SERVICES QUALITY AND CUSTOMER LOYALTY: ADEQUACY OF SERVQUAL MODEL

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Abstract

Delivering services quality is a vital strategy for success of an organization at current competitive business context. In the telecommunications industry, the most dynamic change can be recognized in the field of mobile phone sector. The purpose of this study is to present empirical evidence of services quality effect on customer loyalty. The survey method was used to conduct the study. The sample consisted of 300 respondents. The Pierson’s Correlation and Regression analysis were employed to test the impact of services quality on customer loyalty. The study findings showed that services quality dimensions of responsiveness and empathy have significant positive relationship with customer loyalty while tangibles, reliability, and assurance also indicate positive correlation with customer loyalty. Exhibiting their level of loyalty, no significant difference between male and female subscribers was reported. The result together with respondents’ comments towards SERVQUAL to evaluate services quality in mobile phone industry is also discussed.

Key Words: Customer Loyalty, Mobile Phone, Services Quality, SERVQUAL.

1. Introduction

It is apparent that in the 21st century, people live in the services world and consume more services than ever. At the initial phase of the economy, people had a few needs and they were self-sufficient. Therefore, they were led to live in a self-sufficient economy system. As the industrial revolution taken place in the 18th century in Europe, self-sufficient economy system was changed to an industrial economy system. As a result of gradual development of the industries together with customer needs and wants, today in the 21st century, we are in the services industry and people consume more services compared to tangible products. In current competitive business environment, services are playing a key role in satisfying customer needs. The services industry has made a greater influence on human life and most of the services have become much familiar and popularized today and play a key role in satisfying customer needs and wants. Thus, delivering quality service is a vital strategy for success of an organization. (Reichheld & Sasser, 1990). Globalised competition has stressed the strategic importance of satisfaction, quality, and consequently loyalty, in the battle for winning consumer preferences, and maintaining sustainable competitive advantage. This is because, the higher the perceived services quality, the customers become more satisfied and loyal (Petruzelli et al., 2006). Understanding customers and designing want-satisfying marketing offers is a key factor in building value-laden customer relationships by which they can capture customer lifetime value and greater share of customer loyalty.

When scrutinizing the services industry in Sri Lankan business arena during the last decade, the telecommunications industry played a high velocity industry. This is especially due to the fact that the rapid development of technology throughout the world and this trend is dynamically grown up at an unprecedented rate. In the telecommunications industry, the most dynamic change can be identified in the field of mobile phone sector. Within the telecommunications industry, the mobile phone plays a leading role by means of communicating and exchanging information, ideas, and connects people with each other. The mobile phone is a stronger tool today which strengthens the relationships or social bonds among family members, friends, and other interesting parties (Wei & Lo, 2006). In past few years, worldwide mobile phone usage increased sharply. Especially in Asian developing countries, such as Sri Lanka, the demand for mobile phone usage has significantly increased during last decade, and this emerging trend is dynamically grown up. The mobile phone today is not merely a device used to communicate through voice messages and written short messages (SMS). It has evolved to perform more than what it was initially intended to do, and today a mobile phone is more like a mini computer.

Strategic move on customer loyalty has drawn a higher interest in the current competitive business context, especially in the services industry where tangible elements play a trivial role. Andreassen & Lindestad (1998) state that customer loyalty expresses an intended behaviour towards the service or the company and this includes the likelihood of future renewal of service contracts or the profitability of a change in patronage, how likely the customer is to provide positive word of mouth, or the likelihood of customers providing voice. A better approach lies in adopting technology to leverage a customer-centric approach that focuses the business on retaining existing customer and seeking their loyalty (Chen & Ching, 2007). Since it is essential to practice sound strategies to develop customer loyalty in this industry at high velocity, this study attempts to evaluate the impact of services quality on enhancing customer loyalty. An extensive literature can be found in relation to services quality and loyalty in various fields, but very rare in the field of mobile phones service industry. Therefore, the objective of this study is twofold. The services quality in the field of mobile phone services industry is evaluated using existing SERVQUAL model and the impact of services quality on customer loyalty is measured. More importantly, respondents’ comments towards SERVQUAL model were gathered to assess whether this model is appropriate to use in measuring services quality in the field of mobile phone services industry.
2. Problem of the Study

Services quality has become a critical issue in the service industry (Pont & McQuilken, 2002). Due to this greater magnitude, much of the research on services quality has been conducted in developed countries (Herbig & Genestre, 1996). This does not mean to fail to appreciate its significance in developing countries. Services sector recognized as a fast growing industry in developing countries’ economies plays a major role as well. In this context, delivering services quality is imperative for the success of business organizations. Therefore, there has been a closer proximity between the two concepts of services quality and customer loyalty. Consequently, many researchers (Kandampully, 1998; Ruyter, Wetzel & Bloemer, 1998; Parasuraman & Grewal, 2000; Bei & Chiao, 2001; Ball, Coelho & Vilaes, 2006) have evaluated this relationship in different fields. However, it is rare to find such a study in the mobile phones telecommunications services industry; especially no research could be found in Sri Lankan mobile phone service industry. Therefore, this study attempts to fill that gap with the focus of evaluating the relationship between the services quality and customer loyalty in the Sri Lankan mobile phones service industry.

The mobile phone is the most familiar communication tool, which provides the opportunity to communicate with family members, colleagues, employees, and business partners etc., at right moment from any corner of the world, since the mobile phone can be carried wherever we go. At the same time, the mobile phone today is not merely a device used to communicate through voice messages and written short messages (SMS). It has evolved to perform more than what it was initially intended to do, and today a mobile phone plays like a mini computer. For the usage of a mobile phone, linking with a service provider is essential and many services providers competing in this industry facilitate different services and features to satisfy their subscribers. In Sri Lanka, five major players such as Dialog, Mobitel, Hutch, Airtel, and Etisalat are playing as service providers/operators with a fierce competition among them. Moreover, they are upgrading the services by providing more attributes and facilities to attract new subscribers and retain their existing subscribers. Due to the higher attraction and demand for the mobile phone service, the number of service providers is increased daily. Thus, the competition in the mobile telecommunications market has also grown at an unprecedented rate during past several years. This has created an intensified competition among them. Therefore, the major challenge faced by the service providers today is how to retain their subscribers, since there is a higher tendency of mobile subscribers to switch among service providers who provide attractive packages with fascinating features. For this, service providers attempt to enhance the level of loyalty of their subscribers by delivering superior services quality. Therefore, this study is focused to identify the relationship between services quality and customer loyalty. Meanwhile, the respondents were encouraged to comment on the adequacy of SERVQUAL to evaluate services quality in the mobile phone service industry.

3. Literature Review

The constructs of services quality, perceived value, and customer loyalty have been gaining increasing prominence in the marketing literature and in business practice (Parasuraman & Grewal, 2000). In response to the growing importance of services industry, the attention on measuring and managing the services quality has become popularly addressed issue by various scholars. Delivering services quality is the most essential element of an effective marketing strategy to succeed in the current business context. Services quality is a prerequisite for customer loyalty. Thus, many scholars have paid their attention on behavioural consequences of services quality measuring and managing of service quality and impact of service quality on customer satisfaction, and loyalty (Zeithaml, Berry, & Parasuraman, 1996; Boulding et al., 1993; Bolton & Drew, 1991; Bitten, 1990). One strategy which has gained momentum, in services, is the concept of quality and quality management (Kandampully, 1998). As such one of the most widely topics in service management addressed by research scholars is the concept of services quality (Clottey, Collier, & Stodnick, 2008). Specially, due to the nature of intangibility and variability of services, the challenge is how to evaluate the quality of a service. Thus, customers tend to evaluate the perceived services quality. Findlay & Sparks (2002) state that in the absence of objective measures, an appropriate approach for assessing the quality of a firm’s service is to measure consumers’ perceptions of quality. In measuring services quality, the most popular framework proposed by Parasuraman et al. (1988) is the SERVQUAL framework: A multiple-item scale for measuring consumer perceptions of services quality. At first, they introduced ten dimensions such as reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding, and tangibles, to measure services quality. Later, they reduced the ten dimensions to five as tangibles, reliability, responsiveness, assurance, and empathy. Meanwhile, Cronin & Taylor (1992) presented a model called SERVPERF, which can be considered as a derivative of SERVQUAL framework.

In measuring services quality to understand how a product performs, it is important to evaluate the both technical quality and functional quality. Gronroos (1984) has presented such a model to measure both technical (what) quality versus functional (how) quality. Aaker (2001) states that in a service context, quality is largely based on the perceived competence, responsiveness, and empathy of the people with whom customers interact. Zeithaml, Berry, & Parasuraman (1996) evaluate the behavioural consequences of services quality where services quality is evaluated as superior and inferior. Superior services quality stimulates favourable behavioural intentions, which direct customer retention while inferior services quality causes unfavourable behavioural intentions resulting customer defection. Sharp et al. (2000) state that the purpose of services quality research is not to determine whether or not customers give positive or negative evaluations but what really needs to be discovered is what sort of service delivered by and how would this impact on real customer behaviour. Evaluating the quality of the service is extremely important in the mobile phones services industry due to the nature of the product, because mostly this is a pure service and be considered as an intangible product.

The interesting feature behind a brand is nothing but the loyalty of customers towards that brand. Loyalty is defined as repeated purchases of particular product or service during a certain period of time (Yi & Jeon, 2003). Building a strong brand loyalty is not an easy task, because loyalty operates in a psychological and competitive context (Chakrapani, 1998). It takes longer time with huge effort to build a brand loyalty in the customers’ heart but it will only take a few seconds to lose. Thus, brand loyalty implies consistent repurchase of a brand, resulting from a positive affection of the
consumer towards that brand (Mellens et al., 1996). Therefore, brand loyalty has become a focal point of interest for marketing researchers and practitioners (Russell-Bennett et al., 2007). Based on the definition of brand loyalty presented by Jacoby & Chestnut (1978), Mellens et al. (1996) identify the measures for brand loyalty as (a) biased, (b) behavioural response, (c) expressed over time, (d) by some decision-making unit, (e) with respect to one or more alternative brands out of a set of such brands, and (f) is a function of psychological (decision-making evaluative) process. Accordingly, they identify four measures of brand loyalty as attitudinal measures versus behavioural measures and brand-oriented measures versus individual-oriented measures. Oliver (1999) defines the loyalty as “a deeply held commitment to rebuy 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 behaviour” (Oliver, 1999; p. 34).

Singh & Sirdeshmukh (2000) express consumer loyalty is emerging as the marketplace currency for the twenty-first century. It is apparent that the success of a firm largely depends on its capability, not only to attract consumers towards its brand, but also retain them in long run. Particularly, for the survival of the company, it is critical to retain its existing customers and make them loyal. More importantly, loyalty to the firm’s brand represents a strategic asset, which has been identified as a major source of the brand’s equity. More recently, the concept of loyalty has admittance to the business context that is massively used in the field of marketing to describe the customer’s willingness to continue patronizing a firm over the long term. Furthermore, loyalty refers to purchase of goods and services on a repeated and preferably exclusive basis and recommendation the specific product to friends and associates. At present, since the brand plays a key role for each product and service to distinguish from competitive items, the brand loyalty has become the strong tool, which extends beyond mere behaviour to include preference, liking, and future intentions.

Meanwhile, Reichheld et al., (2000) emphasize the superior product/services value delivered is a key for customer loyalty. They advocate that the value creation process is the core of any successful enterprise which enabling its very existence. If customers perceive they are benefited with superior product/services value over the cost that customers incurred for acquiring and using the product or service, they would become loyal towards the product, service, or the firm. This superiority would become a key element in the case of services since a tangible product is not there. Therefore, all the mobile service operators attempt to deliver superiority through upgrading their service level continuously. Conducting a research study on service quality to service loyalty, Kandampully (1998) adds a new dimension to the existing body of knowledge in the field of services quality and relationship management. In conclusion, the author proposes that a true, loyal relationship between a firm and its customer is created by the organization’s ability to connect emotionally and forge a long-term bond with the customer. In fact, a customer’s loyalty and trust is gained by the service personnel’s commitment to seamless, consistent and superior service, which manifests itself, to the customer, as ‘service loyalty’. Thus, he argues that service loyalty precedes customer loyalty.

4. Methodology

The concepts of services quality and loyalty are blooming and healthier in the marketing literature and strong emphasis is placed upon the magnitude of services quality perceptions and the relationship between services quality and customer loyalty. The positive relationship between services quality and loyalty has been already established (Kandampully, 1998). In this context, this study attempts to evaluate the relationship between services quality and loyalty in the mobile phones services industry in Sri Lanka. Accordingly, the impact of services quality (independent variable) on customer loyalty (dependent variable) was measured. The survey method was used as the main research method to conduct the study. The population consists of mobile phones subscribers whose primary purpose of usage of mobiles is communication and consisted of 300 mobile phones subscribers for the study. Accordingly, the mobile user whose primary purpose is the business is not included for this study. The study was conducted at two provinces in Sri Lanka namely Southern and Sabaragamuwa provinces. The data were collected using a structured questionnaire. The questionnaire was consisted of two parts. The first part consisted of close-ended questions with respect to services quality and customer loyalty. Responses were scaled from strongly disagree (1) to strongly agree (5) with five point likert type scale. To measure the services quality of the mobile phones services, the SERVQUAL framework developed by Parasuraman et al. (1988) was adopted. The loyalty was measured with five dimensions such as increase usage of frequency, use new services introduced by the respective service provider, continue usage (future usage), engage positive word of mouth communication, and recommend others (the product/brand/service provider) based on extensive literature. The second part was open-ended and the respondents were encouraged to disclose their comments on SERVQUAL to measure its appropriateness in measuring services quality in the field of mobile phone services industry. Mean and Standard Deviation are used to present and discuss the nature of dimensions of services quality. The Pierson’s Correlation and Regression analyses were adopted to test the relationship between the services quality and loyalty, while independent sample t- test was employed to measure the significant differences between demographic groups with respect to loyalty.

![Figure 01: Conceptual Framework](image-url)
5. Results and Discussion

The study was conducted to evaluate the impact of services quality on customer loyalty. The services quality was evaluated using SERVQUAL model. Accordingly, services quality includes five dimensions such as tangibles, reliability, responsiveness, assurance, and empathy. The internal consistency of the study constructs were measured using Cronbach’s Alpha. Cronbach’s Alpha above 0.6 (> 0.6) is accepted as the level of internal consistency of the measures. Accordingly, Cronbach’s Alpha value of the services quality construct is reported as 0.779 while individual dimensions such as tangibles (0.784), reliability (0.802), responsiveness (0.642), assurance (0.795), empathy (0.649), and loyalty (0.708) are also reported quite high value.

5.1 Services Quality Dimensions

Services quality is the independent variable of the study. Mean values and standard deviation values of services quality dimensions are presented in table 01. Mean values of all the attributes report above the 3.5 which means respondents perceive favourable service condition in respect to all the major five service attributes. Respondents have rated responsiveness as the highest favourable dimension with mean value 3.959; which means mobile phone subscribers enjoy prompt and caring service extended by employees. Reporting the second highest mean value 3.878 by empathy dimension, the results show that mobile phone service companies have paid greater care and attention towards the needs of their subscribers. Mobile phone subscribers have perceived favourable condition in relation to the constructs of tangibles, reliability, and assurance which report above the neutral state but not at very high level.

<table>
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<tr>
<th>Table 01: Services Quality Dimensions</th>
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<tr>
<td>Services Quality Dimensions</td>
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<td>Tangibles</td>
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<td>Reliability</td>
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<td>Responsiveness</td>
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<td>Assurance</td>
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<td>Empathy</td>
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<td>Grand Mean</td>
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</table>

5.2 Customer Loyalty

Customer loyalty is the dependent variable of the study. Mean values and standard deviation values of customer loyalty variables are presented in table 02. Mean values of all the attributes report above the 4.0 which means respondents exhibit a high level of loyalty towards this service. Mobile phone subscribers enjoy the service while getting ready to increase the usage of frequency, use new services/features introduced by their respective service providers, and continue the future patronage as well. More importantly, they engage in positive word of mouth communication and are ready to recommend the service to others such as family members and colleagues etc. as well. Based on the results, it can be noted that mobile phone subscribers exhibit a higher level of loyalty towards the service at current.

<table>
<thead>
<tr>
<th>Table 02: Customer Loyalty</th>
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<tr>
<td>Variables</td>
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<tr>
<td>Increase usage of frequency</td>
</tr>
<tr>
<td>Use new services/features</td>
</tr>
<tr>
<td>Continue usage (future usage)</td>
</tr>
<tr>
<td>Engage in positive word of mouth</td>
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<tr>
<td>Recommend others</td>
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<td>Grand Mean</td>
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5.3 Correlation between Services Quality Dimensions and Customer Loyalty

This study attempts to evaluate how each dimension of services quality has an impact on customer loyalty. Therefore, the correlation between each dimension of services quality and loyalty was measured. Table 03 shows the results of correlation analysis. According to the table 03, all the dimensions of services quality have a statistically significant positive correlation with loyalty. The dimensions of tangibles, responsiveness, and empathy have a significant positive correlation at the significance level of 0.01. However, the dimensions of reliability and assurance have a significant correlation at the significance level of 0.05. According to the rule of thumb (Heir et al., 2007), coefficient range between +/- 0.71 - +/- 0.90 is treated as high association between two factors. Accordingly, the services quality dimensions of empathy (0.764) and responsiveness (0.757) have a high positive correlation with loyalty. This confirms the prompt service and greater care and attention extended by the mobile phone services providers towards their subscribers. Therefore, it could be renowned that those factors have an exert influence on enhancing customer loyalty. Coefficient range between +/- 0.21 - +/- 0.40 is treated as small but definite relationship. The dimension of tangibles (0.323) has such a small but definitive positive relationship with customer satisfaction. Reliability and assurance dimensions are significant at the confidence level of 0.05, but this cannot be considered as important, because such an association is slight and treated as almost negligible. This makes an issue to be considered whether mobile phone service providers offer the same service as promised, deliver the promised service at right time, perform right service without errors, and solve subscribers’ problems without delay. And the employees’ co-operation and interaction with mobile phone customers in understanding their needs with respect to courtesy, skills, and attitudes is questionable.
The survey results demonstrate a very strong relationship between services quality and loyalty on a high value 0.721. This value is significant at the significant level of 0.01. This means that services quality has an exert influence on loyalty. Thus, we can confirm the positive significant relationship between services quality and loyalty as demonstrated by several scholars and marketing research specialists, and as in other field; this can be applied in the mobile phones services industry as well.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>r value</th>
<th>p value</th>
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<tbody>
<tr>
<td>Services Quality</td>
<td>3.80</td>
<td>0.395</td>
<td>0.721**</td>
<td>0.000</td>
</tr>
<tr>
<td>Loyalty</td>
<td>4.13</td>
<td>0.459</td>
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</table>

** Correlation is significant at the 0.01 level.
* Correlation is significant at the 0.05 level.

5.4 Correlation between Services Quality and Loyalty

Perception of mobile phone subscribers towards quality service is favourable with mean value 3.80 while subscribers exhibit a higher level of loyalty with mean value 4.13. The survey results demonstrate a very good relationship between services quality and loyalty. Table 04 shows that the correlation coefficient between services quality and loyalty stands on a high value 0.721. This value is significant at the significant level of 0.01. This means that services quality has an exert influence on loyalty. Thus, we can confirm the positive significant relationship between services quality and loyalty as demonstrated by several scholars and marketing research specialists, and as in other field; this can be applied in the mobile phones services industry as well.

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5.5 Customer Loyalty and Gender

Customers exhibit their level of loyalty towards different products/services and brands in different ways. This is because different customer groups perceive products’ features and offers differently. Table 05 shows how male and female mobile phone subscribers exhibit their level of loyalty. To identify whether there is any significant difference of loyalty between male and female subscribers, independent sample t test was employed. Table 05 illustrates the results, which confirms there is no significant difference between male and female subscribers, and both groups have shown equal loyalty level with mean value of 4.12 by male subscribers and 4.15 by female subscribers. This type of situation can be justified because a mobile phone connection is not assumed as a different kind of service based on gender. Otherwise, this product or market has not been segmented using demographic variable of gender. Therefore, it can be confirmed that mobile phone service connection is not gender specific in Sri Lankan context.

<table>
<thead>
<tr>
<th>Mean</th>
<th>Mean</th>
<th>Difference</th>
<th>t Value</th>
<th>Significance Level</th>
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<tbody>
<tr>
<td>Male</td>
<td>4.12</td>
<td>0.033</td>
<td>0.628</td>
<td>0.530</td>
</tr>
<tr>
<td>Female</td>
<td>4.15</td>
<td>0.033</td>
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The result of the correlation between services quality and loyalty was further confirmed by the regression results. The R square value of 0.520 would mean that services quality could predict 52% variance on the dependent variable, customer loyalty. Regression analysis was employed to test the impact of each services quality dimension on the customer loyalty. Accordingly, the dimensions of responsiveness (p<0.000), empathy (p<0.000) and assurance (p<0.05) as depicted by significant correlation according to the results of the correlation analysis have also reported significant impact on customer loyalty. However, tangibles and reliability dimensions have not reported such a significant impact on customer loyalty.

The respondents were encouraged to openly comment on the adequacy of SERVQUAL in evaluating services quality in the field of mobile phone service industry. Many respondents have revealed that they highly consider the coverage of each service provider as the major determinant in selecting their brand. In addition, attractive packages and features offered, convenience of changing the packages, low switching costs, low level of risk and the reputation of the company are also important determinants in selecting mobile phone service subscription. Since SERVQUAL framework does not cover these aspects, the next research study should be the extension of SERVQUAL framework to match with the above needs where services quality in the mobile phone services industry could be fruitfully measured. The results of the current study reveal that services quality could predict 52% variance on customer loyalty. Developing an adequate services quality framework would increase this value at a higher level.

6. Conclusion

The mobile phone is the most popular instrument in Sri Lanka today and merely each and every person has a mobile phone at the moment. Therefore, this study was conducted to evaluate the impact of services quality on customer loyalty in the mobile phone services industry. There is no much difference about the usage pattern of mobile phones in different parts in the country. Therefore, this study was conducted in the Southern province in Galle, Matara, and Hambantota districts and Sabaragamuwa province in Ratnapura and Kegalle districts. To measure the services quality of the mobile
phones services, the SERVQUAL framework developed by Parasuraman et al. (1988) was used. The Pierson’s Correlation and Regression analyses were adopted to test the relationship between the services quality and loyalty, while independent sample *t* test was employed to measure the significant difference between male and female subscribers with respect to loyalty. The results of the study present some important insights towards the impact of the services quality on loyalty. Respondents have perceived favourable service condition in respect to all the major five service attributes: tangibles, reliability, responsiveness, assurance, and empathy. However, respondents have rated responsiveness and empathy as the highest favourable dimensions, which mean that mobile phone subscribers enjoy prompt and caring service extended by employees while having a beneficial attention towards their needs by their respective service providers. Empathy dimension confirms the mobile phone service companies’ greater care and attention towards the needs of their subscribers. Mobile phone subscribers exhibit a higher level of loyalty towards their respective service brands with intention to increase the usage of frequency, using new services introduced by their respective service providers, continuing future usage, engaging positive word of mouth communication and recommending to others. Services quality is positively and significantly impacted on customer loyalty. Therefore, there has been established a positive significant relationship between services quality and loyalty in the mobile phones services industry. Meanwhile, all the services quality dimensions are reported a significant positive correlation with customer loyalty. The dimensions of responsiveness, assurance and empathy have a significant impact customer loyalty. However, male and female consumers do not demonstrate any significant difference in their level of loyalty in the mobile phone service industry.

There are two major outcomes of this research. First, it confirms the positive relationship between services quality and customer loyalty. However, the challenge is adequacy of SERVQUAL framework to measure services quality in the mobile phones service industry, because coverage, attractive packages and features offered, convenience of changing the packages, low switching costs, low level of risk and the reputation of the company are also treated as important determinants in selecting mobile phone service subscription. Since SERVQUAL framework does not cover these aspects, the next research study should be the extension of SERVQUAL framework which covers all the attributes of services quality in the mobile phone services industry. Therefore, next research is focused on developing an adequate services quality framework for mobile phone services industry.

**References**


