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## Service Quality as Determinant of Customer Loyalty

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### Abstract

Retaining customers and creating loyal customers is vital for business continuity as a means of sustenance in the competitive telecommunication market. Employees that execute distinctive service encounters are responsible for creating valuable customer experience in the service industry, a sign of differentiation over its rivals. This study uses the SERVQUAL model to measure the level of performance delivered by Telekom Malaysia (TM) employees in influencing customer loyalty towards TM products and services. Evidence from the findings revealed that reliability and empathy are significantly positive in influencing customer loyalty.

**Keywords** Telecommunication, SERVQUAL, Customer loyalty

**Paper type:** Empirical Paper

## **1. Introduction**

To sustain in the competitive telecommunication industry, it is pertinent that a service provider excel in satisfying customers in its products or services provision (Zekiri, 2011; Loke, Taiwo, Salim, & Downe, 2011). With ample choices of similar products and services in the market, a business needs to keep abreast with latest trends in its industry, to attract new customers and retain existing ones so as to ensure profitable repeat business (Ndubisi, 2007). Loyal customers are vital to a business as they are 'long-term profitable assets' by frequently making repeat purchases and may refer new customers to the business (Zekiri, 2011), a positive prospect to a business.

This study attempts to explore the factors affecting customers' satisfaction. By exploring the determinants of customers' satisfaction, businesses will be able to provide excellent services as well as meeting customers' expectation. For this study, the service provider selected is the nation's telecommunication service provider; Telekom Malaysia Berhad (TM). This study uses service quality dimension (SERVQUAL) advocated by Parasuraman and Grewal (2000) to measure customer satisfaction.

The objective of this study is to determine how customer satisfaction in service quality is positively related with customer satisfaction. This study intends to answer the research question; does service quality influence customer loyalty in the Telekom Malaysia?

## **2. Customer Loyalty**

Customer loyalty is usually associated with the bond of a reputable brand name in the market. It is the extent of attachment a customer has toward a brand (Zekiri, 2011), where customers' attitude of brand preference is likely to change over time such as the intention to switch (Ndubisi, 2007). Loyal customers are profitable to a business as they may refer friends to the organization (Kheng, Mahamad, Ramayah, & Mosahab, 2010). In other words, building customer loyalty is building sustainable competitive advantage (John; 2011; Loke et. al., 2011) leading a company to positive market share.

## **2.1 Service Quality**

In the service industry, it is vital that good service is provided every time, all the time, consistently, including in service mistakes recovery. According to Kotler and Armstrong (2009), good service recovery can turn angry customers into loyal ones. They could bring in more new customers, thus become ‘promoters’ to the company (Thompson, 2005). By consistently delivering value to its customers, an organization can keep their customers. In providing good quality service to customers, organization should build up customer commitment (John, 2010). Adversely, poor customer service is a leading cause of defection that creates negative perceptions on an organization, making customers to leave (Thompson, 2005).

Service quality encounters are not just limited to the functions of frontlines. It encompasses all employees, frontlines, sales team or internal staffs together with the managers and top management team that directly or indirectly interacts with customers regarding the company’s products or services (Ndubisi, 2007). By offering value to customers, the organization can capture value from customers in return. This is because perception of high service quality and high customer satisfaction lead to higher levels of purchase intentions and repeat purchases (Schiffman & Kanuk, 2007). This study uses Parasuraman’s SERVQUAL model to study on customer’s perception on service quality in Telekom Malaysia. The model is made up of tangibles, reliability, responsiveness, assurance and empathy.

## **3. Research Framework & Hypotheses**

Against the above backdrop, it is hypothesized that customer satisfaction is the intermediary factor that links service quality dimension with customer loyalty. Customer satisfaction is derived from delivery of service quality encounters between firms and customers that leverages customer behavior into becoming loyal to the brand of choice. When customer’s perception of a firm’s service quality is high, their degree of satisfaction is high, thus customers may stay with the firm for a while longer (Parasuraman & Grewal, 2000).

Service quality is persistently of central interests to marketers because of its renown impact on customer satisfaction, customer loyalty and a firm’s profitability (Zekiri, 2011), as it

provides grounds for enhancement of customer centricity (Osman, Ali, Zainuddin, Rashid, & Jusoff, 2009). This is because superior organization performance is reflected by its provision of service quality (Ilhaamie 2010), to support customer satisfaction and necessitate a business' sustenance (Loke et. al., 2011).

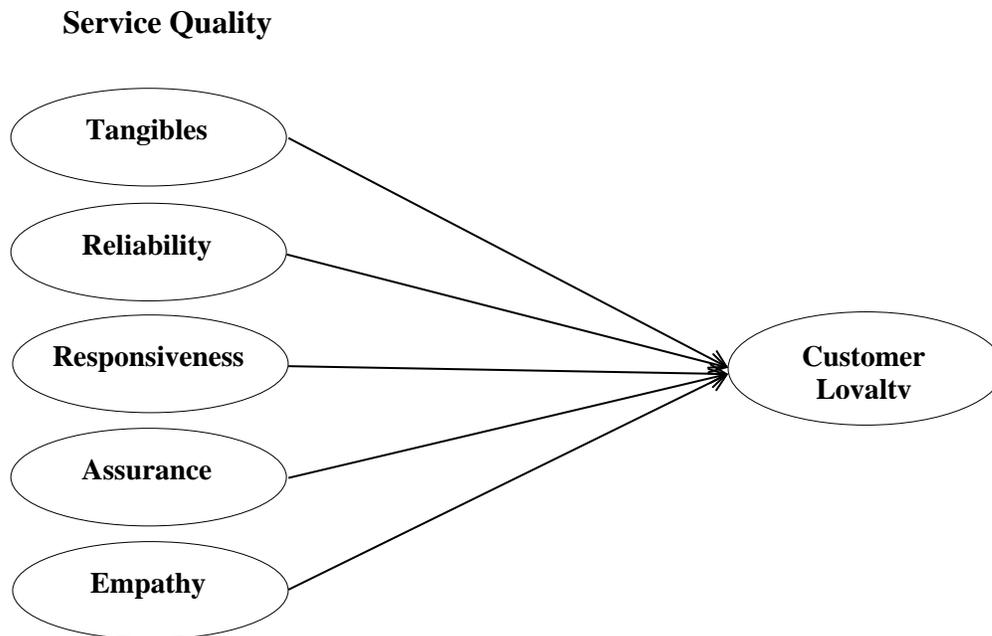


Figure 1. Research Model

For this study, five hypotheses have been developed. Independent variable is identified against the customer satisfaction. These independent variables will be tested to see if there is a positive relationship with dependent variable that is Telekom Malaysia's customer loyalty. Based on the consistent findings in the literature review five hypotheses have been developed. Hypotheses are developed based on above research model (Figure 1):

H1 - There is positive relationship between tangibles and Customer loyalty.

H2 - There is positive relationship between reliability and Customer loyalty.

H3 - There is positive relationship between responsiveness and Customer loyalty.

H4 – There is positive relationship between assurance and Customer loyalty.

H5 - There is positive relationship between empathy and Customer loyalty.

## 4. Methods

### 4.1 Participants

Eighty six respondents completed the questionnaire for this research. Respondents (Table 1) are assumedly existing Telekom Malaysia subscribers where 51 were males and 35 female. Most respondents were aged between 38 to 42 years (20.9%), while the least were those between 18 to 21 years old (10.5%). Majority respondents were Malays (34.9%), followed by Sarawak natives (31.4%) and Chinese made up of 26.7%, others were 7%. Most of the respondents were from the group with income range of RM3001 to RM5000 (20.9%). Admin and technical support were the highest number of respondents (31.4%). Respondents mostly subscribed to product are broadband service (65.1%), with highest subscription term of 7 to 9 years (27.9%).

Table 1. Background of Respondents

<b>Variable</b>		<b>Frequency</b>	<b>Percentage</b>
<i>Gender</i>	Male	51	59.3
	Female	35	40.7
<i>Age</i>	18-21 years old	9	10.5
	22-27 years old	14	16.3
	28-32 years old	12	14
	33-37 years old	16	18.6
	38-42 years old	18	20.9
	>43 years	17	19.8
<i>Ethnic</i>	Malay	30	34.9
	Chinese	23	26.7
	Sarawak Natives	27	31.4
	Others	6	7
<i>Income</i>	< RM1000	9	10.5
	RM1001-RM3000	11	12.8
	RM3001-RM5000	18	20.9
	RM5001-RM7000	11	12.8

Variable	Frequency	Percentage	
	RM7001-RM9000	15	17.4
	RM9001- RM11000	10	11.6
	>RM11001	12	14
<i>Profession</i>	Professional	24	27.9
	Student	11	12.8
	Admin and technical support	27	31.4
	Others	24	27.9
<i>Type of product and services subscribed</i>	Fixed telephone line	23	26.7
	Broadband	56	65.1
	Enhanced facilities	3	3.5
	Others	4	4.7
<i>Term of subscription</i>	1-3 years	22	25.6
	4-6 years	23	26.7
	7-9 years	24	27.9
	10 years and above	17	19.8

#### 4.2 Measurement

Questions for research are based on customer perceived services quality in Service Encounter, in areas of service quality dimension of reliability, responsiveness, assurance, empathy and tangibles as measured by Ishaq (2011). Respondents are prompted to rank their level of agreement based on a 5-point Likert scale, ranging from '1' (strongly disagree) to '5' (strongly agree) such as in answering, '*employees provide service reliably, consistently and dependably*'. This study uses Ishaq (2011) model of questions in measuring customer loyalty, such as in asking on respondent's first choice of provider, whether to patronize the firm in more years to come, saying positively about firm to colleagues, and whether to recommend others to the firm.

#### 5. Result

Reliability analysis (Table 2) was computed to determine reliability of instrument used. It is found that Cronbach's alpha values ranged from 0.813 to 0.890, indicating that reliability is

at acceptable level.

Table 2. Reliability Statistics

Variables	N of items	Cronbach's alpha
Tangibles	4	0.813
Reliability	5	0.863
Responsiveness	6	0.88
Assurance	5	0.888
Empathy	5	0.89
Loyalty	4	0.878

Correlation test will determine if there is significant relationship between all variables in the study. Based on Pearson correlation in Table 3, there is positive correlation between all variables. The highest is between reliability and responsiveness ( $r = 0.659$ ,  $\rho < 0.01$ ). The lowest is between assurance and tangibles ( $r = 0.47$ ,  $\rho < 0.01$ ).

Table 3. Correlation matrix

	Tangibles	Reliability	Responsiveness	Assurance	Empathy	Loyalty
Tangibles	<b>1</b>					
Reliability	.656**	<b>1</b>				
Responsiveness	.624**	.659**	<b>1</b>			
Assurance	.470**	.510**	.568**	<b>1</b>		
Empathy	.498**	.581**	.618**	.530**	<b>1</b>	
Loyalty	.576**	.632**	.590**	.530**	.603**	<b>1</b>

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Regression is computed to test on hypothesis. Based on the analysis, only H2 and H5 are accepted ( $\rho < 0.05$ ). The rest of the hypotheses (H1, H3 and H4) are not accepted. Table 4 provides the result of regression analysis. Based on the analysis, 53% of the variance can be explained by all variables of SERVQUAL.

Table 4. Regression Analysis

Hypothesis	Path	Beta	Decision
<b>H1</b>	Tangibles → Customer loyalty	0.169	Not Supported
<b>H2</b>	Reliability → Customer loyalty	.246*	Supported
<b>H3</b>	Responsiveness → Customer loyalty	0.091	Not Supported
<b>H4</b>	Assurance → Customer loyalty	0.146	Not Supported
<b>H5</b>	Empathy → Customer loyalty	.242*	Supported
	R <sup>2</sup>	0.53	
	Adjusted R <sup>2</sup>	0.5	
	F Change	18.007**	
	Durbin-Watson	1.592	

\*p<0.05; \*\*p<0.01

## 6. Discussion and Conclusion

This study was conducted to determine how customer satisfaction in service quality is positively related with customer loyalty in Telekom Malaysia. In addition, this study intends to answer the research question; does service quality influence customer loyalty? Based on survey questionnaires, reliability and empathy were empirically proven to influence customer loyalty. Telekom Malaysia employee's reliability in delivering promised service promptly to customers is the major reason for customers to extend their subscription with Telekom Malaysia. This finding is supported Loke et. al. (2011). The findings also reveal that reliability and empathy has strong influence on customer loyalty in that element of respect and care of Telekom Malaysia employee's degree of empathy is a base for building firm-customer relationship that will ultimately develop customer loyalty (Ndubisi, 2007).

However, customers are not influenced by the attractiveness of Telekom Malaysia premise, its facilitation or visual representation. This is possibly because customers have other alternative which are easily accessible such online platform of TMonline.com.my. Application request and queries can be accessed virtually. Thus, the element of tangibles has lost its importance in measurement of customer loyalty (Kheng et. al, 2010). Telekom Malaysia

employees should improve their assurance level and be more knowledgeable about their offerings to customers to enable them communicate effectively with customers, as it is an important determinant of customer satisfaction (Ndubisi, 2007). Ongoing training and courses should be made available to all employees at regular intervals embracing organization-wide participation (aside frontlines) to be alert on latest updates on Telekom Malaysia's product and services to ease communication comprehensively within and especially beyond the organization.

Telekom Malaysia employees should be more responsive, committed in providing prompt service and be sensitive in understanding customers' needs and wants to ensure customers prolong their subscription with Telekom Malaysia. This is critically important so that customer's dissatisfaction is handled with effective reactive solution (Ndubisi, 2007) to ensure customer's comeback. To sustain in the competitive telecommunication industry, customer retention is important as loyal customers are profitable to a business, become evangelist (Ndubisi, 2007) and promoters (Reichheld, 2003) as well as they are co-producers (Ndubisi, 2007). Firms should ensure high performance of service quality to remain competitive in leveraging customer satisfaction and ultimately gauge customer loyalty.

## **6.1 Implication**

Although Telekom Malaysia employees were capable in delivering the promised service dependably and provide individualized attention to its customers, other factors of tangibles, responsiveness and assurance were neglected. Being profit-oriented with high customer contact in the telecommunication service industry, Telekom Malaysia should be more attuned to customer's increasingly demanding needs. Its employees should be committed and must be willing to help customers promptly. Employees must also be respectful to customers. Regular training is essential to educate employees be more knowledgeable about Telekom Malaysia's product or services updates to be able to inspire customer's trust and confidence. The higher the level of its tangibles, its employee's level of responsiveness and assurance, the more loyal customers will become towards Telekom Malaysia brand.

## 6.2 Limitation

The study uses respondents from only one state in Malaysia (Sarawak) to measure overall importance on SERVQUAL over customer loyalty towards subscribing to Telekom Malaysia products and services. Therefore, results may not be necessarily generalized for all Telekom Malaysia subscribers in the whole of Malaysia.

## 6.3 Conclusion

Service quality will continuously be a central focus by marketers as in keeping pace with new trends in technology and lifestyle. The findings of this study further suggest that SERVQUAL is a sound measurement tool to analyze customer buying behavior. Additionally, it shows employees are business' important asset, as they serve as 'ambassadors' to the organization, capable in transforming customer behavior in service encounters into loyalty. Thus, the intensity of SERVQUAL in each employee plays a crucial role in contributing towards reaching the goals and objective of an organization. Capturing new customers and retaining existing ones is the reason why a business grows profitably (Reichheld, 2003). As such, to sustain amongst its rivals, Telekom Malaysia must provide distinctively good service quality to its customers so as to fulfill customer satisfaction that will ultimately gauge customer loyalty towards its brand.

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