

## **Empirical Evidence on the Antecedences of Customer Loyalty**

*Lizar Alfansi, University of Bengkulu, Indonesia*  
*Marthin Nanere, La Trobe University, Australia*  
*Ferry Tema Atmaja, University of Bengkulu, Indonesia*  
*Clare D'Souza, La Trobe University, Australia*

### **Abstract**

The aim of the study is to examine the service industry in Indonesia and to develop a construct of antecedences of customer loyalty. The antecedent variables identified in the survey were service failure, complaint behaviour, switching behaviour and brand trust. The data collection technique used an internet-based survey employed from a sampling frame of two e-newspapers. The research instrument Structural Equation Modelling was employed to establish the model's fit. The findings show that complaint behaviour is significantly influenced by service failures; switching behaviour is influenced by complaint behaviour; brand trust is influenced by switching behaviour and service failure; and customer loyalty is influenced by brand trust.

**Key words:** Brand Trust, Brand Loyalty, Service Failure, Complaint Behaviour and Switching Behaviour

## **Empirical Evidence on the Antecedences of Customer Loyalty**

### **Introduction**

Customer loyalty is a noteworthy strategic objective for businesses. While studies on customer loyalty have been prolific within the marketing fulcrum (Mittal and Lassar, 1998; Teich, 1997; Aydin and Ozer, 2004; and Rowley, 2004), especially within the developed countries, the literature appears deficient in countries such as Indonesia. We draw on, seeking to further validate previous research by examining the antecedences of customer loyalty in areas such as corporate image (Nguyen and LeBlanc, 2001), customer switching cost (Jones, Beatty, and Mothersbaugh, 2002), brand trust (Lau and Lee, 1999), and service quality (Bolton and Drew, 1992). The aim of this research is to develop a conceptual framework to define the domain of customer loyalty within the context of Indonesia. The first section of the paper examines the literature and the following sections describe and discuss the results and findings.

### **Service Failures**

Service failures do not act as a catalyst for brand loyalty. If not handled sensitively it could prove to be costly and lead to customer defection (Kotler, 2000; Liu, Sudharshan and Hamer, 2000; Maxham, 2001; Roos, 1999). Service failure can be classified into several dimensions. Bitner, Booms and Tetreault (1990) grouped service failures into four categories: service delivery system failures, gap between needs and requests, unprompted/unsolicited employee actions, and problematic customers. In a similar fashion, Lewis and Spyropoulos (2001) classified service failures into five categories, namely organization procedures, mistakes, employee behaviour, functional/technical failures, and actions/omissions of the organization that are against the sense of fair trade. Other researchers revealed that service failures could also be due to customer behaviour in the delivery process of the services (Armistead, Clarke and Stanley, 1995; Denham, 1998; Johnston, 1994). In a different perspective, Michel (2004) developed a service-failure pyramid based on frequency, impacts, and strategic options available. The service failure pyramid consists of acceptable failures, unacceptable failures, and absolutely unacceptable failures. These findings offer varied perspectives on service failures. Businesses are constantly looking towards improving their failures, which will help understand the antecedents of service failures. This presents two critical research questions: How do managers measure service failures? More importantly, what implications can service failures have on businesses? We have hypothesised that service failure can directly relate to consumer complaint and switching behaviour, whilst negatively relating to brand trust and loyalty. Thus we propose the following hypotheses:

- H<sub>1</sub>: Service failure is positively related to customer complaint behaviour.
- H<sub>2</sub>: Service failure is positively related to customer switching behaviour
- H<sub>3</sub>: Service failure is negatively related to customer perception of brand trust
- H<sub>4</sub>: Service failure is negatively related to customer loyalty.

### **Complaint Behaviour**

A complaint is a consumer's negative emotional response toward a quality of services of service providers (Resnik and Harmon, 1983). If not handled appropriately could see returns on diminishing customer loyalty (Oliver 1987). Complaints have a tendency to increase satisfaction and product evaluation since satisfaction is influenced by complaint intensity (Nyer, 2000). This is only the case if complaints are handled well. The act of making a complaint does not lead directly to satisfaction. It depends on how well the complaint is received and acted upon by the service provider that will increase satisfaction. If due course of attention is given to a complaint, they can form a part of valuable information that would assist in forming strategic service encounters (Kasouf, Celuch and Strieter, 1995). Negative impact of customer complaints which terminates as bad word of mouth can endanger company reputation and brand (Ganesan, 1994; Morgan and Hunt 1994). There is a correlation between negative image and complaint which negates brand trust and customer loyalty (Ball, Coelho and Macha, 2004). Therefore, one may hypothesise as follows:

- H<sub>5</sub>: Customer complaint is positively related to switching behaviour.
- H<sub>6</sub>: Customer complaint is negatively related to brand trust.
- H<sub>7</sub>: Customer complaint is negatively related to customer loyalty.

### **Switching behaviour**

Switching behaviour is lost customer loyalty which also can be expressed as, defection or customer exit (Hirschman, 1970; Stewart, 1994). The main factor of consumer switching decision is core service failure (Grace and O'Cass, 2003). Consumer distrust could also lead to consumer's switching to another service provider (Bejou and Palmer, 1998). It would be even worse when customer switching intention is accompanied by customer's voicing his negative image of the company (Keaveney, 1995). Thus we arrive at the following hypotheses:

- H<sub>8</sub>: Switching behaviour is negatively related to brand trust.
- H<sub>9</sub>: Switching behaviour is negatively related to customer loyalty.

### **Brand Trust and Customer Loyalty**

Trust is a key factor for making consumer choices. There are certain elements of branding that consumers trust such as quality, credibility, reliability. Dissatisfaction often is the results when consumers are faced with poor quality and premium prices (Cooke, 1996). Nonetheless, this distrust could divulge towards brand switching (Ball, Coelho, and Machas, 2004). Researchers have associated brand trust to customer loyalty (Lim and Razzaque, 1997; Garbarino and Johnson; 1999, Chaudhuri and Holbrook, 2001). We therefore develop the final hypothesis: H<sub>10</sub>: Brand trust is positively related to customer loyalty.

## Methodology

Dimensionalities of variables employed in the study were adopted from various constructs related to service failure (Berry, and Parasuraman, 1991; Keaveney, 1995), complaint behaviour (D'Oonfrio and Celuch, 1993), switching behaviour (Keaveney, 1995), brand trust (Ballester, 2004), and customer loyalty (Griffin, 1995; Heskett, Sasser, and Schlesinger, 1997). Target population of the study were service customers in the Indonesian service industry who experienced service failures and voiced their complaints in the *e-mass* media. An internet survey was conducted to collect data. Customers who voiced their complaints in [www.kompas.com/suratpembaca](http://www.kompas.com/suratpembaca) and [www.suarapembaca.detik.com](http://www.suarapembaca.detik.com) (the two biggest online-newspapers in Indonesia) were contacted by email to participate in the survey. Three hundred and thirty eight self-administered questionnaires were distributed for the study and 117 questionnaires were returned for the analysis, indicating a response rate of 34.61%. Structural equation modelling was employed to the dataset to determine antecedences of customer loyalty in service industry in Indonesia.

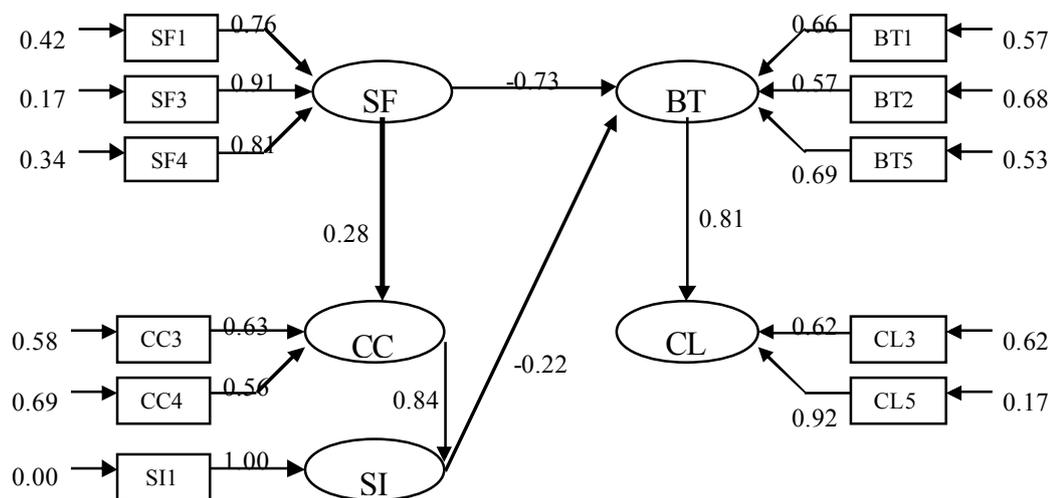
## Results

Hypothesis tests were conducted by estimating the hypothesized model represented in Figure 1 using Lisrel. Inter-correlations among the constructs are reported in Table I. Fitting the basic model to the data resulted in a fit of chi-square (39 degrees of freedom) =68.95, P-value= 0.00218; RMSEA= 0.81; GFI= 0.90; AGFI= 0.83; CFI= 0.92; IFI= 0.92. The non-significant chi-square statistic indicates that the revised model cannot be rejected as an accurate representation of the data. Standardized path coefficients and corresponding t-values for the satisfaction models are presented in the Table 1. The result of the path coefficients and t-values supports hypotheses 1, 3, 5, 8, and 10. The hypothesis testings also reveal that hypothesis 2, 4, 6, 7, and 9 are rejected. The analysis suggests that service failure is not related to switching intention and customer loyalty (hypothesis 2 and 4). It seems that customers who were not happy and voiced their complaints expect the service providers to fix the problems or they perceived that switching to another service provider would be costly and time consuming. It could also mean that the customers are not convinced that the providers would provide a better service and therefore they would stay with the same service provider.

In the case of hypothesis 6 and 7, the analysis identifies that customers who voiced their complaint expect that the service provider would solve the problems. When the customers perceive that the resolution provided were good enough, it does not hinder customer trust of the brand. They will not switch to another service provider. In the case of hypothesis 9, the relationship between switching intention and customer loyalty, switching does not have a direct relationship with customer loyalty since the analysis depicted in Figure 1 suggest that customer loyalty is influenced by brand trust. It seems that brand trust has a significant role in influencing customer loyalty. The model identifies brand trust as an intervening variable in the antecedences of customer loyalty.

**Table 1. Summary of hypothesis testings**

No	Hypothesis	T-value	Decision
1	Service failure is positively related to complaint behaviour	2.41	Not rejected
2	Service failure is positively related to switching intention	0.70	Rejected
3	Service failure is negatively related to brand trust	-3.44	Not rejected
4	Service failure is negatively related to customer loyalty	0.84	Rejected
5	Complaint behaviour is positively related to brand switching	3.13	Not rejected
6	Complaint behaviour is negatively related to brand trust	-0.59	Rejected
7	Complaint behaviour is negatively related to customer loyalty	0.62	Rejected
8	Switching intention is negatively related to brand trust	-1.98	Not rejected
9	Switching intention is negatively related to customer loyalty	0.26	Rejected
10	Brand trust is positively related to customer loyalty	3.49	Not rejected

**Figure 1. Conceptualisation and antecedences of customer loyalty.**

P-value 0.00218; RMSEA 0.81; GFI 0.90; AGFI 0.83; CFI 0.92; IFI 0.92

### Findings and discussions

Financial service providers have the highest rate of service failures followed by telecommunication service industry. This could be due to the fact that both banking and telecommunication industries are highly competitive. The study identified that majority of the respondents are male (84.5%), young executives (49.1%), highly educated (84.4%), and high income segments (52.6%) representing the middle class of Indonesian customers. These are the high-end Indonesian customers, who have an access to internet. The number of internet users in Indonesia is estimated around 25 million in 2007. There are a combination of factors that may affect customer loyalty in Indonesia. The results also indicate that service failure is related to customer complaint. In Indonesia, many companies do not have a department dealing with customers, hence

companies need to educate their customers by proactively informing customers on how to voice their complaints. Companies could offer various recovery strategies such as apology, explanation, correction, and compensation to handle customer complaints. There is a relationship between customer complaint resolution and switching intention. Providing customers a medium to voice their grievance would reduce the possibility of customer switching intentions (Fornell and Wernefelt, 1987). Studies support that complaints play a significant role in customer switching intentions (Solnick and Hemenway, 1992; Boltond and Bronkhurst, 1995; Stewart, 1998). The analysis suggests that customer loyalty is strongly influenced by brand trust. Improving brand image is therefore very crucial for Indonesian service providers.

Although the response rate for the online survey is relatively modest (34.61%), the sample size is relatively small to employ Structural equation modelling to the data set and therefore influence the level of goodness of fit of the model. It should also be noted that, due to the internet survey as the medium of the data collection method, the sample size is coming from a higher segment of Indonesian customers, namely those higher income, highly educated, and internet-friendly customers. It is recommended that a qualitative research should be the subject of future testing to explore the possibility of cultural role in forming the antecedences of the customer loyalty model for the Indonesian service industry.

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