Exploring the Antecedents of Customer Loyalty in the Malaysian Retail Sector

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ABSTRACT

As the market is becoming more competitive, managers and marketers are becoming more aware of the importance of being a customer-oriented company to survive, and in this regard, customer loyalty is one of the major outcomes of customer-oriented approach. Moreover, shifting the concept of marketing exchange from transactions to relationship emphasizes the importance of building customer loyalty. Therefore, nowadays, marketers are in the quest to gather knowledge on how to build customer loyalty. However, most of the previous studies focused on business to customer (B2C) context. Due to several differences between B2C and business to business (B2B) market, there is a need to investigate the antecedents of customer loyalty separately from B2C. Therefore, this study focused on the Malaysian retail sector. The obtained results supported a positive influence of each of four adopted constructs, which represented by service quality, corporate image, customer trust, and customer switching cost, on customer loyalty. In light of the findings, several managerial implications were highlighted.

Keywords: Service Quality, Corporate Image, Customer Trust, Customer Switching Cost, Customer Loyalty, Retail Sector

JEL Classification: M3

1. INTRODUCTION

As the market is becoming increasingly more competitive, managers and marketers are becoming more aware of the importance of being customer-oriented in order to survive and enhance customer loyalty (Homburg et al., 2011). Recently, customer loyalty has gained the attention of more researchers and practitioners, as the concept of marketing exchange shifts from transactions to relationship, emphasizing on the importance of building customer loyalty (Foss and Stone, 2001). It has been evidenced in literature that customer loyalty has a positive impact on profitability of the organizations (Bowen and Chen, 2001). In 1990, Reichheld and Sasser conducted a study to determine the cost of losing customers. They emphasized that “long-term customers are a vital source of profitability.” Moreover, the authors expressed the influence of having loyal customer in detail, where a firm retains only 5% more of its customers, the profits increase by 100%. This conclusion arrived at by Reichheld and Sasser’s (1990) study draws the attention of both managers and researchers to the great role of customer loyalty for firm survival (Bowen and Chen, 2001). Increasing the company’s profitability has been revealed to be the main advantage of customer loyalty (Rowley, 2005). This growth in profit furthermore, is a result of decreasing customer price sensitivity, which makes customers less likely to switch to the competitors’ businesses, reduces cost of attracting new customers, decreases marketing costs, increases sales and reduces operational costs, increases purchases, and provides strong and effective word-of-mouth (Bowen and Chen, 2001; Rowley, 2005; Fraering and Minor, 2013).

Therefore, nowadays, marketers are in a quest to obtain knowledge on how to build customer loyalty (Bowen and Chen, 2001). However, most of the previous studies focused on business to customer (B2C) context, while customer loyalty in business to business (B2B) context has been largely overlooked. Due to the several differences between B2C and B2B market, which include more frequent and more customized service encounters in the latter but not the former, more professional personal interaction with customers with the assistance of improved technology is required (Narayandas, 2005). In addition, the relationship in B2B is closer, deeper, and long-term compared to B2C relations. Hence, it could be said that B2B market is more complex than B2C. Aside from the above, increasing competition, higher degree of deregulation, technological convergence, and rapid evolution of
internet make the drivers of loyalty prominently differ in business markets compared to consumer markets depending on the nature of the targeted customers (Morris and Holman, 1988; cited in Ramaseshan et al., 2013).

Moreover, the concept of relationship marketing, which emphasizes on customer loyalty and building relationships, can yield several transactions for long-dated rather than having relationship for one or two transactions (Gummesson, 2004; Leverin and Liljander, 2006), is captured clearer in B2B transactions. Therefore, it is necessary to conduct researches to examine the factors that influence customer loyalty in B2B context, especially, particularly on customer loyalty in the business market (Wan et al., 2013). Furthermore, Johnson et al. (2006) stated that the relationship between the antecedent factors of loyalty and customer loyalty are likely to be dynamic and changeable according to the evolving market trends. Consequently, understanding these dynamics is crucial for researchers and practitioners. Moreover, re-examining the influence of some factors that have been proven to be relevant is important to clarify the impact of new market trends on this relationship. Hence, the target of this study is to determine the factors that influence customer loyalty in B2B context. Furthermore, our study seeks to contribute to reducing certain gaps in the literature. First, since customer loyalty is considered as the fundamental building block of relationship marketing (Leverin and Liljander, 2006), there is a need to extend knowledge on how customer loyalty can be gained among B2B customers. To do so, the current study tests the impact of several suggested factors on customer loyalty. Second, this study focuses on retail industry as the last party within supply chain as they are considered in many industries as the frontline party that serves the final customers. The importance of this sector increased recently by increasing the number of producers in most industries. Therefore, it is necessary to explore how customer loyalty can be developed between the company and its retailer as the first step towards establishing the relationship marketing concept.

To shed light on these two issues, this study adopts empirical approach to test the effect of four factors (i.e., service quality [SQ], corporate image [CI], customer trust [CT], and customer switching cost [CSC]) on customer loyalty in the context of B2B customer. As result of the aforementioned discussion, the main question of this study is stated below:

**RQ: To what extent is the relationship between SQ, CI, CT, CSC and customer loyalty?**

The next part covers the literature review of all variables included in the framework with hypotheses. Subsequently, methodology, instrument and data collection are discussed. Finally, result, discussion, limitation and suggestions of further studies are presented.

## 2. LITERATURE REVIEW

### 2.1. Customer Loyalty

The ability to retain the customers and make them loyal has been considered as a critical issue for continued organizational success (Dekimpe et al., 1997). In general, customer loyalty has been defined as favorable attitude towards a company’s products to buying it constantly (Oliver, 2010). Gaining loyal customer has become the main concern of marketing activities and goals of strategic market planning (Kotler and Armstrong, 2014; Oliver, 2010). As Pritchard and Howard (1997) declared, customer loyalty is the main mediating variable to explain customer retention. Likewise, loyal customers help to support the competitive position of the companies as such a customer they tend to pay less attention to competitors’ brands and advertising (Desai and Mahajan, 1998; cited in Ramaseshan et al., 2013), provide strong word-of-mouth, as well as provide references and publicity as mentioned by Bowen and Shoemaker (1998). In relation to this, Uncles et al. (2003) emphasized that loyalty is feature of the customer, instead of something intrinsic in the brand. Furthermore, in support of the previous studies, the authors alleged that there is no general agreed definition for customer loyalty. As an alternative, there are three general conceptualizations of loyalty: First, as attitude that leads to relationship with brand; second, introduced terms of revealed behavior; and as buying moderated by individual characteristics, circumstances, and/or the purchase situation (Uncles et al., 2003). However, authors like Oliver (2010) and Walsh et al. (2008) defined customer loyalty as “a strong commitment of the customers to re-purchase or re-patronize a chosen product or service consistently in the future, which leads to repeat same-brand purchase, despite of the several marketing efforts by competitors that might cause switching behavior.

Moreover, Odin et al. (2001) stated that customer loyalty is defined based on a different perspective, and it could be classified into two main approaches, which are stochastic and deterministic loyalty. In stochastic approach, customer loyalty is considered as behavior (Ehrenberg, 1988) where the preference structure of the customer is reflected in his/her behavior (i.e. purchase, purchasing frequency, etc.). Deterministic approach, on the other, considers attitude as the main determinant of customer loyalty (Fournier and Yao, 1997). This approach, however, has been criticized for the fact that the real behavior of customer does not give a clear picture as to how companies can build or measure customer loyalty. Therefore, there is need for accurate studies to clearly define the underlying attitude structure of the customers to understand the loyalty behavior mechanism. In addition, Dick and Basu (1994) stated that even though most of the studies that investigated loyalty has focused on frequently purchased package goods (brand loyalty), the loyalty concept for industrial goods (vendor loyalty), services (service loyalty), and retail establishments (store loyalty) is equally important. Although the literature review reveals that there are studies abound that explore the antecedents’ factors affecting customer loyalty, there is still lack in studies that attempted to determine the antecedents’ factors of customer loyalty in B2B context. Due to the fact that B2C is different compared to B2B in many aspects, the main goal of this research is to conclude the potential antecedents of customer loyalty among B2B, and, to test the relationships among these factors.

### 2.2. SQ

SQ has been defined as a perceived judgment that results from an evaluation process where customers compare their prospects
with the service they perceived (Grönroos, 1984). Generally, SQ has been considered as one of the main players that contribute to enhancing the organizational profits and that imperatively will determine the organization’s success. Venetis and Ghauri (2000) explained the mechanism by which SQ reinforces the profitability, where the authors deemed SQ as source, among other sources, of differentiation and competitive advantage capabilities. Having such capabilities, in turn, enhances the attractiveness of the firm in gaining new customers, and imperatively, market share. Further discussion carried out by Venetis and Ghauri (2000) elaborates more about the role of SQ in enhancing organization’s profitability, as they stated that establishing SQ will lead to reinforcing the customers’ tendency to purchase again, purchase more, and purchase other services, to become less price-sensitive and to spread out their favorable experiences.

Moreover, it has been argued that SQ is one of the constructs that build customer loyalty by providing and enhancing several antecedents, like satisfaction, likelihood of recommending and attitude, that lead to achieve the targeted level of customer loyalty (Sivadas and Baker-Prewitt, 2000). Further, loyal customers have a tendency to show two kinds of behaviors, which are re-purchase and favorable word-of-mouth, and, both behaviors are mostly affected by the level of SQ (Pollack, 2009). In support of this view, Pollack (2009) empirically examined the relationship of SQ, customer satisfaction, and customer loyalty and confirmed that SQ predicts customer satisfaction and customer loyalty.

In a related research, Santouridis and Trivellas (2010) carried out a study in mobile telephony sector to assess the effect of SQ and customer satisfaction on customer loyalty. They further examined the potential role of customer satisfaction in this relationship (i.e., SQ and customer loyalty). They concluded that SQ is a major antecedent of customer loyalty. Further analysis indicated that customer satisfaction with some dimensions of SQ fully mediated, while with the other dimensions partially mediated the relationship between SQ and customer loyalty; such a result evidenced the existence of direct influence of SQ on customer loyalty.

In line with this argument, Chodzaza and Gombachika (2013) examined the relationship between SQ and customer loyalty as mediated by customer satisfaction of business customer in the public sector. The authors concluded that the relationship between SQ and customer loyalty is mediated partially by customer satisfaction. Such result indicates that although the relationship between SQ and customer loyalty is mediated by another construct partially, the direct relationship between SQ and customer loyalty still appears significant. In this regard, Rai and Medha (2013) also classified SQ as the most prominent construct among others that show a critical role in customer loyalty formation. Based on the previous discussion and the review of past studies, the following hypothesis is proposed:

H1: Manufacturing companies’ SQ has a positive influence on B2B customer loyalty.

2.3. CI

Numerous definitions of image are found in the psychological and marketing literature. For example, image has been labeled as the “overall impression” that is retained in the mind of the customers (Zimmer and Golden, 1988; cited in Nguyen and LeBlanc, 1998). Aaker (1996) introduced image as the final result of the experience, impression, beliefs, feeling and knowledge that people have about a company. Moreover, Nguyen and LeBlanc (1998) extended the image component to include tradition, ideology, company name, reputation, price levels, variety, and the quality communicated by each person interacting with the company. Other facets, like corporate identity, level and quality of advertising, and delivery systems also contribute to image building. CI is thus presumed to influence the customer’s choice of firm when the characteristics of the offered products are difficult to assess (Andreassen and Lindestad, 1998). In 2007, Martenson conducted a study to evaluate the effect of CI on customer satisfaction and store loyal grocery. He revealed a relationship between CI and customer satisfaction, and found that satisfied customers are loyal. In this vein, Hsieh and Li (2008) sought to extend the existing knowledge by testing the moderating role of CI on the relationship between public relations and customer loyalty. The authors concluded that CI moderated the relationship, where the effect of public relations on customer loyalty will be strong and significant when the CI is satisfactory. Such finding indicates the moderating role of CI, and its influential role on customer loyalty.

Likewise, Karaosmanoglu et al. (2011) concluded that CI and customer loyalty are interrelated. The authors further explained that when customers have positive attitude to a particular company, their behavioral intentions (i.e., customer purchase/repurchase intention, and customer extra-role behaviors) have a tendency to be positive. Kaur and Soch (2013) studied the direct and indirect effect of CI on customer loyalty, and both impacts were supported significantly. They also considered CI as an essential determinant of customer loyalty. This conclusion leads us to classify CI as strongest driver of future intended repurchase behavior - A result is in line with previous studies (e.g., Andreassen and Lindestad, 1998; Hsieh and Li, 2008; Karaosmanoglu et al., 2011). Therefore, it is proposed that CI has a positive effect on customer loyalty. Accordingly, the following hypothesis was formulated:

H2: Manufacturing companies’ CI has a positive influence on B2B customer loyalty.

2.4. CT

It has been known in the marketing literature that trust logically and experientially is a decisive construct to build relationships (Moorman et al., 1993). Therefore, it could be argued that customers who are not ready to trust the supplier are improbable to be loyal customers (Ball et al., 2004). This argument has been supported by several studies, for instance, Ribbink et al. (2004), Aydin et al. (2005), Eid (2011) Yap et al. (2012), and Amin et al. (2013). Specifically, Ribbink et al. (2004) who conducted research to determine the factors influence customer loyalty in e-commerce and confirmed the positive effect of trust on customers’ loyalty. However, empirically, the major role of trust on customers’ loyalty is still scarce, as supported by Eid (2011). In another study executed by Hoq et al. (2010) to pinpoint, among others, the relationship between trust and customers’ loyalty in Islamic banking sector, a significant impact of trust on customers’ loyalty was found. In this
regard, according to Yap et al. (2012), by gaining customers’ trust, they will not only perceive positive output, but this positive output is going to continue in the future and it will continue to increase. Further analysis carried out by Yap et al. (2012) confirmed the positive impact of CT on enhancing customer loyalty. Building on the previous discussion, the following hypothesis is introduced:

H3: Manufacturing companies’ CT has a positive influence on B2B customer loyalty.

2.5. CSC
As stated by Porter (1980), switching cost is the cost result in shifting from one supplier to another. In addition, Kim et al. (2003) emphasized that switching cost is not only limited to financial aspects, rather, it includes psychological impact of having new supplier and the time and effort involved to adapt to new services. Switching cost has been considered as a key antecedent of customer loyalty especially, for customers who perceive switching cost to be high (Aydin et al., 2005). Moreover, the influential power of switching cost can decrease the effect of other factors that were found to have positive and significant impact on customer loyalty (i.e., customer satisfaction, CT) (Aydin et al., 2005). Similarly, Matos et al. (2009) emphasized on the positive relationship between switching cost and customer loyalty, where higher (lower) switching cost, the higher (lower) customer loyalty. Therefore, it could be suggested that the companies invest on marketing strategies and campaigns in a way that shows the consequence related to switching cost (Matos et al., 2009; Edward and Sahadev, 2011). Based on the previous argument the following hypothesis is formulated:

H4: Manufacturing companies’ CSC has a positive influence on B2B customer loyalty.

The present study involves four constructs to be measured as antecedents of customer loyalty. As seen in Figure 1, the model describes the direct relationships of SQ, CI, CT and switching cost on B2B customer loyalty.

3. METHODOLOGY

3.1. Instrument Used
All of the variables in the model were examined utilizing the survey method, hence, multiple-items measurement scale was the instrument through which the data was collected. All measures utilized five-point Likert scale ranging from “strongly disagree” to “strongly agree.” A group of measurement items was adopted using input from the review of related literature including Jones et al. (2002), Burnham et al. (2003), (Aydin et al., 2005). This study targeted the managers and executives of the retailers around Malaysia as respondents. Of the 510 retailers, 262 returned the questionnaires, where 12 were incomplete and were therefore excluded; consequently, only 250 valid questionnaires were used for analysis.

Before answering the main question and hypotheses posed by this study, the reliability and validity of the instrument were investigated using (SPSS) version 18.0. As all of previous studies, this study ran Cronbach’s alpha coefficient to measure the internal consistency of all the variables, while exploratory factor analysis was performed to check the validity of the instrument, and, the obtained result indicates that all constructs indicated level of reliability of more than 0.70. According to Hair et al. (2010) and Pallant (2005) recommendations, we can conclude that the reliability and validity of the study’s instrument is within acceptable level.

Further analysis was performed by applying Pearson correlation to the main question of this study which inquired about the relationship between the four antecedents constructs (i.e., SQ, CI, CT, and CSC) and customer loyalty. Table 1 indicates that there is high correlation among the various constructs of this research, which implies that there is a positive relationship between the four suggested constructs and customer loyalty. Moreover, the 4 coefficients are positive - the result confidently elucidates that the relationship between the four constructs (i.e., SQ, CI, CT, and CSC) and customer loyalty is positive.

After establishing the positive relationship among the constructs included in this study, further investigation has been carried out to explain how much each constructs (i.e., independent variables) causes variance in customer loyalty. Accordingly, multiple regression analysis was run to examine the aforementioned hypotheses.

4. RESULTS
In order to test the proposed hypotheses in this study, multiple regression analysis was performed. The obtained results show that 38 per cent of the variation in customer loyalty is explained by each of SQ, CI, CT, and CSC. Moreover, the finding points out that the best predictor of the variance in customer loyalty of retail sector is CT (β = 0.37 significant at P < 0.001). Accordingly, the results support hypothesis H3 that proposed the positive influence of manufacturing companies’ CT on B2B customer loyalty. While the other variables (i.e., SQ, and CSC) showed positive influence with path coefficient of (β = 0.21significant at P < 0.001) and (β = 0.13 significant at P < 0.001) respectively; this result supports

Table 1: Pearson correlation coefficients of SQ, CI, CT, and CSC constructs and customer loyalty

<table>
<thead>
<tr>
<th>The Variables</th>
<th>SQ</th>
<th>CI</th>
<th>CT</th>
<th>CSC</th>
<th>CL</th>
</tr>
</thead>
<tbody>
<tr>
<td>CL</td>
<td>0.454**</td>
<td>0.454**</td>
<td>0.574**</td>
<td>0.315**</td>
<td>1</td>
</tr>
</tbody>
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**Significant at: 0.01 level (two-tailed); n=250; SQ: Service quality, CI: Corporate image, CT: Customer trust, CSC: Customer switching cost
H1 and H4 that predicted the positive influence of manufacturing companies’ SQ and CSC on B2B customer loyalty. Lastly, the findings in Table 2 indicate that although positive influence of CI has been detected, this influence is weak and not significant and thus consequently, H2 which anticipated the positive influence of manufacturing companies’ CI on B2B customer loyalty is accepted.

5. DISCUSSION AND IMPLICATIONS

As mentioned earlier, this study seeks to understand the influence of SQ, CI, CT, and CSC on customer loyalty. Generally, our findings support the existence of positive influence between the four suggested constructs and customer loyalty ($R^2 = 0.38$). Therefore, our research is consistent with customer loyalty literature that supported the long-held belief that SQ, CI, CT, and CSC contribute significantly to enhance and build customer loyalty (e.g., Hsieh and Li, 2008; Santouridis and Trivellas, 2010; Edward and Sahadev, 2011; Yap et al., 2012). Based on the obtained results, CT was the best predictor of customer loyalty in B2B context. This perhaps can be justified through the concept of relationship marketing, which emphasizes on long-term relationship between the partners - the aspect that could be observed clearer in B2B context (Gummesson, 2004; Leverin and Liljander, 2006), where it is very rare to find a single transaction occurring in B2B relationships. Rather, both partners are looking for long-term cooperation due to the advantages of establishing such relationships on several aspects of performance like quality, saving cost, innovation, knowledge sharing, last but not least customer loyalty. Therefore, it could be suggested to the decision makers in B2B context that they should pay more attention to building CT in their transactions which, in turn, could lead to achieving the desired level of customer loyalty.

As for the influence of SQ on customer loyalty, the result revealed that SQ influence positively and significantly on customer loyalty. The attained result is in line with arguments made by Pollack (2009), where SQ was revealed to have a positive influence on word-of-mouth and re-purchase intent, as the key measures of customer loyalty. Moreover, the output of this study can be explained well by looking at the nature of B2B relationships which, as mentioned earlier, rely more on establishing deep relationship to achieve several goals, and, one of those goals is saving cost to improve the profits. Such objective will be difficult to achieve without enhancing SQ at the company level, where the cooperation of employees plays a vital role in enhancing customer loyalty. Wong and Sohal (2003) supported the previous argument as they stress on the role of salesperson loyalty on improving customer loyalty.

Our study also supports the finding of several studies like Aydin et al. (2005), Matos et al. (2009) and Edward and Sahadev (2011) that emphasized the positive impact of CSC on customer loyalty. One of the consequences of having long-term relationship (i.e., in business customer) is the adaptation with the other business partner, which entails ensuring that many aspects of the internal processes are in line with partners’ needs and desires. This fact enhances the tendency of the business customers to be loyal and prevents them from shifting to another supplier. In another words, perceived switching cost in B2B customers tend to be high. Hence, it could be suggested to the managers of the manufacturing that they should focus more on building cooperative relationships with their respective customer to enhance perceived switching cost. Sharing knowledge, consulting, objectives, and adopting the concept of satisfying customer perhaps can help to achieve good cooperative relationship.

Regarding the influence of CI on customer loyalty, our study result is in line with previous studies that confirmed the positive relationship between CI and customer loyalty (e.g. Martenson, 2007; Kaur and Soch, 2013). However, CI failed to show a significant relationship with customer loyalty. The reason behind this result may be traced to the concept of relationship marketing among B2B customers, where the role of salesperson is more significant in maintaining the relationship. Therefore, in B2B context, advertisements and all marketing activities targeted to build and maintain the company’s image hold less importance. However, this argument does not deny the existence of the impact of CI on customer loyalty.

5.1. Limitations and Future Studies

Undoubtedly, this study has some limitations. First, the model of this study only includes four constructs as antecedents of customer loyalty. Therefore, it could be suggested that future studies could extend this model and include other construct that might influence customer loyalty; this suggestion is strengthened by the counted variation in customer loyalty (i.e., $R^2 = 0.38$). Second, this study examined the direct relationships and as such, future studies could investigate the interaction relationships as this would help to enhance our understanding regarding how and why customer loyalty could be affected by other factors. Finally, this study was conducted throughout big retail stores over Malaysia and thus, future researchers could include small retail stores in order to contribute to the existing literature.

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