An Empirical Investigation of Customer Loyalty in Telecommunication Industry in Albania

Phd. Cand. Elvira Tabaku

“Aleksander Xhuvani” University
tabakuelvira@gmail.com

Phd. Shpëtim Çerri

“Aleksander Xhuvani” University
cerri_shpetim@yahoo.com

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Abstract

This article wants to give an insight in the construct of loyalty in the telecommunication industry. The purpose is to create an instrument of measuring customer loyalty and explore the relationship between different variables and customer loyalty in the mobile market in Albania as there are no prior studies like this. It aims to explore the relationship between the construct of service quality, customer satisfaction and organization image and seeks to analyze their role as antecedents of customer loyalty.The data are collected from mobile subscribers of different mobile companies operating in Albania through a self-administered questionnaire. The information is analyzed using factor analysis. Structural equation modeling is used to test the hypothesis. The findings confirm that service quality, customer satisfaction and organization image are factors which have a significant impact on each-other and have important contribution to the strengthening of customer loyalty in the telecommunication industry in Albania. Implications for marketers of mobile companies and implications for future research are also discussed.

Keywords: loyalty, customer satisfaction, image, mobile telephony, Albania

1. Introduction

The telephony market in Albania has experienced a rapid growth in the last 20 years. The liberalization of the telephony market has occurred during the past years. From one state owned company at the ’90 there are 4 mobile operators in the market today. There were more than 5,1 million mobile connections at the end of 2012 according to International Data Corporation estimates and AKEP. As the population is over 3 million people, the mobile penetration is over 180%. The market shares of these companies have changed each time a new company has entered the market although the first two mobile operators established in the market still dominate it. The new market entered mobile operators have tried to attract subscribers; new ones and other operator’s subscribers, struggling to gain market share. Clients may draw back their SIM cards or hold them and use to have second and third SIM cards, contributing on the growth of the market shares of all of the companies. Only in the recent years the connections are being registered contributing so to a better measurement of the market share.

In this fast moving environment, competition on acquiring new customers has become intense. Companies are developing frequent marketing campaigns in order to attract customers. The aim of these campaigns is to acquire new customers and to hold the existing ones. Different studies have proved that a valuable strategy for achieving this result is customer loyalty (Aydin and Özer, 2005; Chen and Cheng, 2012; Kim et al., 2004; Oliver, 1999).

2. Literature Review

2.1 Service quality

Conceptualizing and measuring service quality has gained a lot of attention in the literature and this is due to the expansion of the service sector in the world economy. Service quality has become a mean of differentiation, playing an important role especially in the high competitive markets. In order to create a sustainable advantage, firms seek to
develop core competencies, unique combination of processes, skills and/or assets (Kandampully and Hu, 2007). Service quality developed by these competences can be used to create a competitive advantage (Kandampully and Hu, 2007).

Zeithaml (1988) conceptualized service quality as the consumer's judgment about the excellence or superiority of a service. Parasuraman et al. (1985) stated that service quality is the difference between the customer expectations about the service and their perceived performance of it. According to this definition they constructed the SERVQUAL scale for measuring service quality. According to them, the construct of service quality has five dimensions (tangibility, responsiveness, reliability, assurance and empathy) and it measures both the expectations and the performance of service quality. This scale is used in different studies although it has been questioned about its conceptual framework and measurement method (Cronin and Taylor, 1992). Cronin and Taylor (1992) developed SERVPERF, a similar measurement as SERVQUAL but consisting only on performance measurement. They stated that perceptions only are a better measurement of service quality as they comprise the expectations too. In the study of Zeithaml et al. (2002), in the website quality, it is proposed that it is not necessary to use expectations in the measurement of service quality. Different studies have used SERVPERF on measuring service quality (Brady et al., 2002; Cronin and Taylor, 1992). They have shown that this scale is a very good measure of service quality. In the operation of both SERVQUAL and SERVPERF scale, researchers have shown that in different settings the dimension of these scales can be different from the original ones (Carrilat et al., 2007; Ladhari, 2009). Other studies have used different elements in service quality measurement (ex. Aydin and Özer, 2005; Chen and Cheng, 2012). Interactive quality and core service quality such as call and network quality, are considered very important elements of service quality of mobile companies (Chen and Cheng, 2012) and are part of the service quality measurement scale.

2.2 Customer satisfaction

Customer satisfaction has gained a lot of attention in past studies. According to Zeithaml and Bitner (2003), customer satisfaction is the evaluation of the customers about a product or service, in terms of whether the product or service has met their needs and expectations. Different studies have proved the positive impact of customer satisfaction on behavioral intentions in service settings (Anderson and Sullivan, 1998; Cronin and Taylor, 1992; Deng et al., 2010). The study of Anderson and Sullivan (1998) showed that when customer satisfaction increases, customers are more prone to continue the relationship with the service provider and tend to resist more to other alternatives. Customer satisfaction is seen as an important antecedent of customer loyalty (Dick and Basu, 1994; Lam et al., 2004). Some studies have proved that satisfied customers are not necessarily loyal ones (Fornell, 1992; Reichheld and Schefter, 2000) but they tend to be loyal ones (Fornell, 1992), and that customer satisfaction is very important on having customer loyalty as it is difficult to have loyal customers without having their satisfaction (Shoemaker and Lewis, 1999). Meanwhile, Lam et al., (2004) found that even satisfied customers may go to another service provider because of the low switching costs.

Customer satisfaction is considered in different studies as an important variable in the model of customer loyalty (Chen and Cheng, 2012; Deng et al., 2010; Gerpott et al., 2001; Tepeci, 1999). Studies of Chen and Cheng (2012), Deng et al., 2010, Kandampully and Suhartanto (2000), have demonstrated the direct effect of customer satisfaction on loyalty in different industries environments. Other studies have proved the mediating role of customer satisfaction in the link between service quality and service loyalty where service quality is considered as an antecedent of customer satisfaction (Caruana, 2000). Turel and Serenko (2006) stated that the positive effect of service quality and customer satisfaction on retention and loyalty is not fully valid in the mobile sector so other studies analyzing these variables are needed.

2.3 Image

According to Keller (1993), corporate image is the perception of a firm in the customers' memory while Barich and Kotler (1991) describe it as an overall impression in the mind of the public about an organization. When buying a product/service, customers tend to choose the product/service that is consistent with their self image (Tepeci, 1999). Some scholars think that a good image can bring to repeat purchases (Dick and Basu, 1994). According to Andreassen and Lindestad (1998), image can be created and developed through communication and experience and it may have an important influence on both service quality and customer satisfaction. They also stated image may have an influence customer loyalty, too. Hsieh et al. (2004) declared that the image of an organization can differentiate its products and services from those of competitors. According to Nguyen and LeBlanc (1998), the study of image is concentrated on products and retailing and there are only few studies on services.

In the study of Nguyen and LeBlanc (2001) in telecommunication, retailing and education, corporate image was proved to have a positive impact on customer loyalty. Different studies have shown the direct and indirect impact of
organization image on customer loyalty (Kandampully and Suhartanto, 2000).

2.4 Customer loyalty

Oliver (1999) defined customer loyalty as “a deeply held commitment to rebuy or repatronize a preferred product/service/brand consistently in the future thereby causing repetitive same brand or same-brand set purchasing. Although customer loyalty has attracted the attention of several studies, there is not a common agreement about the construct and dimensions of customer loyalty in the loyalty literature. Different studies have conceptualized the construct of loyalty as having different dimensions but many of them suggested that it is a composite of behavior and attitude (Dick and Basu, 1994). Customer loyalty is seen as an important tool that businesses can use in reinforcing their competitiveness. By creating and enhancing customer loyalty businesses can attain a valid competitive advantage (Dick and Basu, 1994). Reinarzt and Kumar (2002) stated that loyal customers are the most profitable customers of an organization as they cost less to serve, are willing to pay more (premium price) and generate more business via word of mouth recommendations. Deng et al., (2010) proposed that the strengthening of customer loyalty is crucial for mobile service providers in order to gain a competitive advantage. Aydin and Özer (2005) stated that in order to gain customer loyalty any operator needs to increase subscriber satisfaction by offering high service quality.

Despite the importance of customer loyalty, there is not a general agreement on the antecedents of customer loyalty and some researchers state that there are gaps in identifying its antecedents (Lai et al., 2009).

2.5 Relationships between variables

Lai et al., (2009) stated that prior studies on customer loyalty on telecommunication industry have considered only the bivariate relationships between each variable and customer loyalty. So, this study aims to give an integrated framework of customer loyalty and its antecedents in the telecommunication industry as a model of customer loyalty and its antecedents in the telecommunication industry is still rare (Chen and Cheng, 2012).

Service quality is considered to have a direct influence on customer satisfaction (Cronin et al., 2000) and customer satisfaction positively influences behavioral intentions (Cronin et al., 2000; Chen, 2008) such as customer loyalty.

Service quality has a positive effect on customer loyalty but its impact is mediated through perceived value, customer satisfaction and image (Caruana, 2000; Chen, 2008). Ladhari et al. (2011) studied customer loyalty in the bank sector and they found that service quality has a direct and indirect effect on loyalty and recommendation through satisfaction and image. In their study was also found a strong relationship of image and loyalty, satisfaction and image, satisfaction and loyalty.

Based on the above analyze of prior studies on customer loyalty this study proposes the conceptual model presented in figure 1 and the following hypotheses are proposed:

H1: Service quality has a positive effect on customer loyalty
H2: Service quality has a positive effect on customer satisfaction
H3: Service quality has a positive effect on organization image
H4: Customer satisfaction has a positive effect on customer loyalty
H5: Customer satisfaction has a positive effect on organization image
H6: Organization image has a positive effect on customer loyalty

Figure 1. Conceptual/research model
3. Methodology

3.1 Questionnaire design

A self-administered questionnaire was conducted to collect empirical data for this study. The constructs of the conceptual model and the measurement scale were built using items from previous studies. Multi-item scales were employed to measure all the variables. Service quality was measured using 10 items adapted from the study of Chen and Cheng (2012), Fornell et al. (1996) and Gerpott et al. (2001). Customer satisfaction was measured using 4 items adapted from Lai et al. (2009), Kim et al. (2004), Lam et al. (2004 and Aydin and Özer (2005). Mobile operator image was operationalized using 5 items adapted from study of Aydin and Özer (2005) and customer loyalty was measured using 5 items adapted from Aydin and Özer (2005), Chen and Cheng (2012) and Pritchard et al. (1999). The scale used to test the model is presented below.

3.2 Service quality

The employees of the mobile operator are friendly
The employees of the mobile operator show that they understand my needs
The employees of the mobile operator have enough knowledge to respond to different customers’ requests
The services offered from the mobile operator fulfill my personal needs
The access with contact centers /customer service is easy
The quality of calls (voice, delays, availability of receiver) is very good
The network coverage of mobile operator is very good
The overall network quality of the mobile operator is very good
Overall, the service quality of the mobile operator is very good
Overall, the service quality of the mobile operator is superior to competitors

3.3 Customer satisfaction

I am satisfied with the services of this mobile operator
I am satisfied with the interactive process between mobile operator’s employees and customers
Overall, I am satisfied with the service quality offered by this mobile operator
This mobile operator meets my expectations from mobile operators

3.4 Image

This mobile operator is innovative and forward looking
This mobile operator has a positive image in customers mind
This mobile operator takes social responsibility seriously
This mobile operator is firmly established
This mobile operator is leader in the Albanian telecommunication sector

3.5 Customer loyalty

I will go on using the same mobile operator
I will encourage my friends to use this mobile operator
For similar products, I’m ready to pay more on this company compared to others
My preference for services of this company will not change even if friends recommend me another one
Even if other operators billing is cheaper, I’ll go on using this mobile operator

The questionnaire was pretested from a sample of 20 mobile users in order to modify items with ambiguous expression. This ensured the performance of the content validity of the measurement scale. A 7-point Likert scale ranging from 1 (totally disagree) to 7 (totally agree) was employed to the above instrument.
3.6 Data collection

The questionnaires were distributed to a sample of 350 subscribers of mobile operators in Albania. Participants were asked to respond to the questions based on their previous and current experience with mobile service companies in Albania. A self-administered questionnaire was used in order to assess service quality, customer satisfaction, organization’s image and customer loyalty in the telecommunication industry in Albania. The criteria for participating in the study were; being customers of at least one mobile operator for at least one year and being over 18 years old. The respondents were asked before delivering the self-administered questionnaire about their willingness to participate at the study. The final sample consisted of 258 usable questionnaires having so, a response rate of 74%.

4. Data Analysis and Results

4.1 Sample characteristics

The sample was composed by 72% females and 25% males while, in terms of age, 87% of the respondents were between 18-29 years old, 7% of them were 30-39 years old, 4% were 40-49 years old and only 2% were 50-59 years old. More than half of the respondent or 57% were using the mobile services from 1-5 years and 25% of them were mobile users from 6-10 years while 18% were using this service from more than 10 years. The category of prepaid calls was the biggest one by 75% of the respondents followed by the use of both prepaid cards and contracts use category by 16% and the users of contract service were 9% of the respondents of the survey.

This study employed SEM (Structural Equation Modeling) to test the proposed model and respective hypotheses. The data were analyzed using IBM SPSS 22 and SPSS AMOS 22. The first step in data analysis was conducting EFA (Exploratory Factor Analysis) to ensure the consistency of the proposed constructs and related items. Cronbach’s alpha was calculated for each dimension, in order to test the internal consistency of the measurement items. The alpha coefficient is very useful in testing the reliability of a multi-item scale, as the one used in this study. The Cronbach’s α coefficients should excel the value of 0.7 in order to reflect good consistency (Nunnally, 1978; Hair et al., 2009). As it can be seen from Table 1, the resulting values of alphas for all the constructs exceeded the suggested threshold of 0.70.

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Number of measurement items</th>
<th>Cronbach’s alpha values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service quality</td>
<td>10</td>
<td>0.874</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>4</td>
<td>0.798</td>
</tr>
<tr>
<td>Image</td>
<td>5</td>
<td>0.912</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>5</td>
<td>0.804</td>
</tr>
</tbody>
</table>

The next step was conducting CFA (Confirmatory Factor Analysis) in order to test the overall model fit and the construct validity of the measurement model. Table 2 presents the fit indices for each construct and for the overall model.

<table>
<thead>
<tr>
<th>Description</th>
<th>p-value</th>
<th>RMSEA</th>
<th>GFI</th>
<th>AGFI</th>
<th>NNFI</th>
<th>CFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>0.001</td>
<td>0.073</td>
<td>0.92</td>
<td>0.83</td>
<td>0.90</td>
<td>0.93</td>
</tr>
<tr>
<td>Service quality</td>
<td>0.001</td>
<td>0.064</td>
<td>0.95</td>
<td>0.90</td>
<td>0.92</td>
<td>0.95</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>0.000</td>
<td>0.060</td>
<td>0.88</td>
<td>0.83</td>
<td>0.97</td>
<td>0.90</td>
</tr>
<tr>
<td>Image</td>
<td>0.000</td>
<td>0.075</td>
<td>0.82</td>
<td>0.77</td>
<td>0.99</td>
<td>0.92</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>0.002</td>
<td>0.071</td>
<td>0.90</td>
<td>0.86</td>
<td>0.94</td>
<td>0.95</td>
</tr>
</tbody>
</table>

All the fit indices were within the acceptable range suggested by previous research. Thus, Browne and Cudeck (1993) suggest a RMSEA value between 0.05 and 0.08 in order to conclude in “good fit”. Joreskog and Sorbom (1999) suggest that a GFI = 1.00 indicates a perfect model fit, while a GFI > 0.90 a very good model fit; AGFI, which is an extension of GFI also should be larger than 0.90 in order to reflect a good fit. NNFI is a fit index suggested by Bentler and Bonnet (1980) and should have a value of 0.90 or greater in order to reflect a good fit; finally, for CFI Hu and Bentler (1999) suggest a value of 0.90 or larger. As it can be seen from Table 2, all the values met the suggested requirements to
confirm a good model fit. Discriminant validity is present when AVE (Average Variance Extracted) exceeds the square of the coefficient that represents its correlation with the other constructs (Fornell and Larcker, 1981). In addition, an AVE value greater than 0.50 indicates good construct validity. As Table 3 shows, AVE-s exceeds the square of respective correlation coefficients, securing strong evidence of discriminant validity.

Table 3 – Correlation coefficients and AVE values

<table>
<thead>
<tr>
<th>Construct</th>
<th>Service quality</th>
<th>Customer satisfaction</th>
<th>Image</th>
<th>Customer loyalty</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service quality</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td>0.75</td>
</tr>
<tr>
<td>Customer satisfaction</td>
<td>0.41</td>
<td>1.00</td>
<td></td>
<td></td>
<td>0.82</td>
</tr>
<tr>
<td>Image</td>
<td>0.27</td>
<td>0.30</td>
<td>1.00</td>
<td></td>
<td>0.68</td>
</tr>
<tr>
<td>Customer loyalty</td>
<td>0.42</td>
<td>0.44</td>
<td>0.39</td>
<td>1.00</td>
<td>0.71</td>
</tr>
</tbody>
</table>

All p-values less than 0.001

5. Hypothesis Testing

As the data from the statistic analysis show, the parameters estimates are statistically meaningful because of the value and the direction they have. The standardized coefficients are considered valid when their values are more than 0.20, they are not under 0.10 and the desired value is 0.30 (Hair et al., 2009).

The table 4 show the structural path estimates for hypothesis.

Table 4 - Estimated results of the structural model and hypothesis test.

<table>
<thead>
<tr>
<th>Path</th>
<th>Standardized coefficient</th>
<th>p-value</th>
<th>Hypothesis testing</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: SQ → CL</td>
<td>0.215</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H2: SQ → CS</td>
<td>0.342</td>
<td>0.001</td>
<td>Supported</td>
</tr>
<tr>
<td>H3: SQ → IM</td>
<td>0.309</td>
<td>0.001</td>
<td>Supported</td>
</tr>
<tr>
<td>H4: CS → CL</td>
<td>0.275</td>
<td>0.000</td>
<td>Supported</td>
</tr>
<tr>
<td>H5: CS → IM</td>
<td>0.337</td>
<td>0.002</td>
<td>Supported</td>
</tr>
<tr>
<td>H6: IM → CL</td>
<td>0.297</td>
<td>0.002</td>
<td>Supported</td>
</tr>
</tbody>
</table>

The findings of this study are in line with the findings of previous studies. The positive impact of service quality on customer satisfaction and the same effect of customer satisfaction on loyalty are also supported in the study of Chen and Cheng (2012) and Deng et al., (2010), in the mobile industry and Çerri (2012) in retailing. The study of Aydin and Özer (2005) in Turkish mobile market, found that service quality had a positive effect on both image of the organization and customer loyalty supporting so the findings of our study. Lai et al (2009) found that service quality has a positive impact on customer loyalty in the Chinese mobile market. The result of the path between image and loyalty is in line with the confirmation of other studies (Andreassen and Lindestad, 1998; Ladhari et al., 2011; Nguyen and LeBlanc, 2001) which found that image impacted positively on customer loyalty.

6. Conclusion and Managerial Implications

This study examined the proposed research model and found that service quality, customer satisfaction and image are important antecedents of customer loyalty. It provided insights in the construct of customer loyalty and the way its antecedents relate between them and how they impact customer loyalty. The results of this study have several implications. First, each aspect of service quality has a significant influence on fostering customer satisfaction and the image which customers create and hold toward the mobile company. Another implication is the importance of company image in mobile services. The image that subscribers hold in their mind is can create affective responses which can strengthen customer loyalty.

Managers should be aware of what they are delivering through the service offered. Delivering high service quality is imperative in order to differentiate from other competitors and have more satisfied customers who will continue to buy from the company and will advocate it through word of mouth to many other potential subscribers. Higher service quality will also improve the image customers hold about the mobile telephony which will also enhance the awareness and
emotion attachment with the company and will lead them in repeat purchases from the company. The relationship between the customers and the company will reinforce and more customers will become loyal to it and continue to buy more. Managers should take care of every single item of service quality and find out what customers expect from them in order to have satisfied subscribers. They should also be alert to avoid every action or element that may cause customers to lose the positive image about the mobile company. Only acting this way, the aforementioned aspects will reinforce customer loyalty and will help the mobile company to be competitive in the market.

Other studies should focus on other varieties of respondents and should enlarge the model by other elements. There are also other factors which may influence on customer loyalty as trust can be. Other studies should focus on and explore on these other factors in the future.

References


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