

# The Analysis of Customer Loyalty in Bangladeshi Mobile Phone Operator Industry

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The purpose of this paper is to examine the relationship between switching cost, corporate image, trust and customer loyalty. Several hypotheses are extracted from the research framework and are tested using regression and correlation analysis. A sample of 150 respondents (customers of mobile phone operator) was used and convenience sampling method was conducted. The research finds that although all the independent variables, switching cost, corporate image, and trust have certain degree of relationship with the dependent variable, customer loyalty, only trust has the strongest relationship with customer loyalty. The findings suggests that mangers of these mobile operators should put more focus of building corporate image and analyze more carefully the reason for customers to switch brands in this industry in order to increase loyalty among these customers.

**Keywords:** Customer loyalty, Trust, Mobile phone operator, Switching cost, Corporate image

## Introduction

The number of mobile subscribers has been increased dramatically. Over the last two to three years, the number of mobile subscribers in Bangladesh has been more than or close to more than doubling on an annual basis. The subscriber base had reached 44 million by mid-2008 and was continuing to grow at an annual rate in excess of 50%. And the strong growth seemed likely to continue with the drive that has been developed on the back of the government's deregulation process. The competitive environment has further intensified due to the entry of new operators into the market ([www.totel.com.au/bangladesh-telecommunications-research.asp](http://www.totel.com.au/bangladesh-telecommunications-research.asp)). The telecom regulator also disclosed that addition of new subscribers raised the mobile penetration more than 25% of the country's population. Individually, Bangladesh's leading mobile operator, Grameenphone, has 18.6 Million customers, Banglalink has 8.64 Million, AKTEL has 7.57 Million and Warid has 2.93 Million subscribers. On the other side, Citycell, Bangladesh oldest mobile operator, has added 1.6 Million subscribers. The reasons behind this growth rate during April 2008 was largely due to declining call rates, falling prices of handsets and rising competition among operators. Consequently, the mobile phones become cheaper and affordable for people in the country with the increase in disposable income that improves the quality of life in Bangladesh. People are showing interest in new technologies like Internet service on mobile phone. Besides, mobile companies are also adding new technologies in their services as a result more and more customers are buying mobile phones. ([www.rncos.com/Blog/2008/07/Bangladesh-Telecom-Industry-Growing-at-Rapid-Pace.html](http://www.rncos.com/Blog/2008/07/Bangladesh-Telecom-Industry-Growing-at-Rapid-Pace.html)).

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Thus it becomes a high concern for the companies to stay alive and win the market share by making the customer more loyal to their firms. As competition increases, customers bargaining power gets stronger, and building trust and image becomes more important, companies should put more focus on factors affecting loyalty among consumers. For this reason, the objective of the study is set to establish a frame work which will identify the impact of customer loyalty of mobile phone operators through switching cost, corporate image, and trust. Besides, in the context of Bangladesh, no research works has ever been conducted in these mentioned areas. Therefore, it is obviously a commensurate step for the researcher to examine the impact of switching cost, trust and corporate image on customer loyalty in the mobile phone operator industry in Bangladesh.

### The research model and hypotheses

Figure 1 presents the research model, which concerns the relationship of three independent variables (switching cost, corporate image, and trust) with one dependent variable (customer loyalty). Each of these components is defined as follows and their relationships are also portrayed in this section.

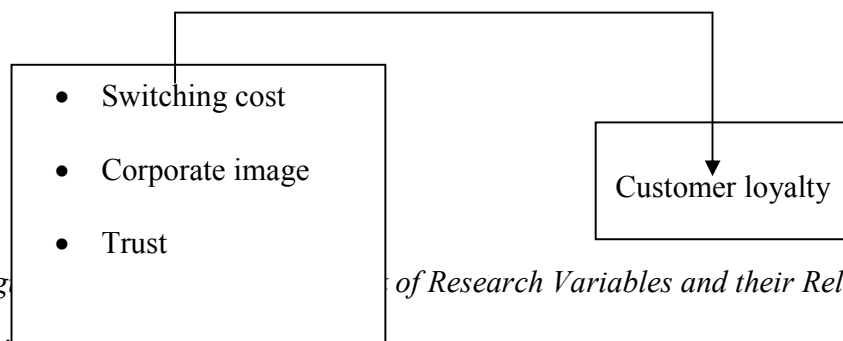


Fig 1 of Research Variables and their Relationships  
Switching Cost

Switching cost is defined as the cost that incurs when a consumer change one service provider to another service provider (Porter, 1998). According to Jackson (1985), it is the sum of economic, psychological and physical costs. Switching cost can be considered as sunk cost that appears when customer changes his/her brand. Examples are the costs of closing an account with one bank and opening another with a competitor, the costs of changing one’s long-distance telephone service or the costs of changing one’s GSM service provider. It can happen for the lack of loyalty when a firm fails to satisfy and anticipate its customer’s expectations and perceptions. Switching cost is also defined as the investment of time, money and effort that, in customers’ perception, made it difficult

to switch (Gremler and Brown, 1996). In other words, it is the customer's estimate of the personal loss or sacrifice in time, effort and money associated with the customer changing to another service provider (Hellier, Rickard, Carr, and Geursen, 2002).

### *Corporate image*

First of all, image is defined as the perceptions of an organization reflected in the associations held in consumer memory (Keller, 1993). In the service marketing literature it is considered as an important factor in the overall evaluation of the service and the company (Bitner, 1991; Grönroos, 1984; Gummesson and Grönroos, 1988). And Bitner (1990) proposes corporate image as an important factor in the overall evaluation of a firm and is argued to be what comes to the mind of a customer when they hear the name of a firm (Nguyen, 2006). In another case, corporate image is described as the overall impression made on the minds of the public about a firm (Barich & Kotler, 1991).

A firm has to devise strategies to get into customer mind. In other words, a company has to anticipate the customer's cognition in various certain ways to get its corporate image. Which is the result of a process (MacInnis & Price, 1987). The process stems from ideas, feelings and consumption experiences with a firm that are retrieved from memory and transformed into mental images (Yuille & Catchpole, 1977). Even though customers have no information about the firm but they can get information from another sources like the word of mouth, advertisements etc. which will influence the process of forming a corporate image. Fishbein and Ajzen (1975) argue that attitudes are functionally related to behavioral intentions, which predict behavior. Therefore, corporate image as an attitude must be related with the consumer behavior.

Every customer has unique perceptions and expectations not only about the firm but also about the service quality provided by the firms and customer's perceptions about this service quality directly affect the perception of corporate image. Corporate image can be treated as an outcome forms an accumulated attitude that is derived from experience and/or direct or indirect market communication (Andreassen & Lindestad, 1998). If the service quality perceived by the customers as positive or negative, it then directly affects its corporate image (Keller, 1993).

### *Trust*

The concept trust has a wide range of use in many areas and has various definitions (Lewicki et al., 1998). Trust has an impact on the vulnerability of the trustor (Bigley and Pearce, 1998; Singh and Sirdeshmukh, 2000), because trust becomes irrelevant if there is no vulnerability of the trustor upon the trustee. In business studies, trust has been found to be important for building and maintaining long-term relationships ( Geyskens et al., 1996; Rousseau et al., 1998; Singh & Sirdeshmukh, 2000).

Lewis and Weigert (1985) argue that trust is not mere predictability but confidence in the face of risk. Trust not only can predict the quality of the service or talk about the other important features associated with service but it also can negate the uncertainty involved in purchasing certain service or product. So trust can build confidence among the consumers. While there have been numerous conceptualizations of trust in the marketing literature, one of the more popular is that offered by Morgan and Hunt (1994, p. 23): trust exists "when one party has confidence in an exchange partner's reliability and integrity".

Similarly, Moorman et al. (1993, p. 82) define trust as “a willingness to rely on an exchange partner in whom one has confidence”.

#### *Customer loyalty*

Customer loyalty is defined as “the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises” (Gremler and Brown, 1996, p. 173). It expresses an intended behavior related to the service or the company. This includes the possibility of future renewal of service contracts, how likely it is that the customer changes patronage, how likely the customer is to provide positive word-of-mouth, or the likelihood of customers providing voice (Andreassen and Lindestad, 1997).

Jones and Sasser (1995) state that customer loyalty is “a feeling of attachment to or affection for a company’s people, products, or services”. Customer loyalty is expressed as an intended behavior regarding the service or the company. The loyalty and repurchase intentions aspects of the taxonomy are most similar in nature. Oliver (1997), for example, operationalizes action loyalty as repeat usage. Furthermore, Delgado-Ballester and Munuera-Alema’n (2001) and Macintosh and Lockshin (1997) use repurchase intentions as an element of loyalty in brand and store contexts respectively.

#### *Relationship between Switching Costs and Customer Loyalty*

Switching cost presents a number of benefits on companies that have a direct effect on customer loyalty. For example, it decreases customers’ price sensitiveness and satisfaction level (Fornell, 1992). When customers are expected to select from a number of functionally identical brands, the presence of switching cost helps customers to build brand loyalty (Klemperer, 1987a). In many other researches, it is found that switching cost has a direct influence on customer sensitivity to price level and thus influences customer loyalty (e.g. Eber, 1999; Jones et al., 2002; Bloemer et al., 1998; Burnham et al., 2003; Feick et al., 2001). Fornell (1992) also argues that switching cost is one of many factors that affect the relationship of customer satisfaction and customer loyalty. In other research, it is found that switching cost has a moderator effect on customer loyalty that is as switching cost increases, the satisfaction level decreases (Hauser et al., 1994). Jones et al., (2000) found switching cost as the antecedent of loyalty for both business-to-business and business-to-consumer cases. In another research, it is proposed that high switching barriers or lack of real alternatives might make the customers loyal (Andreassen and Lindestad, 1997).

From these literature reviews, the following hypothesis proposes that there exists a relationship between switching cost and customer loyalty.

*H1. There is a relationship between switching cost and customer loyalty.*

#### *Relationship between Corporate Image and Customer Loyalty*

For both existing and new customers, corporate image is an extrinsic information cue that may or may not influence customer loyalty (Lindestad and Andreassen, 1997). In a similar research, it is found that consumers may be loyal to a firm or brand because it is viewed as having a positive image among other consumers (Ball, Coelho, and Macha's, 2003). When a consumer perceives that the firm is truly service oriented, then the firm will have the power to enhance customers' perception of the firm's image and eventually gain their loyalty. Thus to enhance customer loyalty, corporate image is considered as an important factor and it is also found that corporate image has direct impact on and is positively related to customer loyalty (Kandampully and Hu, 2007). Moreover, it is found that customers' overall assessment of corporate image is deemed to influence customer loyalty (Reynolds *et al.*, 1974-1975).

In order to maintain market position, companies view favorable image as a critical aspect that has been related to core aspects of organizational success such as customer patronage (Granbois, 1981; Korgaonkar *et al.*, 1985).

Corporate image depends on the physical and behavioral attributes of the firm, such as the name of the corporation, architecture, products/services, and the communication skills of the staffs. Fishbein and Ajzen (1975) argue that attitudes and behavioral intentions has functional relationship, which predict behavior. Consequently, corporate image is considered as an attitude that must affect behavioral intentions such as customer loyalty (Johnson *et al.*, 2001). Nguyen and Leblanc (2001) demonstrate that in three business sectors (telecommunication, retailing and education), corporate image and customer loyalty are positively related. From these literature reviews, the following hypothesis proposes that there exists a relationship between corporate image and customer loyalty.

*H2. There is a relationship between corporate image and customer loyalty.*

#### *Relationship between Trust and Customer Loyalty*

Hart and Johnson (1999) mentioned that it is necessary to look for the variables that can ensure a long-term customer commitment to a single provider. One of such variable is trust. Gremler and Brown (1996) and Reichheld *et al.*, 2000 proposed respectively that a conceptual and important antecedent of customer loyalty is trust. In similar researches, Garbarino and Johnson (1999) found trust as a driver of customer behavioral intentions that might lead to customer loyalty and Ranaweera and Prabhu (2003) found in order to maintain a long-term contractual relationship with the service provider, trust is likely to be a strong driver of customer retention. To build relationship commitment and customer loyalty, trust is found as one of the important factor (Morgan and Hunt, 1994, Moorman *et al.*, 1993, Sharma, 2003) and also it is a critical variable logically and experientially in relationships (Moorman *et al.*, 1993; Morgan and Hunt, 1994). Many other authors supported the importance of trust in building customer loyalty (Lim *et al.* 1997; Garbarino and Johnson, 1999; Chaudhuri and Holbrook, 2001; Singh and Sirdeshmukh, 2000; and Sirdeshmukh *et al.*, 2002). It is a precondition for patronage behavior (Pavlou, 2003) and is needed to build long-term customer relationship relationships (Doney and Cannon, 1997; Papadopoulou *et al.*, 2001; Singh and Sirdeshmukh, 2000). In business environment, to build and maintain long-term relationship, trust has been found to be a

very important factor (e.g. Geyskens et al., 1996; Rousseau et al., 1998; Singh and Sirdeshmukh, 2000). Trust can reduce the perceived risk of using a service (Gambetta, 2000), it can therefore be considered as the consequence of positive evaluations of services and an antecedent of customer loyalty. Moreover, Foster and Cadogan (2000) also demonstrated that consumer trust in the company was an antecedent to attitudinal loyalty. Garbarino and Johnson's (1999) research proposes that for relational oriented customers, trust and commitment are key antecedents to loyalty.

Many have found a direct link (e.g. Bearden and Teel, 1983; Cronin and Taylor, 1992; Oliver et al., 1997; Selnes, 1998), while others suggest that trust is the dominant antecedent of repurchase intentions (e.g. Doney and Cannon, 1997). From these literature reviews, the following hypothesis proposes that there exists a relationship between trust and customer loyalty.

*H3. There is a relationship between trust and customer loyalty.*

## **Methodology**

The apposite type of research design for this study is Ex Post Facto design where the subtype used is survey to accomplish the research objectives. The central objective of survey design is to search for relationships between variables. It usually depends upon the use of a well-constructed questionnaire, which is used to collect data from the relevant unit of analysis under study, usually, an individual (Davis & Cosenza, 1993). Thus this research can depict the relationship(s) of certain variables of switching cost, corporate image, trust and customer loyalty in the context of the customers of mobile phone operators in Dkaka Metropolitan City, the capital city of Bangladesh.

The convenience sampling is one of the non-probability sampling designs that are being used in this research. As its name implies, convenience sampling involves collecting information from members of the population who are conveniently available to provide this information (Sekaran, 1992). The sampling units are both male and female mobile phone operator customers of Dhaka city.

Primary data have been collected from 150 samples by the use of questionnaire. Data collection has proceeded coding of 150 questionnaires into a symbolic form in SPSS software. The data was summarized in the form of simple frequency and descriptive statistics. As hypotheses have been tested to identify the relationship of certain variable those are based on the scale of ordinal data in the questionnaire, Bivariate analysis (Spearman's Rank Correlation test) has been used.

A reliability test for each hypothesis, which entails the relationship of a construct and a dependent variable, has been conducted. The researcher has used semantic differential scale to measure each of the independent and dependent variable. As this scale is based on five points and is split into two halves, it is considered appropriate to test the reliability of this scale. The value of the Chronbach's alpha has been estimated to test whether the scales are reliable or not. A Chronbach's alpha value of between 0.5-0.6 indicates sufficient reliability of the scale for the early stage of any research (Nunnally, 1978), although a coefficient of 0.7 or above is desirable (Hair et., 1998). Regression analysis has also been done to show how much variability in dependent variable is caused by the variability in independent variables. For lucidity, examining each hypothesis is encompassed into three steps: Reliability analysis, correlation analysis and regression analysis of the variables.

## Analysis

The first analysis has been undertaken to test the reliability of the scale that measures the dependent variable, customer loyalty that has been mentioned in the framework. The reliability analysis of this dependent variable indicates an alpha value of 0.982. Therefore, it can be inferred that the items that have been aggregated to measure the dependent variable, customer loyalty, are reliable.

The Cronbach alpha values of reliability analysis for all the independent variables have been shown in table 1.

*Table 1: Independent variables and their corresponding Cronbach alpha values*

| <b>Independent variables</b> | <b>Cronbach alpha</b> |
|------------------------------|-----------------------|
| Switching cost               | 0.692                 |
| Corporate image              | 0.916                 |
| Trust                        | 0.916                 |

The table above indicates that the Cronbach alpha values of the independent variables are above 0.6. Therefore, it can be deduced that the three independent variables are reliable.

The "bivariate" correlation test with the value of Spearman's rho assists the researcher to make inference regarding the relationship of the following variables (customer loyalty as the dependent variable, and switching cost, corporate image and trust as the independent variables).

It is imperative to set the cutting point of which to select the hypotheses. Thus, the statistical notion implies the two conditions for accepting the hypotheses, if  $\rho \neq 0$  and, if  $\alpha < 0.05$ .

It can be inferred from the following table that the  $\alpha$  value (two-tail significance level test) for all the hypotheses tested is found substantiated at the significant level lower than 0.05 (the actual  $\alpha$  is 0.01). The  $\rho$  value for each of the hypotheses was found not to be equal to zero (refer to Table 2). Thus, all the three hypotheses have been accepted.

*Table 2: Significance value ( $\alpha$ ) and Correlation coefficient ( $\rho$ ) of three hypotheses*

| <b>Hypotheses</b> | <b>Significance value (<math>\alpha</math>)</b> | <b>Correlation coefficient (<math>\rho</math>)</b> |
|-------------------|---|--|
| 1                 | 0.000   | 0.839  |
| 2                 | 0.000   | 0.841  |
| 3                 | 0.000   | 0.939  |

The value of R square from table 3 suggests that variability in the dependent variable, customer loyalty can be explained 89.2% by the variability in the independent variables, trust, switching cost, corporate image. It means that the linear combination of independent variables in the regression analysis predicts total variance of dependent variable by 89.2%.

*Table 3: Linear regression (enter method)*

| Model | R                 | R Square | Adjusted R Square | Std. Error of The Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .945 <sup>a</sup> | .892     | .890              | .34716                     |

a. Predictors: (Constant), trust, switchcost, corpimage

From table 4, step-wise regression analysis shows that only one independent variable, trust mostly explain (88.2%) the variability in the dependent variable, customer loyalty. This means that the variability of dependent variable is explained only 0.8% (89.1-88.3) by the variability in the independent variable, switching cost and only 0.1% by the variability in the other independent variable, corporate image. So it can be infer that trust has more important role in this study than switching cost and corporate image in explaining the variability of customer loyalty.

*Table 4: Step wise regression*

| Model | R                 | R Square | Adjusted R Square | Std. Error of The stimate |
|-------|-------------------|----------|-------------------|---------------------------|
| 1     | .939 <sup>a</sup> | .883     | .882              | .36019                    |
| 2     | .944 <sup>a</sup> | .891     | .890              | .34755                    |

a. Predictor: (constant), trust

b. Predictor: (constant), trust, switchcost

## **Assessment of the research hypotheses**

### **Hypothesis 1**

There is a relationship between switching cost and customer loyalty.

The result of correlation analysis illustrates that switching cost ( $r = 0.839$ ,  $p < 0.01$ ) has a positive, strong and significant relationship with customer loyalty in the context of mobile phone operators in Bangladesh. Thus, the result of the correlation analysis has provided support for this hypothesis.

The result of stepwise regression depicts that switching cost has entered into the regression equation, which indicates that switching cost is significantly associated with customer loyalty in the context of mobile phone operators in Bangladesh. And switching cost alone can explain 0.8% of the total changes in customer loyalty. Therefore, the result of stepwise regression has provided support for the first hypothesis.

The positive explanation behind these findings is that the customers of mobile phone operators in Bangladesh do have concern regarding the switching cost in showing their loyalty towards the company. As many mobile phone operators are currently competing with very competitive price and services, it gives the customers a very good chance to shop around. The low price of the SIM card influences the customer to switch easily and try all different brands. As a result, erecting high switching cost to retain the customer is an ineffective tool in mobile phone operating business in Bangladesh. That is why the variability in customer loyalty did not explained much by the variability in switching cost.

### **Hypothesis 2**

There is a relationship between corporate image and customer loyalty.



The result of correlation analysis illustrates that corporate image ( $r = 0.841$ ,  $p < 0.01$ ) has a positive, strong and significant relationship with customer loyalty in the context of mobile phone operators in Bangladesh. Thus, the result of the correlation analysis has provided support for this hypothesis.

The result of stepwise regression depicts that corporate image has entered into the regression equation, which indicates that corporate image is significantly associated with customer loyalty in the context of mobile phone operators in Bangladesh. And corporate image alone can explain 0.1% of the total changes in customer loyalty. Therefore, the result of stepwise regression has provided support for the second hypothesis.

The positive explanation behind these findings is that corporate image has some influence in building loyalty among mobile phone operator customers in Bangladesh. Corporate image is the factor that is least concerned among the consumers, as a huge number of customers of mobile phone operators in Bangladesh is less educated and unaware of the companies' perceived image. Whether the company has stable condition or whether they have social contribution are given least priority in choosing a particular brand. Rather the customers prefer other objective criteria such as price, service, network coverage etc. in choosing brands. That is why variability in customer loyalty was explained very less by the variability of corporate image.

### **Hypothesis 3**

There is a relationship between trust and customer loyalty.

The result of correlation analysis illustrates that trust ( $r = 0.939$ ,  $p < 0.01$ ) has a positive, very strong and significant relationship with customer loyalty in the context of mobile phone operators in Bangladesh. Thus, the result of the correlation analysis has provided support for this hypothesis.

The result of stepwise regression depicts that trust has entered into the regression equation, which indicates that trust is significantly associated with customer loyalty in the context of mobile phone operators in Bangladesh. And trust alone can explain 88.3% of the total changes in customer loyalty. Therefore, the result of stepwise regression has provided support for this hypothesis.

The positive explanation behind these findings is that trust in the company plays a vital role in building loyalty among the mobile phone operator customers in Bangladesh. As there are many mobile phone operators currently operating in Bangladesh with very competitive prices and services, Bangladeshi customers have a natural tendency of choosing that operator that provides trustworthy services without any cheating or unfair practices. It means they have to trust the company first to become loyal. Unfair practices, cheating, unethical behavior etc all are very common and vivid pictures in Bangladesh, a third world country. As a result Bangladeshi consumers are very serious in choosing brands. Because the consumers perceive the companies might cheat on them, they always look for recommendation from others regarding the trustworthiness of the company. That is why it is found that trust plays the most important role among the consumers of mobile phone operators to build loyalty.

Finally, the assessment of hypotheses reveals that the trust is the most important factor among the others to build customer loyalty. Switching cost and corporate image also have impact on customer loyalty but to a very insignificant degree.

### **Managerial implications**

The findings of this paper have implications for the manager of service firms. The managers can use these results to make better marketing strategies in order to attract more customers to the buy services. The managers should consider factors that influence repeat purchase that eventually lead to customer loyalty.

In the context of Bangladesh, it is important to build trust among the consumers regarding the service provider. Consumer loyalty in Bangladesh depends strongly on trust, it means if consumers trust the service provider, they become loyal to the brand and to the company. That's why to build trust among consumer; the managers should devise ways to build trust and should include these tactics in their marketing programs. Likewise, switching cost and corporate image should also be put into consideration in an attempt to make marketing strategies more competitive. It is seen that consumer prefer certain service provider for the its reputed image. So the managers should try to enhance the image of the company in order to create a favorable attitude of the customers towards the company, which will guide to customer loyalty. To enhance image, companies should apply different promotional programs along with corporate social responsibility. As a consequence, the customers perceive the company as a good company in the society. Moreover, since services are intangible and based on performances, a better understanding of the components of image promises to help management improve the competitive performance of the firm.

In addition, switching cost is another factor that can lead to customer loyalty. Though in the context of Bangladesh, variability in switching cost does not explain that much variability in customer loyalty of mobile phone operator business, still the managers of these service providers should carefully consider switching cost factor. The managers should increase the level of switching cost so that the consumer cannot switch easily to other brands and eventually become loyal to the company.

The findings of the research not only help managers of mobile phone operators, but also guide the managers of other service providing firms. Understanding the result delineate the fact that several factors can have considerable effect on customer loyalty.

Retention rate is a good indicator of customer loyalty. Increases in retention rates can have a significant positive effect on market share (Fornell and Wernerfelt,1988), (McGahan and Ghemawat, 1994) and (Rust and Zahorik ,1993).

Furthermore, studies by Blodgett et al. (1995), Colgate et al. (1996), Hallowell (1996), Payne and Rickard (1997) and Rust et al. (1995) indicate that an increase in customer retention can have a positive effect on a company's net operating cash flow and profit. To have a strong competitive position in the market, the managers should carefully consider these mentioned factors and also should dig out other important factors that make the customer loyal to particular company that ultimately lead to profitability and growth.

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