

## **Customer Loyalty and Influencing Factors- A Correlation Analysis**

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*The study investigates the relationship between corporate image, trust, switching cost and customer loyalty in the context of a developing country-Bangladesh. Co-relational analyses were employed to test these impacts utilizing a sample of 200 customers. The results show that corporate image, trust and switching cost are all positively related with repurchase intention. Moreover, it has revealed the fact that, there are not only relationships between these independent and dependent variables, but they are also statistically highly significant.*

**Field of Research:** Marketing-Consumer Behavior

### **1. Introduction**

The mobile services industry during the last decades has experienced a remarkable growth. More people are using cell phones and there has been a considerable interest in the study of customer loyalty. In order to get loyal and new customers, companies need to provide efficient services to meet customer expectation and that ultimately requires better understanding about their behavior. Recent study of a company shows that each year the mobile phone operator loses 20% of their customer and in 1996, it cost them £256 for each new customer which included expenses associated with introductory offer, subsidized phones and advertising (Palmer, 1998,). If the company could have reduced that rate from 20% to 10%, £25 million would have been saved (Palmer, 1998,). Reichheld and Sasser (1990) found that, when a company retains just 5 percent more of its customers, profit increases by 25 percent to 125 percent.

Literatures in this field indicates that corporate image (Nguyen and Leblanc, 2001), customer switching costs (Jones et al., 2002), and trust (Lau and Lee, 1999) have significant effects on customer loyalty. Behavioral intentions of consumers have been the most significant factors of business success for either manufacturers or service providers and switching cost; corporate image and customer's trust have significant impact on it (Nguyen & Leblanc, 2001; Parasuraman, Zeithaml, & Berry, 1988; Zeithaml, Berry, & Parasuraman, 1996).

Intensified competition making it difficult for companies to keep their customer satisfied. Consumers are demanding more and trying different product and services to fulfill their requirements. For companies to be successful and survive retaining customers is becoming very important and hence, it is of utmost importance to identify factors that affect customer loyalty. The purpose of this study is to investigate the effect of corporate image, trust and switching cost on customer loyalty. what

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factors manipulate such loyalty and to what extent they influence their behavior. Based on the literature review, following research questions are identified:

- (1) Does trust influence customer loyalty?
- (2) Is customer loyalty affected by corporate image?
- (3) Does switching cost play any role in influencing customer loyalty?

In the first section of this work, we reviewed previous works in the similar field to define constructs that are being used. The hypothesis and model are then presented and followed by methodology, data analysis and results. Assessment of the hypothesis is done next with the final section concluding with the consideration of managerial implication along with limitations of the study.

## 2. Literature Review

### 2.1 Customer Loyalty

For any organization to continue its success story, the firm needs to have the capability of holding current customers and making them loyal to its brands (Dekimpe et al., 1997,). Loyal customers help businesses grow by buying more, paying premium prices and attracting new customer through positive word of mouth over time (Ganesh et al., 2000,). Oliver (1997) defines customer loyalty as: "... a deeply held commitment to re-buy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior."

Jacoby and Kyner (1973) explained customer loyalty by a set of six necessary and collectively sufficient conditions by integrating two approaches: "[T]hese conditions express that brand loyalty is (1) the biased (i.e., random), (2) behavioral response (i.e., purchase), (3) expressed over time, (4) by some decision-making unit, (5) with respect to one or more alternative brands out of a set of such brands, and (6) is a function of psychological (decision making, evaluative) process."

### 2.2 Trust

According to Morgan and Hunt (1994), Trust works at preserving relationship investments by cooperating with exchange partners, resisting attractive short-term alternatives in favor of the expected long-term benefits of staying with existing partners, and viewing potentially high-risk actions as being prudent because of the belief that partners will not act opportunistically.

Trust can be analyzed from two different perspectives (Geyskens et al., 1996; Kumar et al., 1995; Moorman et al., 1992, 1993; Siguaw et al., 1998). First, it is considered as a compartmental component: the 'willingness to rely' on the partner (Geyskens et al., 1996; Kumar et al., 1995; Moorman et al., 1992, 1993; Siguaw et al., 1998). Second, trust can be measured as a cognitive component (Anderson and Narus, 1990; Doney and Cannon, 1997). Considering trust as a cognitive component, the literatures suggest that trust may be defined by three types of beliefs: competence, honesty and benevolence. Competence means consumers

always examine the level of knowledge and skills the seller's have and with that their capability to complete a relationship and satisfy the needs of their clients (Coulter and Coulter, 2002). Honesty is the belief that the second party will keep their word, fulfill their promises and be sincere (Gundlach and Murphy, 1993; Doney and Canon, 1997). A benevolent attitude examines the behavior of the party when an unpredicted condition arises (Ganesan, 1994).

Looking at consumer trust from a theoretical point of view, it is obvious that customers' requirements need to be fulfilled to develop trust: the marketers need to have the ability and willingness to deliver a quality product or service as it is expected (Eberl, 2004; Swan et al., 1999; Plötner, 1995; Ganesan, 1994). The skills of a marketer include the qualifications, skills, competences and knowledge (Mayer and Davis, 1999; Brown and Dacin, 1997). A consumer will only trust a supplier if s/he is certain that the supplier has the capability to fulfill his/her demands (Voeth and Rabe, 2004).

### **2.3 Corporate Image**

Corporate image is the result of a process (MacInnis and Price, 1987), ideas, feelings and consumption experiences with a firm that are responsible to create that process and transformed into mental images from memory (Yuille and Catchpole, 1977). Image is very important to service firms and this can be expected to build up mainly by technical and functional quality of service and also includes other factors such as tradition, ideology, word of mouth, pricing and public relations (Nitin, Deshmukh & Prem, 2005). Therefore, corporate image is the result of an evaluation process. A customer may not have enough information about a firm but the corporate image help them form a positive attitude with the help of information obtained from different sources such as advertisements and word of mouth.

Review of literatures reveals that, corporate image could be viewed from two perspectives. First, it is about qualities and attributes of the organization which are the key elements to create an image of a company (Lindquist, Birtwistle et al. and Semeijn et al.). Secondly, corporate image can also be related to a person (Davies et al., Markham). It is the first one which is our focus in this study.

In the process of overall evaluation of the service of a company, corporate image is one of the important factors (Gummesson & Gronroos, 1988) which influences customers' opinion about the services offered (Anderson & Lindstedt, 1988), and the minds of the public about firm's overall impression (Nguyen & Leblanc, 2001). It is formed on the basis of observations of service organizations' activities (Abby, Simon, & Mathew, 1994).

### **2.4 Switching Cost**

Jackson (1985), describe switching cost is the accumulation of physical costs, economic costs and psychological costs. Those costs discourage customers to switch from their current brand to rival firm's brand. Switching costs are related to economic or financial cost identified as a "sunk cost" and firms can identify this cost when customer switches his/her current brand. All these costs work as barrier for new companies to tap the market. Consumers are not always loyal to a particular

brand because of their superior quality, but it is because of the additional cost that they incur which keeps them away from trying new alternatives (Sharma and Patterson, 2000). When it comes to trust a brand that s/he never used, customer bear the high risk. Particularly in service industry, risk exists when customer prefer a new service provider, because service quality cannot be estimated before purchasing (Sharma et al., 1997).

### 3. Hypotheses and Structural Model

For a successful relationship trust is often considered as the most crucial element (Morgan & Hunt, 1994). Empirical research has revealed that the presence of trust will have a positive effect on the continuity of a transactional relationship (Doney & Cannon, 1997; Ganesan, 1994; Garbarino & Johnson, 1999). In service industries, it has been found out that, trust is positively related to customer loyalty (Nijssen et al., 2003; Verhoef et al., 2002). Therefore in our study we assume:

**H1.** There will be a positive relationship between trust and customer loyalty.

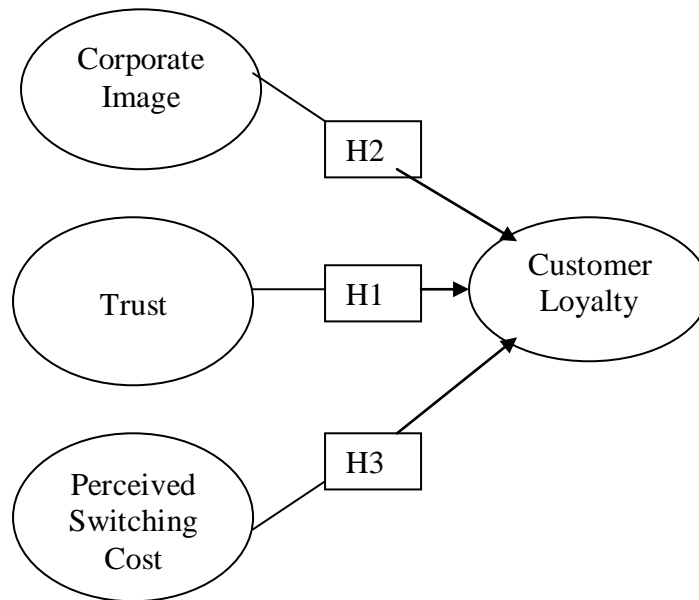
Corporate image as an attitude must affect behavioral intension such as customer loyalty (Johnson et al., 2001). Nguyen and Leblanc (2001) have found positive relationship between corporate image and customer loyalty in three sectors telecommunication, retailing and education. We therefore hypothesize as:

**H2.** There will be a positive relationship between corporate image and customer loyalty.

Switching costs directly influences customers' sensitivity to price level, and in turn influences customer loyalty (Jones et al., 2002; Bloemer et al., 1998; Burnham et al., 2003). Without giving a lot of importance on just noticeable differences between brands, consumers tend to stick to their current choice and become loyal (Erdem et al., 2002). Our hypothesis is therefore:

**H3.** There will be a positive relationship between switching cost and customer loyalty.

**Figure1:** The Proposed Model



## 4. Methodology

Respondents of this study are cell phone users of different cell phone operators in Dhaka, Bangladesh. Survey was used to collect data from the 200 University students which included both male and female. Since the sampling procedure was non probability in nature, respondents were approached on the basis of their availability (Sekaran, 1992). A total of 215 participants could be reached and 200 out of them, finally completed their active participation in the session. Moreover, similar studies with non probability sampling technique were conducted before in Bangladesh with a sample size of 157 (Sohel, 2010) and 238 in India (Eshghi et al., 2008). Female respondents represented 38% and male 62%. Their mean age was 20 years and average monthly cell phone bill was around Tk. 2500.

Multiple-item measurement has been used to measure all of the constructs in the model. Response format for all measures used a five-point Likert-scale, with 5 being “strongly agree” and 1 being “strongly disagree”.

To measure customer loyalty, a five-item scale with three operational measure was used (Narayandas, 1996). The measures were repurchasing intention, resistance to switching to competitor’s product that is superior to the preferred vendor’s product; and willingness to recommend preferred vendor’s product to friends and associates.

A seven item scale adopted from Burnhan et al., (2003), Guiltinan (1989) and Jones et al., (2002) was put in use to measure perceived switching cost. Operational measures used in the scale were perceived monetary costs, perceived uncertainty costs, perceived evaluation costs, perceived learning costs and perceived set-up costs. Trust was measured by using a five-item instrument which was developed by using different but complementary definition. Operational measures used in the scale were, reliability, ethics, service quality and cumulative processes. Corporate image

was measured by five items developed by Bayol et al., (2001), which were used in analyzing the customer satisfaction index in GSM sector.

### 5. Data Analysis and Results

A reliability test of the scale which measures dependent variable (customer loyalty) has been done. It shows an alpha value of .913 which indicates, all the items in the scale to measure the dependent variable in question is reliable. The Cronbach alpha values of reliability test for all the independent variables have been shown in table 1.

**Table 1: Cronbach alpha of Independent Variables**

Independent Variable	Cronbach alpha
Corporate Image	.921
Trust	.915
Switching Cost	.632

The Cronbach alpha value above 0.6 is considered to be reliable and acceptable. Therefore, we can conclude that the independent variables in our study pass the reliability test. The “bivariate” correlation analysis was conducted to explore the relationship between dependent and independent variables. In interpreting the strength of relationships between variables, the guidelines suggested by Rowntree (1981) were followed in explaining correlation coefficient (r).The bivariate correlation procedure was a subject to a two tailed test of statistical significance at two different levels- highly significant ( $p < .001$ ) and significant ( $p < .01$ ) or ( $p < .05$ ). The results of the correlation analysis are shown in Table 2.

**Table 2: Correlation Coefficient and Significance Value**

Variables	Customer Loyalty	Significance Level ( $\alpha$ )
Corporate Image	0.435** ( $\rho$ )	0.000
Trust	0.553** ( $\rho$ )	0.000
Switching Cost	0.425** ( $\rho$ )	0.000

\*\* Correlation is significant at  $\alpha < 0.001$  level (2 tailed)

### 6. Assessment of the Research Hypothesis

Since the  $\alpha$  value (two tailed test) is  $< .05$  and  $\rho \neq 0$ , from the findings of table 2, we can conclude that the relationship between corporate image, trust, switching cost and customer loyalty is highly significant. The variables, significantly correlated with customer loyalty are corporate image ( $r = .44$ ,  $p < .01$ ), trust ( $r = .55$ ,  $p < .01$ ), switching cost ( $r = .43$ ,  $p < .01$ ) and therefore have provided support for three hypothesis.

### 7. Conclusion

The correlation analysis demonstrates the fact that the identified three different independent variables significantly contribute to the influence of customer loyalty. Managers should carry out activities that enhance the image of the company and

develop trust among clients. Loyal customer will buy more over time and also encourage other people to buy their chosen brand. This will eventually increase revenue and profit. But creating loyalty is always a challenge to marketers. Heavy advertising expenditure should be incurred to communicate the positive aspects of services for better image. At the same time, companies should deliver services as promised with efficiency. Service failure will be perceived negatively and lead people to loose faith. Uninterrupted network service and correct billing has to be ensured. Offering after sales services, warranty, reliable performance can build trust which in turn influences repeat purchase. The switching cost variable of the study also giving signal that customers value financial benefit. Before switching to different operator, they calculate monetary cost and if it is high, changing operator is not a priority. Lower call rate, discounted price on additional services and cell phones and other promotional packages could be offered to reduce such cost. Customers value these identified factors before deciding to stay with a company for a long time. It will be wise therefore, to spend a lot of money to stop people from switching and to develop trust and image.

### 8. Limitations of the Study

The major limitation of the study is the use of cell phone service providers and it's subscribers as research subjects. Customer loyalty in fact, vary across different product and service categories. Therefore, our measure of customer loyalty of cell phone users and it's findings can not be applied in other areas. There are other factors beside the identified three independent variables in our study that affect customer loyalty which we did not include in our study. More variables could be identified and tested from different industries in future research to validate the findings of this study. Simple correlation analysis although helped asses the influence of identified independent variables on customer loyalty to a certain extent, future studies should consider employing advanced statistical analysis to cross check the outcome of the present study.

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## Hossain & Ullah

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## Hossain & Ullah

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