

The Relationship of Service Quality, Customer Satisfaction, Customer Loyalty and Customer Retention in Telecommunication Industry: A Conceptual Framework

Voon Sze Chee

Azman Hashim International Business School, Universiti Teknologi Malaysia

* erskine2020@gmail.com

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Abstract: The paper intends to propose a conceptual framework that linking the relationship of service quality, customer satisfaction, customer loyalty, and customer retention in measuring service quality provided by telcos. To achieve the objective, reviews of the literature were presented. This paper is useful to researchers conducting a study in not only the telecommunication area but also in other areas related to service quality. This paper also benefits the marketing managers in the telecommunication industry in understanding factors affecting service quality, customer satisfaction, customer loyalty, and customer retention.

Keywords: Service quality, customer satisfaction, customer loyalty, customer retention

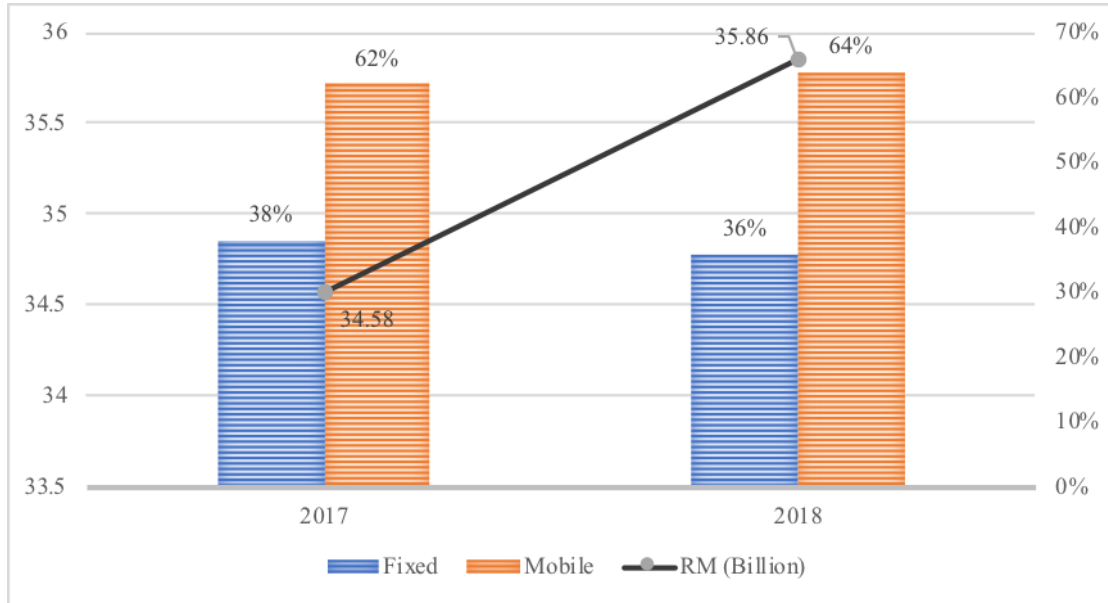
Paper type: Conceptual paper

1. Introduction

The telecom industry in the Asia region, including Malaysia, has been experienced tremendous growth (Chang et al., 2011). From the landline which is provided by them first telecom service provider in Malaysia – Telekom Malaysia (Munyanti et al., 2018) and following by many companies such as Maxis, Celcom, Digi, and U Mobile, demand for mobile telecom services is increasing in tandem with sophisticated request from customer on the wireless services (Chuah et al., 2015). Malaysian Communication and Multimedia Commission in 2018 highlighted that telecom sector revenue had been grown about 3.7% to RM35.86 billion compared to the previous year, which was about RM34.58 billion. In addition to that, mobile service providers have been contributed approximately 64% to the total telecom revenue, whereas the remaining 36% was from fixed service providers (SKMM, 2018). In terms of the market share, mobile service providers have been successfully captured more than half of the market in Malaysia compared to the fixed service

provider (Figure 1). This was due to customer needs data mobility service with high-speed data communication that associated high tech smartphone usage while they move around.

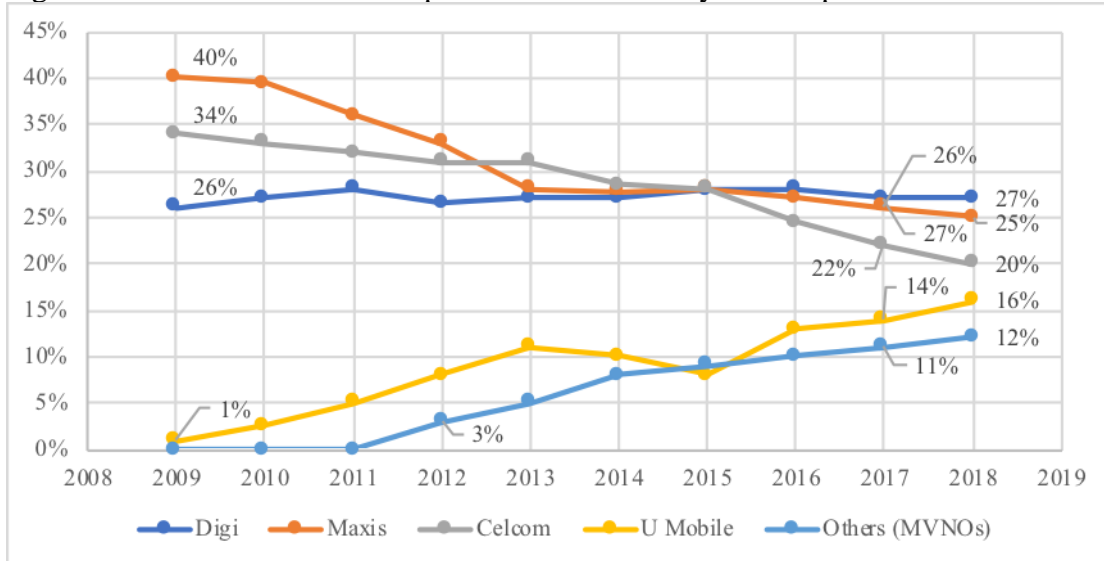
Figure 1. Telecom sector revenue 2018 vs. 2017



Source: (SKMM, 2018)

In Malaysia, few major players have been competed to sustain their base customers from leaving one and jump to other service providers. Due to healthy competition, SKMM (2018) mentioned that market share that has been dominated by individual service providers had been declined dramatically due to the new entry of player (U Mobile) and or the introduction of Mobile Virtual Network Operators (MVNOs) (refer to Figure 2).

Figure 2. Mobile cellular subscriptions market share by service providers 2009 – 2018



Source: (SKMM, 2018)

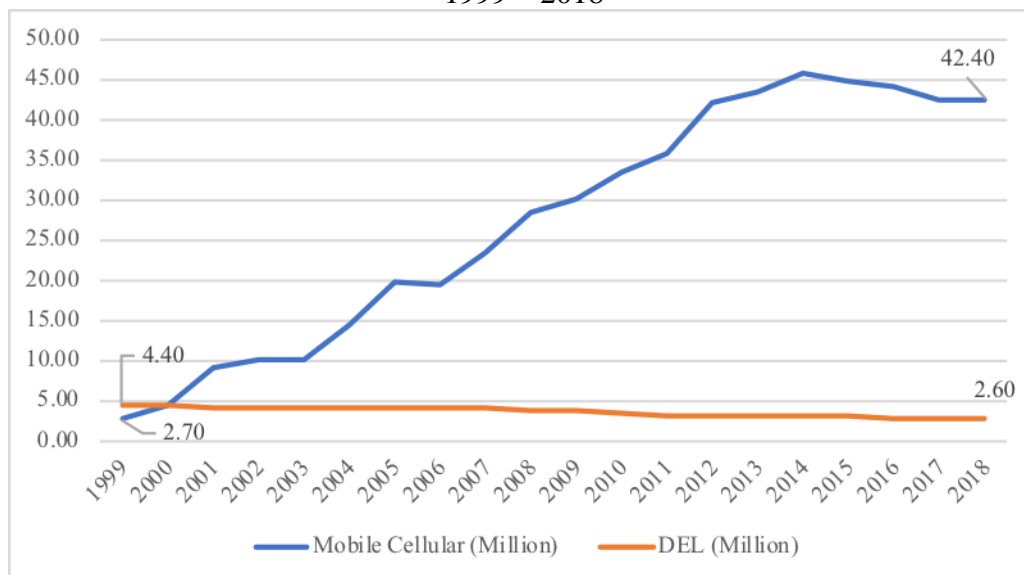
The total subscribers trending will be up and down, whereby the customer is switching from one to another service provider (Danish, et al., 2015) — reacting to this challenge, instead of tempting new customers but trying to put more effort on to maintain satisfaction, loyalty (Chuah et al., 2011) and even retention of their existing customer. In this case, the role of customer loyalty and retention becomes vital in the telecom industry in Malaysia, whereby those service providers lose more than 30% of their subscribers every year (Tripathi et al., 2009). There are many marketing theories and practice emphasize that telecommunication firms if want to sustain among their rival company, the only way is customer satisfaction shall up to par. For example, some empirical study researchers, Hogan et al., 2003, said that the existing customers could bring more “moneymaking” or revenue growth compared to the potential customer. Moreover, Reichheld et al., 1990 claimed that “loyal customers are less likely to change service providers because of the price while they will tend to recommend the business to others via the mouth of fact.”

2. Literature Review

A. Telecommunication industry in Malaysia

The growth rate of the telecommunication industry in Malaysia can be traced from the year 1990, whereby the industry welcomed newcomers warmly. As a result, six new companies entered the industry in late 1993 (Mohamad, 2004; Haque et al., 2007). In line with the advancement of technology, the industry is facing heaving competition among each other (Ramlan et al., 2013). For example, the growth of mobile broadband and internet which offers affordability of data plans as well as robust adoption of smart devices in market substitutes the conventional voice call and short message service (SMS) such as web-based application messenger (Skype, Whatapps, LINE, Telegram, Weechat, and etc), and Voice-Over-LTE (VoLTE). Figure 3 shows that mobile cellular has been substituted off the familiar voice and short message service.

Figure 3. Communication services developments (direct exchange line (DEL) vs. mobile cellular, 1999 – 2018)



Source: (SKMM, 2018)

As can be observed in Figure 3, the number of mobile cellular customers has been skyrocketed and the customer acquisition rate has been slower (Shafei et al., 2016). Therefore, mobile cellular service providers need to change their focus and pay more attention to customer satisfaction, loyalty,

retention instead of customer acquisition (Arokiasamy et al., 2013). Carrizo et al., (2016) mentioned that customers have becoming very demanding to the service they have subscribed. Moreover, a variety of promotion scheme that has been offered by competitors makes the situation even worst, whereby the consumer jump from one to another service operator (Danish et al., 2015). Followed by that, the inability of the service providers leaders that shall take up the effective strategies to retain their subscribers in a saturated stage market (Ronald, 2016).

B. Customer retention

Customer retention exists when the service provider able to fulfill the customer expectation and further maintain it in the long-term relationships in order to guarantee long-term buying decisions (Otaigbe, 2018; Preikschas et al., 2017). Previous studies found that repurchase intent was the main benefit of customer retention (Silva, and Yapa, 2013), and service provider shall always govern the customer satisfaction, and outcome of customer loyalty in order to achieve retention stage (Silva et al., 2013, and Naranyandas, 1998). Ocloo and Tsetese (2013) have highlighted that customer satisfaction is significantly influence customer retention. In the telecommunication industry, Jeng and Bailey (2012) mentioned that service provider offers a contracted primary with an attractive price tag to ensure their customers will keep using their service in the specified duration of time, which may involve the repetitive of transactions that defined as part of the customer retention strategy.

C. Customer loyalty

Customer loyalty has been defined as an attitude that is preferred to brand preference, commitment, intention-to-buy (Lee, and Feick, 2001). Loyalty also means the strong desire to repurchase to the same brand or service due to the positivity toward the particular organization (Danish et al., 2015). According to Ndubisi (2005), the loyalty of a customer towards a specific brand or company can be enhanced by providing a gift, discount voucher, and freebies during the event or festival for encouraging the repurchase intention. Therefore, it is vital that an organization able to sustain in the competitive market jointly profitable associates with the customer by developing customer loyalty (Khan, 2012, Pan et al., 2011). In this research, customer loyalty has been a hypothesis to have a significant relationship with customer retention. A various study has been measured the relationship of customer loyalty and customer retention such as Danish et al., 2015, which was taking part in Telecom at Pakistan. Besides, another researcher (Silva, and Yapa, 2013), mentioned that “customer loyalty and satisfaction are an integral part of customer retention process”, in other words, customer loyalty is the primary determinant factor shall be the retention. Moreover, some researchers (Jeng et al., 2012, and Gerpott et al., 2001) said that a certain extent of loyalty to be driven by customer retention, whereby it has related the growing profits of the company.

D. Customer satisfaction

Customer satisfaction refers to the customer's overall evaluation of patronage experience (Loke, et al., 2011). It can also be defined as “customer satisfaction as the overall retrospective judgment about how far the customer expectations concerning a service have been fulfilled in use of situations” (Gerpott et al., 2001). Some researchers found that high customer satisfaction will lead to repeat visitation to store, repurchases, and also encourage positive word-of-mouth” (Fornell et al., 1994; Wirtz, 2003). In contrast, a customer with dissatisfactory will always associate with frustration feeling (Zeithaml et al., 1996).

The positive and significant relationship between customer satisfaction and customer loyalty has been found in many studies (Lim et al., 2006; Aydin et al., 2005; Gerpott et al., 2001; Lee et al., 2001; Kim et al., 2004). In the telecommunication industry, for example, the researcher Lim et al. (2006) has been conducted the research to validate the relationship toward US general subscribers

who are using the mobile service and finds that customer satisfaction has a positive relationship with customer loyalty.

E. Service quality

In this paper, service quality consists of six dimensions, which are network, mobile devices, customer service, value-added services, pricing structure, and billing system. The dimensions to build up a service quality was also presented by several earlier studies done by Shafei et al. (2016), Santouridis et al. (2010) and Kim et al., (2004).

The network is referring to a quality of network provided by the telco. It is measured by the frequency of drop calls, voice quality, and coverage of the network (Santouridis et al., 2010; Lim et al., 2004). Mobile devices, on the other hand, is measured by evaluating the quality, variety, and design of device subsidized by the telco. It is a norm that telco come out with various attractive package which also includes device as part of their plan. Also, customer service, which is derived from a service provider's ability to provide a service or product to the customer as promised, included in the service quality dimension. Jeng et al. (2012) mentioned that the service provider should provide comprehensive solutions while interacting with the customer. Therefore, customer service quality should be determined by the customer representative skills set, such as knowledge, courteous, and excellent listening skills, among others (Investopedia, 2016).

Value-added service is one of the dimensions of service quality. In telecom industry, value-added service can be identified added service provided by the company such as caller tunes or customized ringtones, the jokes, astrology topics, daily of news update, and sport regardless domestic, international, and customized as user need (Tripathi et al., 2009; Santouridis et al., 2010; Kim et al., 2004). Some researcher has defined value-added service as the precision of billing service, and the ease of access service provider (Lee et al., 2001). Pricing also able to influence customer satisfaction. Reasonable price, variety, and flexibility of pricing plan are among the content that affects pricing structure (Shafei et al., 2016; Santouridis et al., 2010; Kim et al., 2004) In addition to that, the accuracy of the bill, billing content and billing issues rectification also considered as part of customer satisfaction (Lim et al., 2006; Kim et al., 2004; Gerpott et al., 2001)

3. Conceptual Framework

Based on the above discussion, this paper proposes a conceptual framework, as illustrated in figure 4.

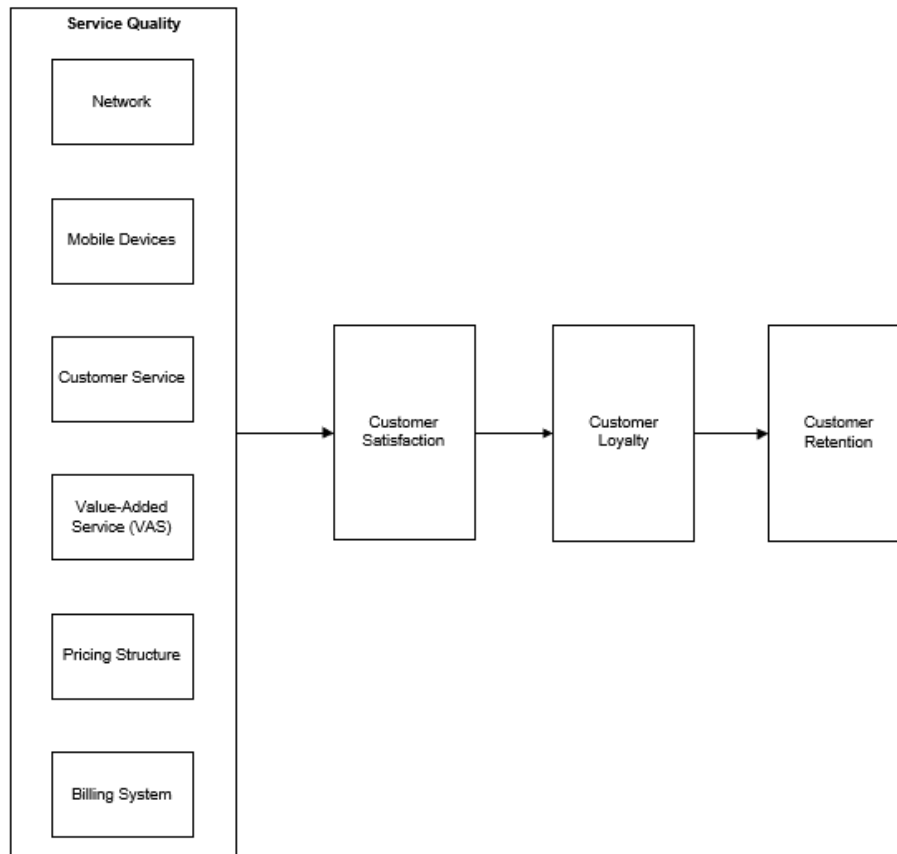
4. Conclusion

A. Limitations and future research

This research has some limitations; firstly, the outcome of this research is just concern about the telecom industry that cannot be generalized to other fields. It' recommend that to examine the other industry sector such as banking, hospitality, automotive, and education to generalize these phenomena. Secondly, the lack of the construct that has been suggested by other researcher which is switching-barrier construct with a few dimensions that shall include in, such as loss cost, move-in cost, adaption cost, search cost, attractiveness alternatives, and interpersonal relationship (Shafei et al., 2016; Kim et al., 2004) that possible as mediate factors on the link between customer satisfaction and customer loyalty. The reason for this construct shall add to this existing framework is to clear the midst of argument said that customers would not switch out from current service providers due to switching cost is high despite that customer satisfaction is not highly satisfied. Thirdly, the survey sample is not large enough to generalize the conclusion. The future research shall be covered a larger sample size with random sampling so that it could be generalizable to the consumers who are using the mobile service in Malaysia. Lastly, customer satisfaction and customer retention relationship should be included in future research whereby some extant literature (Danish et al., 2015; Ali et al.,

2010) show that their direct significant positive relationship between these two constructs. These constructs need to be added, so this research becomes more comprehensive in the future.

Figure 4. Propose conceptual framework



B. The implication of the research

The implication of this study has been divided into theoretical outcome and practical role that to be discussed. The current framework that has been proposed encompassed the service quality (with six dimensions of independents), customer satisfaction, loyalty, and customer retention relationship that to be the comprehensive framework to address the customer loyalty, and retention condition in telecom industry in Malaysia. In brief, this study reveals the few elements that is vital in telecom in Malaysia market, for instance, network, customer services, pricing structure that significantly influence customer satisfaction. Most of the extant literature also agreed with these independents had positively influence customer satisfaction. Even so, the rest of the constructs (mobile devices, billing system, and value-added services) has no significant influence to customer satisfaction. Meanwhile, customer satisfaction basically has positive influence customer loyalty but in contrast, there is no significant influence relationship between customer retention and loyalty.

Subsequently, from the practical role perspective, the telecommunication provider shall focus on the network quality enhancement not limited to the network coverage expansion but the quality of current network optimization to be executed. Apart from that, price is the crucial variable in this context, whereas the customer will switch their current provider to another while there is the attractive price of the package provided by the rival company. Indeed, it is necessary to look into how to strategies the pricing structure that has been offered to the customer in order to maintain

sustainability growth. In short, the pricing more is attractive, customer satisfaction will be increased and further influenced customer loyalty. For example, from researcher (Ocloo and Tsetse, 2013) had proposed that royalty programs-rewards, undertake more promotions, customer service improvement plan, network quality improvement plan, and maintain the existing equipment for ensuring its functionality still in optimum stage, and replace the obsolete equipment that was believed to these can retain the existing customers. In addition to that, the customer is susceptible to the customer services courtesy, total resolution given, and willingness to comprise to reach the solution and how to calm customers during the issue happened to them. Besides, the company shall always ensure its customer representative in the customer service department shall always being well-trained in order to maintain the customer service quality level to be served.

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