaction has significant while customer retention has insignificant impact on customer loyalty. The implications of the study are that a company should better manage their relationships with the customers as a competitive policy in mobile telephone marketplace. The weak side of the study is that it is limited to a single industry of mobile telecom industry.

Key words: Customer satisfaction, Customer retention, Customer loyalty

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1. Introduction

Customer loyalty is the focus in the research and It turn into an important concern for management only due to concentrated competition especially in service industry (Bodet, 2008). In emerging business, competition customer loyalty plays very crucial role for achieving the competitive advantages (Lin & Wang, 2006).   It is significant important to analyze it in the context of customer retention and customer satisfaction, these two variables are of immense important to analyze the customer loyalty. Firms can maximize level of profitability by providing safe and sound products and services to their loyal customers (Rauyruen & Miller, 2007). In beginning, the study of loyalty used to capitalize on power (Kumar & Shah, 2004). There are several studies conducted on customer loyalty some of them are mention below, Including the work of Rust and Zahorik (1993); (Rauyruen & Miller, 2007); (Kumar & Shah, 2004); (Vesel & Zabkar, 2009); Hallowell (1996) and many more. Telecom industry has grown rapidly in Pakistan over the last decade and there is a great competition among the existing service providers with respect to loyal customers. We believe based on our studies that telecom industry had not been analyzed in the context of its customer loyalty with respect to customer satisfaction and customer retention in the context of Pakistan. Detail will provide in the later section of this paper. The purpose of this paper is to takes a fresh look at the impact of customer satisfaction and customer retention on customer loyalty a case of mobile telecom industry in Pakistan. This research intentionally focuses a relatively high level of construct in an effort to contribute to the growing body of theoretical and empirical knowledge. We provide a framework that allows organizational manager to decide that how customer satisfaction and customer retention have the greatest impact on business performance through customer loyalty.

2. Literature review

2.1 Customer Loyalty

Customer loyalty has been defined early that "It is normally the willingness of customer to maintain their relations with a particular firm or service/product" (Kim & Yoon, 2004). In reality loyalty should be explain as a customer commitment to do dealing with a particular firm, buying their products and services and referring it to colleagues (Mcllroy & Barnett, 2000). By tradition, customer loyalty is divided into two components one is based on behavior and the other is based on attitudes (Guillén, Nielsen, Scheike & Marín, 2011). Rauyruen and Miller (2007) also explain customer loyalty as a merged concept of behavioral loyalty (willingness of customer to repurchase from and continue relationships with the company) and attitudinal loyalty (emotional attachments and advocacy of customers toward the company). Customer loyalty is focal point for numerous business organizations (Vesel & Zabkar, 2009). The success of company sales are ensured by customer loyalty, which can be influenced by management action (Gerpott, Rams & Schindler, 2001). In emerging business competitions the loyalty of customers had shown as a main feature in getting continue competitive advantage (Lin & Wang, 2006). Customer respect oriented business organization will attract and develop loyal customers (Chang & Chen, 2007). It is crucial to understand the customer psyche for building competitive policies to succeed in differentiation and winning of customer loyalty in the competitive market (Chen & Hu, 2010). A firm can develop long lasting, jointly profitable associations with customer by developing customer loyalty (Pan, Sheng & Xie, 2011). Customer loyalty is a vital element for the continued existence and operating of firms business (Chen & Hu, 2010). Loyalty can be measure by the intention of repurchase, recommending the product/services to other and patience towards price (Kim & Yoon, 2004). Customer loyalty is use to measure repeated purchasing and forbearance for price (Auh & Johnson, 2005). In addition the "brand value, handsets type, an intention to recommend the current carriers to others and the call quality having a significant explanatory power to measure the determinants of customer loyalty" (Kim & Yoon, 2004).

2.2 Customer satisfaction

Marketing literature has focus on improvement of customer satisfaction. Satisfaction is defined by different studies in different ways. Satisfaction can be obtained because of what was expected. If the supply of a firm were according to expectations of customers, they would be satisfied. The amount of high and low satisfaction depends upon the level of supply that meets the level of expectation or fall above/below to that level (Gerpott, Rams & Schindler, 2001). Satisfaction of customer is used for indication of future possible revenue (Hauser, Simester & Wernerfelt, 1994).Customer satisfaction is the necessary foundation for the company to retain the existing customers (Guo, Xiao & Tang, 2009). The customers who are unsatisfied with the received services would not be expected to have long run relationships with the company (Lin & Wu, 2011). Poor services can also cause to dissatisfaction. Like Inherently poor services or satisfactory level of services, which cannot achieve customer, expectation may be cause of dissatisfaction in customers (Rust & Zahorik, 1993). Variation in the quality and value of products and services provided to customer creates variation in customer satisfaction and that create variation in customer loyalty (Auh & Johnson, 2005). According to (Anderson, 1994) customer satisfaction is used to measure company performance at both "internally to compensate human resource, observe performance and assign funds as well as for externally the satisfied customer is also source of information for all stake holders (customers, public policy makers competitors and investors)". For developing customer satisfaction, reliability in the providing of services and commitment to service relationships a company must attempt to increase customer's future expectations (Lin & Wu, 2011). According to Rust and Zahorik (1993) customer satisfaction has direct impact on loyalty. Auh and Johnson (2005) Argued that there are strong relationships between satisfaction and loyalty. Similarly, Bodet (2008) confirmed the relationship between customer satisfaction and customer loyalty. Shankar, Smith and Rangaswamy (2003) also provide evidence that there is positively relationship between satisfaction and loyalty. As Kim, Jeong, Park, Park, Kim, and Kim (2007) stated that customer satisfaction has impact on customer loyalty. Vesel and Zabkar (2009) provide evidence that customer satisfaction is one of the significant determinants of customer loyalty. Hallowell (1996) also support that satisfaction and loyalty are related to one another.

H1

It is hypothesis that customer's satisfactions have positive and significant impact on customer loyalty.

2.3 Customer retention

In previous work customer, retention is defined by different studies in different ways like Gerpott, Rams and Schindler (2001) as that "It is the continuity of the business relations between the customer and company". As it has stated that,

the vital issue in relationship marketing research was "the affects of relationships and quality on customer's retention (Lin & Wu, 2011). Retention and attraction of new customer are used as drivers for increase in market share and revenues (Rust, Zohorik & Keiningham 1995). In the retention of customer, it is important for firm to know who to serve their customers. Post sales services are the important drivers for customer retentions (Saeed, Grover & Hwang, 2005). It is important for product/service provider to emphasis on the quality of product and service. As it is stated (Lin & Wu, 2011) that there is "statistically significant relationship between quality commitment, trust and satisfaction and customer retention and future use of product, as retention is influenced by future use of product." Lin and Wu (2011) argued that "our finding extend previous research that there is solid relationship between customer retention and quality of service/or products". It was examine that loyalty program with monetary compensation is steps toward great customer retention (Verhoef, 2003). Evidence is available in previous literature "that Emotional commitment and loyalty program that gave financial incentives have positive impacts on customer retention" (Verhoef, 2003).
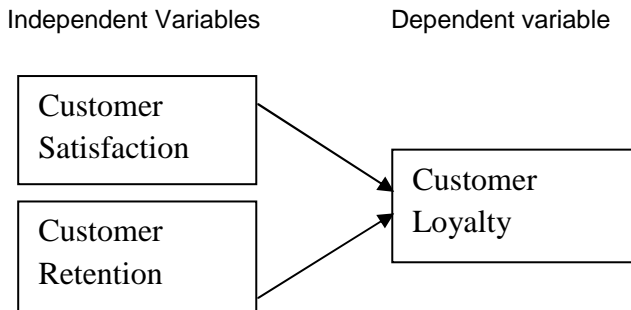
Different studies have examine the relationship of customer retention and customer loyalty in different context some have studied it as there is positive relation, other have studied that they have negative relation, while evidence exist that there is no relation between them. Similarly (Petterson, 2004) studied the relationship among customer retention and customer loyalty. Wong, Chan, Ngai and Oswaldw (2009) Proved that good relation with customer have significant impact on customer loyalty. As Smith and Chang (2009) examine that customer retention have no impact on customer loyalty. According to Rust and Zahorik (1993) there is a significant relationship between retention and loyalty. Customer retention can be reflecting Customer loyalty (Hallowell, 1996). Similarly, Bolton, Kannan and Bramlett (2000) studied that customer loyalty has significant effect on retention. Gerpott, Rams and Schindler (2001) examine the relation between customer retention and customer loyalty in telecommunication market.

H2

It is hypothesis that customer's retention has positive and significant impact on customer loyalty.

In different papers all these variables are studied separately, some have use customer satisfaction as mediating variable while some have used customer loyalty as a mediating variable. Other has studied impact of loyalty on retention. Here this study will examine this customer satisfaction and customer retention and their impact on customer loyalty in telecom industry of Pakistan.

Theoretical framework

Independent Variables   Dependent variable

3. Methodology of the paper

Convenience sampling technique was used for this paper, under which the impact of customer satisfaction, customer retention on customer loyalty is studied in telecom industry of Pakistan. 108 questionnaires were distributed among the students of different universities of Pakistan and eighty six questionnaires were received back, so the response rate was 79.6%. Three questionnaires were not valid and the number of valid questionnaires was eighty-three. The questionnaires that were distributed among the students were adapted from Anh (2010); and Kayali and Taher (2010). These questionnaires were distributed both through electronic mail and self-administered. Likert scale of 5 choices were used in this questionnaire, starting from left to right with Strongly agree , agree, neutral , disagree and strongly disagreed respectively. Linear Regression analysis was used to measure the impact of customer satisfaction and retention on customer loyalty.

4. Discussion and Results

4.1 Demographics

Questionnaires were distributed between both male and female having the percentage 75.9% and 24.1% respectively. The respondents, from which data were collected having different level of age, education, and income. Some of the respondents were single while some were married and having children or without children. Respondents were advised to select one network among all of the mobile networks operating in Pakistan. The data was collected about Mobilink, Zong, Ufone, Telenor, and Warid. Eighty-three were total respondents out of these respondents 9 (10.8%) were the user of Mobilink, 10 (12.0%) were the user of zong, 35 (42.2%) were the user of Ufone, 21 (25.3%) were the user of Telenor and 8 (9.6%) were the user of Warid.

4.2 Reliability

The questionnaire containing of twenty-seven items, seven items were to measure demographic variables, seven were to measure customer loyalty, eight were for the measurement of customer satisfaction, and five were to measure customer retention. Before the collection of data pilot testing of questionnaires conducted and its reliability

was acceptable, after conducting the pilot testing all the questionnaires were distributed among the mobile telephone user and then check the reliability of all the questions. The reliability Cronbach's Alpha (α) of customer loyalty, customer satisfaction and customer retention was 0.770, 0.833 and 0.761, respectively, which is globally acceptable and reliable.

Model	R Square	Adjusted R Square	Change Statistics	
			R Square Change	Sig. F Change
1	.122	.112	.122	.001
2	.619	.605	.497	.000

1. Predictors: (Constant), Income

2. Predictors: (Constant), Income, Retention, satisfaction

One way ANOVA was run to find the significant impact of demographic variables and the impact of income found significant therefore, it is use as a control variable in the first step of regression analysis. According to table 3, the beta value of income is 0.191, t-statistic is 2.679, and significance level is 0.009, which is less than the acceptance level 0.05 p-values.

Table 1, Correlation

Variables	Mean	Standard deviation	1	2	3
Loyalty	2.6489	.83517	(0.770)		
Satisfaction	2.4828	.82278	0.764[**]	(0.833)	
Retention	2.6265	.87165	.556[**]	0.693[**]	(0.761)

**. Correlation is significant at the 0.01 level (2-tailed). Reliability Cronbach's Alpha (α) in parenthesis

Table 1, show that strong significant and positive correlation exists between loyalty and satisfaction and also relatively strong significant and positive correlation exist between loyalty and retention. The correlation between customer satisfaction and customer retention is strong significant and positive.

Table 2 R square change

As income is one of the demographic variable has significant relation with customer loyalty therefore it is controlled and after controlling this variable R square changed, which is reported in table 2. R square tells us the

extent to which independent variables predicting the dependent variable in the given model.
 Regression   ANOVA was significant which means that overall model is fit for predictions.

Table 3; Regression analysis

Model		Standardized Coefficients		
		Beta	t	Sig.
1	(Constant)		16.141	.000
	Income	.350	3.362	.001
2	(Constant)		2.834	.006
	Income	.191	2.679	.009
	satisfaction	.673	6.842	.000
	Retention	.069	.713	.478

A. Dependent Variable: Loyalty

The regression analysis in table 3; shows that the customer satisfaction has significant impact on customer loyalty with t-statistic 6.842 and significance level is 0.000, which is less than P-value 0.05 and Beta value of customer satisfaction is 0.673. Thus supporting H1, that "customer satisfactions have positive impact on customer loyalty. Beta value shows that one percent change in customer satisfaction will change customer loyalty with 0.673 percent. Similarly like Kim and Yoon (2004) they give evidence that the source of customer loyalty is customer satisfaction. Yen and Gwinner (2003) find that satisfaction has positive and significant effect on customer loyalty. Lin and Wang (2006) also examine that satisfaction have significant and positive impact on loyalty.
Table 3; shows that the t-statistic and significance level of Customer retention are 0 .713   and 0.478 respectively, which is greater than P-value 0.05.The beta value of customer retention is 0.069 which are insignificant and are less than the acceptance level, so the H2 which was that "customer retention has positive impact on customer loyalty" is not acceptable. The beta value shows that one percent change in customer retention will cause to change customer loyalty 0.067 percent. As Smith and Chang (2009) found that customer retention, have insignificant effect on customer loyalty.
After getting insignificant and unexpected result between customer retention and customer loyalty we discuss the issue with the users of mobile telephone services (respondents). They explained that as our expectation are not fulfilling and their prices and services are not according to our expectation but now this mobile number became our identity, our family members and friends using this number to contact us therefore it is difficult to change number and still using the same mobile number but we are not loyal.

5. Implication

On the bases of the above analysis, this is recognized that with improvement of customer satisfaction the firm will find customers that are more loyal. By the referring of loyal customers a firm can also attract more customers. Based on the study, company managers are advised to satisfy and better manage their relationships through quality product and services with the customers as a competitive policy in mobile telephone marketplace.

6. Limitation and future work

The drawback of this study is that it is limited to a single industry due to time limitations and is not generalizable. Better work could be done in future by using data of more than one industry to generalize these phenomena.

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