

DETERMINANTS OF CUSTOMER RETENTION IN MOBILE TELEPHONY: AN EMPIRICAL INVESTIGATION

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Abstract

In the contemporary time, customer retention is the mantra of success for the business organization of all kinds. Customer retention is recognized as one of the main relationship marketing concepts related with developing and maintaining a long-term customer-organization relationship. The importance of customer retention has increased by many folds in view of the fact that a majority of firms started to suffer a noticeable loss of customers, along with the difficulty and high costs of wooing new customers. Thus, the model of competition has shifted from acquiring new customers to retaining existing customers and luring customers away from rival companies. Looking at the present situation, firms are framing customer retention strategies to sustain in the highly competitive markets.

This paper aims to investigate the determinants of customer retention in mobile telecommunication sector and impact of these determinants on customer retention. In the present research study three determinants for customer retention are suggested: Service quality, customer satisfaction and switching barriers. In the present study, a model of customer retention strategy is tested and suggested for telecom firms. It is revealed that customer satisfaction has the most significant and positive effect on customer retention and service quality comes next. Switching barriers also have a positive impact on customer retention in mobile telecom sector

Key words: Customer Retention, Service Quality, Customer Satisfaction, Switching Barriers,
Mobile Telecom Sector.

1. Introduction

Indian telecommunication sector has witnessed a phenomenal growth and thereby has led the telecom service providers to the challenges of competition, service quality, cost, revenue and ultimately customer retention. Earlier, the main focus of research in mobile telecommunication was on studying the determinants of acquiring new subscribers rather than studying the determinants of retaining existing customers. Moreover, the available literature does not suitably shed light on the factors motivating individuals to retain the same telecom service provider. Therefore, present study aims to understand determinants of customer retention, which may present a clear perspective of how the telecom service providers should manage in order to motivate, attract and reinforce customers to buy and keep on buying for the longer period. Present study will identify and examine the factors which effect customer retention in mobile telecommunication. On the basis of these factors telecom operators would able to frame appropriate customer retention strategies.

2. Literature Review

Customer retention is an extremely important topic for researcher and marketers. Oliver (1997) defined customer retention as a “Deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behaviour

2.1 Factors Influencing Customer Retention

This research examines factors affecting customer retention in Indian telecommunication sector. Although other factors exist, the literature indicated that the significant variables of concern are service quality, customer satisfaction and switching barriers.

2.1.1 Service Quality

Over the past few decades service quality has gained enormous concern from researchers, managers, and practitioners. Service quality has been found to have an impact on customer loyalty and deliver various benefits to companies by improving customer retention rate (Nsiah and Mensah, 2014). Hyung Seok Lee (2010) conducts a study and find that service quality positively influences customer retention. Anita Seth, K Momaya and Gupta (2008) conduct an empirical study on customer perceived service quality for mobile telecommunication services and the outcome of their research appeared in the form of a reliable and valid instrument for

assessing service quality in telecommunication services. Two new dimensions ‘convenience and network quality’ were added in the original SERVQUAL scale. Kofi Poku et al., 2014 conduct a research study to investigate the impact of service quality delivery on customer loyalty in the cellular industry. Their study recommended that companies should widen innovative products as per the requirements of the marketplace. Adamu M, 2017 makes an attempt assess the impact of service quality and customer satisfaction on customer loyalty in Nigerian telecommunication sector. The study recommends that mobile telecom operators should make additional efforts enhancing the variables that have positive effects on customer loyalty. Yaqub R. M. et al., 2018 study the impact of customer perceptions towards various drivers of customer loyalty. Various deterrents of loyalty like perceived service quality, perceived price fairness, perceived justice in service recovery, relational bonds, customer satisfaction and corporate image have been analyzed to find the differences in perceptions between loyal customer and switchers profiles.

***Hypothesis 1:** The service quality in mobile telecom sector has a significant positive impact on customer retention.*

2.1.2 Customer Satisfaction

Churchill and Surprenant (1982) have defined the term ‘customer satisfaction’ as consequence of comparison between reward and price by acquiring it. According to Fornell (1992) a satisfied consumer helps the firm to capture market share and to preserve it, creates customer loyalty, shrink customer price sensitivity and minimize other operating costs. Mohammed M. Almosawi (2012) sheds some light on the importance and consequences of satisfaction in the competitive telecom industry in Bahrain and a significant positive relationship was found between satisfaction and retention. S. Rajeswari et al, 2017 analyze the interrelationship among the service quality, satisfaction and customer loyalty with respect to services offered by the operator in Puducherry. The study has found that customer satisfaction plays an intervening role between service quality and customer loyalty

***Hypothesis 2:** The Customer satisfaction in mobile telecom sector has a significant positive impact on customer retention.*

2.1.3 Switching Barriers

Jones et al. (2000) defined the switching barriers as three barriers: interpersonal relationships, perceived switching costs, and attractiveness of alternative. Interpersonal relationships show the existence and power of the personal relationship between a customer and a service employee. Perceived switching costs are the perceived cost of time, money, and effort from customers associated with changing service operators. The attractiveness of an alternative is in connection with the acceptable competing substitute service providers. Munir Hossain and Anowar Ulah (2011) investigate the relationship between corporate image, trust, switching cost, and customer loyalty in reference of a developing country- Bangladesh. The results reveal that corporate image, trust and switching cost are all positively connected with repurchase intention. Mira Thoumy , Elie Abdallah, 2018 analyze the impact of switching costs on the customer retention in the Lebanese cellular industry and observed that operators are offering nearly the same portfolio, technologies and network coverage, the switching costs include only the time and effort needed to switch to the other operator.

Hypothesis 3: *The switching barriers in mobile telecom sector have a significant positive impact on customer retention.*

3. Objectives of the study

The objectives of the study are stated as follows:

1. To analyze the key determinants of customer retention in mobile telecommunication services.
2. To test and suggest a model of customer retention strategies to be used by telecom operators for customer retention.

4. Research Methodology

4.1 Research Design

This study utilized exploratory research approach. Primary data collection was undertaken by way of survey from customers with experience of using mobile telecommunication services of selected telecom operators.

4.2 Data and Analysis

Present study is conducted to measure the determinants of customer retention in mobile telecommunication sector in India. Structural equation modeling has been applied to analyze the data and test the hypotheses.

4.3 Selection of the Service

This study includes both pre-paid and post-paid mobile telecom services.

4.4 Sample Design

Present study surveyed subscribers of four major telecom service providers namely Bharti Airtel Ltd., Reliance Communications, Vodafone Essar Company and Bharat Sanchar Nigam Limited. A total of 800 questionnaires were administered, though 740 being returned representing a response rate of 92.5%. The survey was conducted in various districts of Haryana state by using quota and convenience sampling method.

4.5 Developing Questionnaire

SERVQUAL a multi –item scale developed by Parasuraman, Zeithaml, and Berry (1988) was used to measure perceived service quality. SERVQUAL measures customers' expected and perceived service levels. SERVQUAL scale includes five dimensions namely reliability, responsiveness, assurance, empathy and tangibles with appropriate modifications. In the context of cellular mobile communications technical quality dimensions namely network quality and convenience were added. According to the previous studies, the switching barriers are made of switching cost, attractiveness of alternatives and interpersonal relationship.

5. Hypothesis Testing

5.1 Data Analysis & Interpretation

H1: The perceived service quality in mobile telecom sector has a significant positive impact on customer retention.

This research study analyzes the impact of perceived service quality in mobile telecom sector on customer retention. The following hypothesis is tested with the help of structural equation modeling (SEM). Figure 5.1 represents the theoretical hypothesis to be tested.

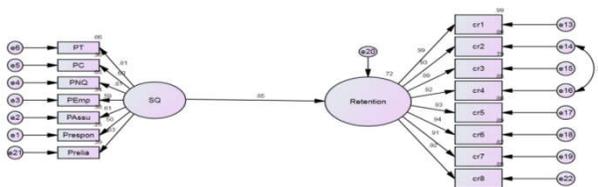


Figure 5.1: Service quality and customer retention

Table 5.10: Relationship between Service quality and customer retention

<i>Exogenous Construct</i>	<i>Endogenous Construct</i>	<i>Standardized Regression Coefficient</i>	<i>Unstandardized Regression Coefficient</i>	<i>CR</i>	<i>P Value</i>	<i>Squared multiple correlation</i>
Service Quality	Customer Retention	.849	3.444	5.033	.000	.721

Table 5.11 Model fit index Service quality and customer retention

Fitness of Model Index	CFI	NFI	RFI	RMSEA	LO 90	Hi 90
Value	.969	.920	.904	.076	.051	.100

The results point out that the structured regression rate of the association between perceived service quality and customer retention is .849 and is found to be significant ($p=.000$). Therefore, with the 95% confidence level the null hypothesis of no cause and effect relationship cannot be accepted. Consequently, it is concluded that the perceived quality of services in mobile telecom sector have a positive significant impact on customer retention.

The goodness of fit indicators such as CFI (.969), GFI (.845), NFI (.920), AGFI (.788), RMSEA (.076) point out that the tested structural equation model is have a significant fit.

H2: The customer satisfaction in mobile telecom sector has a significant positive impact on customer retention

Customer satisfaction refers to the assessment of all interactions with product or service from a provider, relative to expectations. It seems logical that a highly satisfied customer would be a retained customer. The figure 5.2 represents the theoretical hypothesis to be tested.

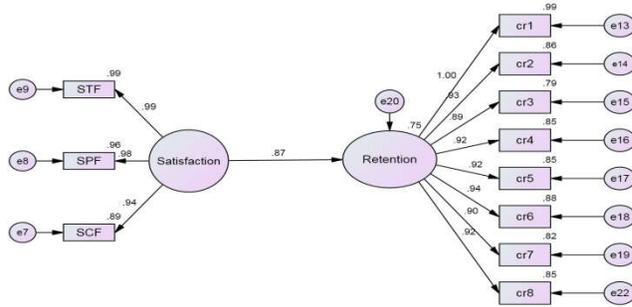


Figure 5.2: Customer satisfaction and customer retention

Table 5.12 Relationship between customer satisfaction and customer retention

<i>Exogenous Construct</i>	<i>Endogenous Construct</i>	<i>Standardized Regression Coefficient</i>	<i>Unstandardized Regression Coefficient</i>	<i>CR</i>	<i>P Value</i>	<i>Squared multiple correlation</i>
Customer Satisfaction	Customer Retention	.865	1.842	14.440	.000	.748

Table 5.13: Model fit relationship between customer satisfaction and customer retention

Fitness of Model Index	CFI	NFI	RFI	RMSEA	LO 90	Hi 90
Value	.998	.976	.969	.031	.037	.077

The results reveal that the structured regression rate of the relationship between customer satisfaction and customer retention is .865 and is found to be significant (p=.000) . Therefore, with the 95% confidence level the null hypothesis of no cause and effect relationship cannot be accepted. So, it is concluded that the customer satisfaction in mobile telecom services have a positive significant impact on customer retention.

The goodness of fit indicators such as CFI (.998), GFI (.916), NFI (.976), AGFI (.870), RMSEA (.031) indicate that the tested structural equation model is have a significant fit.

H3: The switching barrier in mobile telecom sector has a significant positive impact on customer retention.

The following hypothesis is tested with the help of structural equation modeling (SEM). The figure 5.3 represents the theoretical hypothesis to be tested.

The results of the above mentioned hypothesis are shown in table 5.14. The results indicate that the structured regression rate of the relationship between switching barrier and customer retention is .704 and is found to be significant ($p=.000$). Therefore, with the 95% confidence level the null hypothesis of no cause and effect relationship cannot be accepted. Consequently, it can be concluded that the switching barriers in mobile telecom sector have a positive significant impact on customer retention.

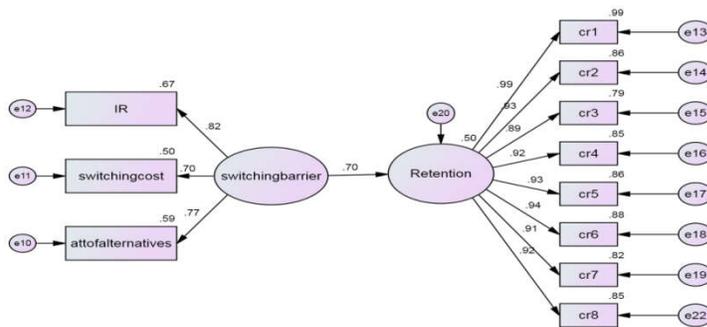


Figure 5.3: Switching barriers and customer retention

Table 5.14 Relationship between switching barriers and customer retention

<i>Exogenous Construct</i>	<i>Endogenous Construct</i>	<i>Standardized Regression Coefficient</i>	<i>Unstandardized Regression Coefficient</i>	<i>CR</i>	<i>P Value</i>	<i>Squared multiple correlation</i>
Switching barriers	Customer Retention	.704	1.451	6.556	.000	.495

Table 5.15: Model fit of relationship between switching barriers and customer retention

Fitness of Model Index	CFI	NFI	RFI	RMSEA	LO 90	Hi 90
Value	.985	.956	.944	.071	.030	.105

Determinants of customer retention in mobile telecommunication sector

To retain customers more successfully, companies must know its clients and the forces stimulating them to stay with the current service provider and not to switch. This research study attempts to understand the determinants of customer retention in mobile telecom sector and impact of these determinants on customer retention. The theoretical proposed model representing the interrelationship is shown in figure 5.4. The proposed model is tested using structural equation modeling (SEM) technique using the software AMOS 20. The results of the SEM analysis are shown in table 5.16.

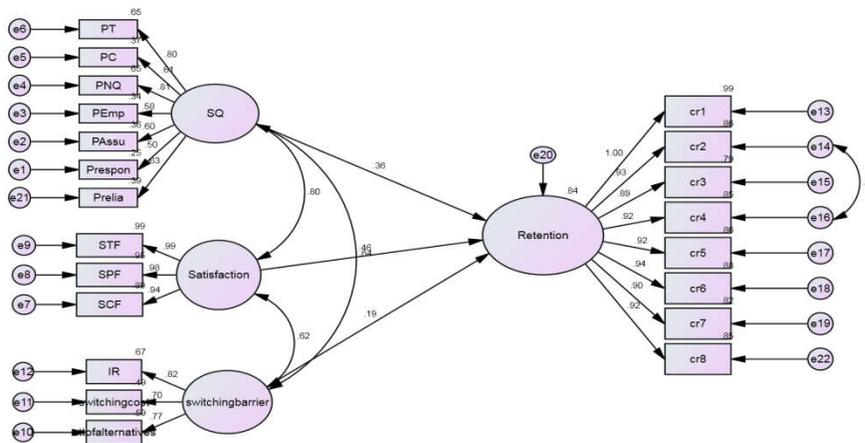


Figure 5.4: Model of Determinants of customer retention

Table 5.16: Determinants of customer retention

<i>Endogenous</i>	<i>Exogenous Construct</i>	<i>Standardized Regression Coefficient</i>	<i>Unstandardized Regression Coefficient</i>	<i>CR</i>	<i>P Value</i>	<i>Squared multiple correlation</i>
Customer retention	Perceived Service Quality	.362	1.453	3.062	.002	.837
	Customer Satisfaction	.457	.973	5.091	.000	.673
	Switching Barriers	.291	.494	2.578	.003	.594

Table 5.17: Model fit, Determinants of customer retention

Fitness of Model Index	CFI	NFI	RFI	RMSEA	LO 90	Hi 90
Value	.970	.903	.888	.063	.043	.081

The results reveal that the structured regression rates of the relationship between perceived service quality, customer satisfaction, switching barriers and customer retention are .362, .457 and .291 and all values found to be significant ($p=.002$, $.000$, $.003$). Consequently, it can be concluded that the perceived service quality, customer satisfaction, switching barriers in mobile telecom sector has a positive significant impact on customer retention and can be considered important determinants of customer retention. Customer satisfaction has the found significant and positive effect on customer retention.

The goodness of fit indicators such as CFI (.970), GFI (.806), NFI (.903), AGFI (.754), RMSEA (.063) indicate that the tested structural equation model is have a significant fit.

6. Conclusion

The study showed that all the variables tested; service quality, customer satisfaction and switching barriers, had a positive effect on customer retention in case of mobile telephony services. It is revealed that customer satisfaction has the most significant and positive effect on customer retention and service quality comes next. Switching barriers also have a positive impact on customer retention in mobile telecom sector. Results drawn from present research will extend necessary feedback for framing customer retention strategies, marketing mix, service offering design and thereby achieve customer retention while attracting new ones. To retain customers more successfully, companies must know its clients and forces driving them to stay with the current provider and not to switch.

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