Factors Affecting on Customer Loyalty in Service Organizations

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Citation

Abstract
Many of previous studies showed a limited of review researchers exploring the influence of factors on customer loyalty. The purpose of this paper is to explore the factors influencing the customer loyalty, namely: customer satisfaction, service quality, trust, perceived value, perceived enjoyment, and technology leads to loyalty towards service organizations. To achieve this, this review briefly discusses the conceptual framework and a highlight of the literature review exploring the essential factors influencing the customer loyalty in service organizations. The conclusions of this research were that the findings from the literature were customer satisfaction, service quality, trust, perceived value, perceived enjoyment, and technology have more significant as well as positive influence on the customer loyalty. Therefore, the findings of this paper could furnish policymakers and corporate managers alike with practical implications and understanding of the factors that could likely impact on the customer loyalty in the service sector, thereby the possibility of attracting and winning more customers could be realized. In addition, this paper will help service organizations’ managers to understand the factors that impact on customer loyalty. This paper also described the common of antecedents of customer loyalty from past research. Again, it would enable the managers to creatively develop more effective strategies for increasing customer loyalty in service organizations.

1. Introduction

Globalization and deregulations have sharply increased the competitive tendencies in the marketplace, thus, currently, it has, interestingly become much easier for established businesses to cross borders and favorably compete internationally. Specifically, technological advancement, sophisticated and frequently changing customers’ expectations as well as the resulting high market competitiveness have given prominence and significance to the issue relating to the quality of the customer service needed in the services industry and sector. This arguably leaves the practitioners in the sector with no other meaningful option but to properly and squarely address the issue in order to be relevant in the competitive marketplace. A Service industry has apparently expanded rapidly, in fact, the service industry is now playing an increasing role in the global economy. Specifically, it has occupied an even greater great majority of the existing markets in many countries and has arguably contributed a total of 66.3 percent of the reported world gross domestic product. Also, the service industry has been on a continuous progress in comparison to the manufacturing and agricultural sectors by
becoming the mainstream of economic growth and development in many countries [1].

For instance, numerous empirical studies and other literature have highlighted that it is more profitable compared to retain customers than to acquire new ones [2, 3]. It has also been claimed that, a 5 percent improvement in customer retention could lead to a profitability increase that ranges between 25 percent and 85 percent [4]. Moreover, loyal customers seem less likely to easily change provider due to the price, it is also observed that, they tend to recommend the business and the product to others [5]. Therefore, such observations highlight the essential importance of the customer loyalty for companies and most especially those that are operating in the service industries.

Researchers on customer loyalty have examined customer loyalty specifically in areas such as loyalty in banking [6, 7] hotel and recreational sector [8] retail industry [9] as well as education sector [10].

In such environments, service providers compete seriously with other companies having close similarities to themselves, this implies that they often respond by employing creative customer retention strategies [11]. Thus, the challenge they may have to face is finding ways to retain the existing customers by subtly winning their loyalty.

In their aim at determining the possible antecedents of loyalty, many authors have suitably examined the concept of customer satisfaction and the findings have shown that the two concepts are closely related [12]. In essence, it is established that, higher levels of customer satisfaction could lead to a corresponding reduction in the perceived benefits of alternative suppliers; and hence the higher repurchase intentions [13]. In order to further illustrate this point once again, [14] claim that “a dissatisfied customer has every tendency of searching information on the available alternatives, and yet still, the customer is also more likely to yield or succumb to competitor overtures than a satisfied customer”. In addition to that, [15] argue that customer satisfaction can be attained by companies, that have ordinarily understood their customers’ specific needs and make every possible effort to provide them with services in an effective and efficient manner and in accordance with their needs. Consequently, the relationship between the customer satisfaction, service quality, and loyalty to a customer has also received a justifiably good deal of attention in the extant literature. Most scholars investigating this relationship have convincingly come to the expected conclusion that, service quality constitutes an essential determinant of the customer loyalty.

Furthermore, [13] specifically found that satisfied customers have much greater propensity to display loyalty and to be retained. This implies that, satisfied customers resist alternative options. Again, [16] states that, high satisfaction motivates customers to increase their perceived loyalty, and become less prone to be approached and won by competitors. Moreover, satisfaction is observed to enhance repeat purchases and also improve positive word of mouth by the satisfied customers [17]. Overall, it can be established that, research studies have shown that, customer satisfaction is found to have significant effects on both the behavioural as well as the attitudinal aspects of loyalty. Similar findings have also been reported in the literature of the mobile telecommunications services. In specific terms, it was found that, satisfaction has reasonably emerged as a strong predictor of the perceived customer loyalty. For example, the cases in point are [18] in the peculiar context of the German mobile cellular telecommunications market, and [19] in the context of Korea and [20] in France. Explicitly, they have found results that highlighted the causal relationship between perceived customer satisfaction on the one hand and loyalty on the other hand. Consequently again, many empirical studies have investigated the relationships between service quality [21] customer satisfaction [22], trust [9], perceived value [23], Technological [24], Perceived enjoyment Quality [25] and loyalty in many service sectors.

Therefore, this study aims at exploring the impact of the highlighted factors on the customer loyalty, in the service sector.

2. Theoretical Background

2.1. Relationship Between Customer Satisfaction and Customer Loyalty

Customer satisfaction and customer loyalty are two dimensions of the most significant concepts in the relationship marketing. In contemporary marketing, customer satisfaction is a key operational element for sustainable customers’ behavior [26, 27]. In addition, customer loyalty enhances business value and cost-effectiveness to business. Therefore, customer satisfaction and loyalty are vital elements that have influence on managerial opinions. Marketing literature is rife with proofs to draw conclusion that, customer satisfaction is positively correlated to customer loyalty. Several studies have shown the positive influences of customer satisfaction on customer loyalty. They may indicate more powerful willingness to repurchase and endorse the product to friends [28]. Equally still, several scholars have studied the theoretical and conceptual bases of customer satisfaction. Those researchers have found that, customer satisfaction has a key influence on customer loyalty. Nevertheless, the bulk of past studies have discussed either the totality of customer satisfaction or focused on a dimension to measure it. Firms that have a happier customer base also receive higher economic gains. For example, according to [29], customer satisfaction is a powerful antecedent to customer loyalty. The capacity to retain customers is linked to the degree of customer satisfaction. Hence, it is logical to predict that satisfied customers with mobile service operators will have a great customer loyalty intention toward its services [30]. Considering the significance of customer satisfaction and loyalty to
companies’ long-term existence and expansion, many studies have concentrated on finding the link between these ideas and their influence on customer retention which give them an advantage over other companies’ performance [31]. In summary, based on the available research evidence, it can be rationalized that, customer satisfaction has a major influence on customer behaviour and attitude with regards to customer loyalty. The same report is evident in the view of [32], where it was found that, customer satisfaction is an important factor of customer loyalty in Iran. [28, 33, 34] also found that, customer satisfaction has positive and important influence on customer loyalty. However, [35, 36] found a negative connection between customer satisfaction and customer loyalty. [37, 38] reveal that customer loyalty is affected by customer satisfaction. In view of the above, it is hypothesized that:

H1. Customer satisfaction is positively related to customer loyalty.

2.2. Relationship between Trust and Customer Loyalty

The trust as a construct of interest is widely recognised at the most basic element in examining the relationship concerning customer loyalty, in fact, it is a primary antecedent of customer loyalty [39]. Consequently, past studies have amply examined the role of trust in predicting customer loyalty. The study by [40] indicates that, for respondents without a personal banker, trust and honesty of service provider is a primary consideration in establishing the relationship. In the same vein, [41] examined the determinants of customer loyalty in the context of wireless mobile telecommunication sub-sector in China. The study suggests that trust strongly predict customer loyalty. The study discovered that along with four other relational constructs, customer trust has a strong correlation with loyalty to banks. Consistent with this finding, the direct effect of trust on customer loyalty was reported by [33, 34, 42]. To illustrate this point further, the study by [43] traced guests’ loyalty to luxury and first-class hotels of Ghana to customer trust among other relational dynamics. From the previous theoretical and empirical postulations, the following hypothesis is formulated:

H3: Trust has a significant positive relationship with customer loyalty.

2.3. Relationship Between Service Quality and Customer Loyalty

The concept of service quality can be regarded as a precursor to customer loyalty [44]. This variable is also regarded as a powerful agent of competitive advantage and organizational success [45]. Loyalty is seen as driven mainly by service quality [46], thus, good service quality [47], reciprocally offers customer loyalty. Service quality is linked to customers’ behaviours in the direction of service supplier as well as their willingness to remain with the service provider [48]. Furthermore, Service quality has been revealed to be a powerful predictor of customer loyalty [21]. Thus, it is suggested to mean that, service quality has a direct and positive outcome on customer loyalty [49]. Better still, service quality constitutes a potent and illustrative component for explaining future customer loyalty [35]. Many researchers have discovered that, great service quality has a relationship with considerably high customer loyalty [30]. In addition, Service quality is perceived as a main factor influencing customer loyalty [34, 50]. [48] shows in his study that service quality is favourably connected to customer loyalty among mobile phone users in Pakistan. Similarly, [50] reveal that service quality is a powerful antecedent for creating customer loyalty.

Consequently, the hypothesis below is proposed:

H2. Service quality as perceived by customers is positively related to customer loyalty.

2.4. Relationship Between Perceived Value and Customer Loyalty

Researchers have recognized the significance of the link between quality customer value and customer loyalty as essential features for the success of a firm in enhancing customer relationships and reaching a viable competitive performance [51]. There is also enough evidence that, value judgments have effect on the customer loyalty, with the attendant significant results [52]. Customer loyalty towards repeat purchase behaviours relies on the extent of value presented by each of the rival competitors and on the gratification gained from each of them [53]. Interestingly, previous research studies have attempted to expose the well-known antecedents of the customer loyalty. It is established that, perceived value is revealed to be a credible predictor of the customer loyalty [52]. In addition, customer loyalty is a result of customers’ perceived value and it serves as a central pointer to a company’s performance history [54]. The totality of a customer's loyalty is the value the customer anticipates compared to the value he or she really received [55]. Even though the disconfirmation paradigm has been severely critiqued, mainly in terms of methodology and measurement [47], an earlier study reveals a positive connection between customer’s perceived value and customer loyalty in different sectors. For example, in the mobile phone operator, [48] shows in his study that customers’ perceived value is positively linked to customer loyalty in Pakistan. Similarly, [26] reveals that customers’ perceived value is important and serves as a main concept of customer loyalty in the banking sector in Iran. Similarly, On the other hand, a study by [56] conducted in Malaysia shows that perceived value has insignificant effect on brand loyalty in the cellular mobile phone operator. Equally still, [57] found in their study that, negative correlation exists between perceived value and customer loyalty in the retail banking sector in Malaysia. Therefore, based on these highlighted scenarios, the following hypothesis is developed:

H4. Value as perceived by customer is positively related to customer loyalty.
2.5. Relationship Between Perceived Enjoyment and Customer Loyalty

According to [58] line of argument, the sentiments of joy and excitement have an impact upon a person’s behaviour. Perceived satisfaction is said to have a direct impact on behavioural intention as mentioned by [59]. One of the strong proponents of the significant role of enjoyment in the repurchase intention is [60].

Furthermore, previous literature has shown that enjoyment directly influences the behavioural intention of customers as expressed by [61]. Again, [62] argue that, in order to support the above mentioned findings, there must be existence of a strong and specific relationship between perceived enjoyment and customers’ attitude as emphasized by [63]. Further, [64, 65] are among those authors who strongly support the role of perceived enjoyment in the repurchase or continuance intention. Equally, according to [66, 67], it is established that, there is a positive and significant relationship between perceived enjoyment and customer loyalty. On the other hand, studies by [24] found that, insignificant relationship exists between perceived enjoyment and customer loyalty. Accordingly, the following hypothesis is proposed:

H5. Perceived enjoyment as perceived by customer is positively related to customer loyalty.

2.6. Relationship Between Technological Perceptions and Customer Loyalty

[21, 68] noted that previous literature exists on service quality, particularly using various dimensions of service quality in relation to the customer loyalty. However, technological perceptions and its impact on customer loyalty have not been properly addressed. Additionally, [21] claims that, with regards to the banking sector, the technology-based service quality factors do have a substantial and positive influence on customer loyalty. In carrying out a study about mobile companies sites in China, [66] shows that, technological perceptions has effects on continuous customers’ usage. [69] found that, technological perceptions influence the intention of continued use of mobile applications. The study conducted on e-government website in Thailand by [70] found that technological perceptions include information quality and system, where system quality is a significant dimension of intention to use, while information quality is an insignificant factor of intention to use. Consequently, the following hypothesis is proposed:

H6. Technological perceptions as perceived by the customer are positively related to customer loyalty.

3. Underpinning Theories

3.1. Reciprocity Theory

The theory underlying this study is the Reciprocity Theory, which supports the view that people appraise the kindness of an act on not just its effect, but also a consideration of its underlying intention [71]. Reciprocity is a behavioural reaction perceiving either kindness or otherwise. Groups are reciprocal when they are rewarded with kind actions or punished by unkind ones [71]. In this study, customer loyalty is a kind behaviour resulting from trust in a business relationship, while switch (possibly due to lack of trust) is unkind behaviour. Researchers have supported their views by showing that reciprocity is an influential factor in human behaviour; empirical evidence, questionnaires used by psychologists and economists and notable texts in sociology, ethnology and anthropology have highlighted the presence of reciprocal conduct in a relationship involving humans [72-74].

Reciprocal action is an imitation of the behavioural reaction to an action that is viewed as either kind or unkind. This research evaluates and examines the theory in terms of the following:
- The customers will stay loyal based on perceived service quality.
- The customers will stay loyal based on the perceived value.
- The customers will stay loyal based on the perceived enjoyment.
- The customers will stay loyal based on the technological perceptions.
- The customers may change even if trust is high.

3.2. Means-End Theory

In understanding quality perceptions, it is imperative to thoroughly comprehend the development of the model of consumer behaviour since its birth in the marketing field. Since its inception in 1950, marketing concepts have received numerous attention from scholars and practitioners about what satisfies consumers’ needs and wants. Most of the evidence found was centered on factors known as cognition, affect, and behaviour, which were then modeled as COB (Cognition Affect Behaviour outside) model. This model presumes that the consumption process that involves consumer cognition, affect and behaviour (C→O→B). This model postulates that cognition variable which is an information seeking process determines affective responses that represent the condition of a predisposition. This affective response will then influence the cognitive or behavioural affects which represent the selection process and purchase. The focus of COB model is on a logical or rational person who seeks utilitarian benefits. This model has been well-accepted in the consumer behaviour research for over five decades [75]. The conventional COB model from the practitioner’s view considers possession and acquisition of goods, services and information as the major purposes of consumer behaviour. This is considered as rational characteristics.

4. Theoretical Framework

Based on the discussion above, this study combines theories with factors that have been identified to test
5. Discussion & Conclusion

Firstly, the purpose of this study is to integrate the factors influencing customer loyalty among service organizations. This finding is considered as an addition to the body of knowledge pertaining the importance of higher levels of customer loyalty in service sector. It also suggests that, the managers of service companies should employ more cogent strategies on customer loyalty, since retaining the existing customers is found to be more cost effective than attracting fresh ones. Findings of the study also suggest that, six factors: service quality, perceived enjoyment, technological perceptions, perceived value, Trust, and customer satisfaction have a significant influence on customer loyalty. Thus, the finding of this study avails the managers, academicians and other researchers a much stronger and better basis for recommending the needed mechanisms strategies of ensuring high level of customer loyalty. Therefore, it is imperative that service organizations should take extra effort to improve service quality, perceived enjoyment, trust, perceive value, technological perceptions and customer satisfaction, particularly perceived value level in their efforts to attain higher level of customer loyalty.

The limitations and recommendations for future research are discussed as follows. Firstly, this study found an absence of mediating variable as customer satisfaction between the factors and customer loyalty. Secondly, the future studies could also examine other added concepts that directly or indirectly influence loyalty but not examined in this study such as attractiveness of alternatives and inertia or the impact of perceived customer loyalty on profitability could be examined. Thirdly, a next study could use same factors that impact on loyalty customers but in different sector.

References


Biography

Qais Ahmed Almaamari is a Ph.D. candidate at LIMKOKWING University of Creative & Technology Malaysia. He is from Yemen. He works in Oil and Gas sector in Yemen. He will receive his DBA degree from Faculty of Management. His research and publications focus on topics such as Total Quality Management (TQM), QM Success, Human Resource, Marketing Management, Information Systems, and Project Management.

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