

# Identification of the Impact of Perceived Service Quality on Customer Retention: With special reference to ABC Company: Telecommunication Industry in Sri Lanka

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**Abstract-** Telecommunication has become extremely competitive in today's world. Therefore service organization cannot survive successfully without delivering high quality service. In the context of relationship marketing, service quality and customer satisfaction is often viewed as a central determinant of customer retention. According to some studies, acquiring new customers is calculated as being five times more costly than the expenses of retaining an existing customer (Hurley, 2004; Reichheld & Kenny, 1990). In the long run building and maintaining a successful long term relationship as well as survival in today's competitive marketplace demands the delivery of quality service to customers. The Current study was conducted to identify the impact of perceived service quality on customer retention with special reference to leading Telecommunication Company in Kandy region. Non-probability sampling technique – convenience sampling method has been used and for the purpose of gathering data, sample of 50 existing customers of ABC Company has been taken in to account. Both primary and the secondary data used for the study and descriptive statistics were used to analyse data. Perceived service quality has been identified as the independent variables and the customer retention has been identified as the dependent variable. In the study, a key objective and two specific objectives were achieved and three hypotheses were developed. The study established a significant positive relationship, the results shows that perceived service quality attributes are positively related to customer retention. This implies that any increase in perceived service quality will substantially lead to increased customer retention.

**Index Terms-** perceived service quality, customer retention

## I. INTRODUCTION

Sri Lanka experiencing significant growth in the service sector and the large portion of growth of the service industry in Sri Lanka was attributed to the development of Telecommunications industry. In order to adapt rapid growth, tough competition and to maintain a sustainable position in telecommunication industry ABC Company need to differentiate themselves from rivals. The quality of service is considered a critical success for service companies and in long run, to boost profit margins and to building and maintaining a successful long term customer relationship the delivery of quality service to customers

is more important. This study will assist ABC company and other telecommunication providers to stand out and succeed in the marketplace compared to rivals and improve the revenue structure of services by identifying the impact of perceived service quality on customer retention and thus ABC company can realize the important factors that customers consider as relevant, especially in areas where the degree of influence of service quality appears to be low in enhancing customer retention and identify both the effective and ineffective customer retention strategies and take necessary actions or change existing strategies to improve their service quality in order to retain and maintain long term relationship with customers.

### 1.1 Justifications of the Problem

Tele communication has become extremely competition in today's world. Therefore service organization cannot survive successfully without delivering high quality service. In the context of relationship marketing, service quality and customer satisfaction is often viewed as a central determinant of customer retention. According to some studies, acquiring new customers is calculated as being five times more costly than the expenses of retaining an existing customer (Hurley, 2004; Reichheld & Kenny, 1990). In the long run building and maintaining a successful long term relationship as well as survival in today's competitive marketplace demands the delivery of quality service to customers.

ABC Company is a leading telecommunication provider in Sri Lanka and Kandy Regional office is a key regional player that keeps eye on their diversified services. But the researcher has been identified that customers are not much satisfied with the service provided by Kandy Regional Office because the researcher has recognized increase in number of customer complaints. And also after going through DGM report the researcher has been identified decrease in number of customers' compared to past year. Following chart shows the summary of customer base at Kandy Regional Office.

Year	Total customers in Kandy Region
2016	14,302
2017	10,230
2018	5011

Table 1.0(customer base taken from DGM report)

Hence, it has become necessary to identify the impact of perceived service quality on customer retention at Kandy Regional Office in order to develop strategies to enhance service quality of the organization and retain and maintain long term relationship with customers.

## 1.2 Research Problem

Accordingly, the research problem centered for the study was, "The extension to which the perceived service quality impact on customer retention with special reference to Telecommunication Industry in Sri Lanka".

### 1.2.1 Key Objective

- To identify the impact of customer perceived service quality on customer retention special reference to ABC company

### 1.2.2 Specific Objectives

- To identify the level of perceived service quality of the service provided by ABC company
- To identify the level of customer retention of the service provided by ABC company

## 1.4 Hypothesis

H1: There is a high level of perceived service quality of the service offered by ABC Company

H0: There is not a high level of perceived service quality of the service offered by ABC Company

H2: There is a high level of customer retention of the service offered by ABC Company

H0: There is not a high level of customer retention of the service offered by ABC Company

H3: There is a positive impact of perceived service quality on customer retention of the service offered by ABC Company

H0: There is not a positive impact of perceived service quality on customer retention of the service offered by ABC Company

## II. LITERATURE REVIEW

### Customer Service

Customer service is the provision of service to customers before, during and after a purchase. According to Turban et al. (2002), customer service is a series of activities designed to enhance the level of customer satisfaction, thus the feeling that a product or service has met the customer expectation.

### Concept of Service Quality

Service quality according to Bitner et al (1994) is the consumer's overall impression of the relative inferiority or superiority of the organization and its services. From this definition, service quality is said to be a key to the survival of all servicing companies. Adding to this, Parasuraman, Zeithaml and Berry (2004), affirmed that service quality is a function of the differences between expectation and performance along the

quality dimension. Customer expectations are beliefs about a service that serve as standards against which service performance is judged. As customers become well educated, they demand new products, better and more reliable delivery, as well as more responsive services. Quality service sustains the customers' confidence in service providers' delivery of the service, attract more and new customers, increase business with existing clients, reduce dissatisfied customers with fewer mistakes, and maximize a company's profits. And increase customer satisfaction (Berry et al., 1995; Lee et al. 2009)

### Customer Retention

Customer retention is increasingly being seen as an important managerial issue, especially in the context of a saturated market or lower growth of the number of new customers (Ahmad and Buttle, 2003). Many studies (Jones et al., 2000; Colgate et al., 1996) have shown that a firm's most important asset is its existing client base.

"Customer retention refers to the longevity of a client's relationship with a product and/or service providing firm" (Menon and O'Connor 2007:157). "A firm with effective customer retention convinces their clients to stay with the firm" (Bruhn and Georgi, 2006, p.18). Buttle, 2004, p.298 states customer retention as "The number of clients doing business with a firm at the end of a financial year expressed as a percentage of those who were active clients at the beginning of the year".

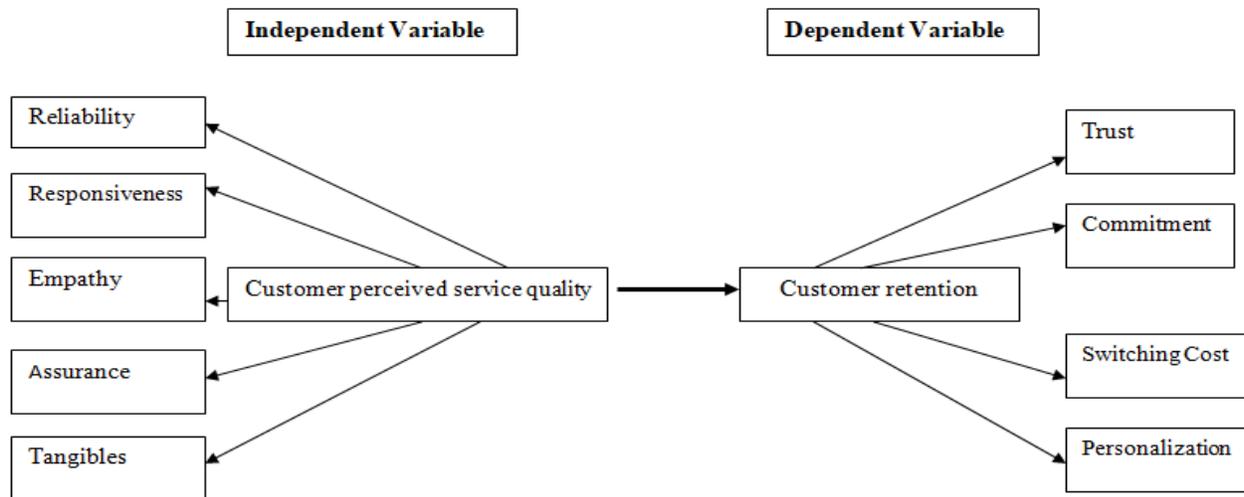
## III. METHODOLOGY

This study is descriptive in nature and this study was conducted in the natural environment with less interference of the researcher. Hence, the study setting is non-contrived. Customers who are visited to the company were considered as the population of this study. The unit of analysis is individual level. For the purpose of gathering data, sample of 50 customers has been taken into account. The convenience sampling technique was used as the sampling technique for the study. Customers were chosen randomly and asked them to fill up the questionnaire in order to collect data. This study contains data collected from both primary source and secondary source.

- Primary source: Primary data required to the study was collected mainly through a self-completion questionnaire from ABC company customers.
- Secondary sources: secondary data was collected through company annual report and other documents.

Main techniques used for data analysis were mean analysis, sample t-test and regression analysis. Impact of perceived service quality on customer retention of the service has been identified through regression analysis. Frequency analysis was used to explore the other demographic factors.

### Figure 1.0 Conceptual Framework



Source: Developed by the researcher based on the literature (2018)

#### IV. OPERATIONALIZATION

After the literature review, 37 attributes were developed in the questionnaire to identify the impact of perceived service quality on customer retention. First section of the questionnaire was designed to examine the respondents' demographic character including four (4) questions. Under section two, first part of the questionnaire was developed based on the SERVQUAL model developed by Parasuraman et al. (1988, 1991) and second part of the questionnaire was designed based on the on number of studies employed by authors such as Ranaweera and Prabhu (2003a), Hansen et al. (2003), Brink and Berndt (2008).

As both perceived service quality and customer retention were recognized as multidimensional constructs, dimensions and items were arrived at prior and subsequently validated by testing against data. All the dimensions were measured by multiple items. Accordingly, PSQ were measured using five dimensions that comprise 21 perception items, reliability(5 items), responsiveness(3 items), assurance(4 items), empathy (4 items), tangibles( 5 items)And also, four first order factors have been employed initially for CR and were measured by multiple items as, trust (5 items), commitment (4 items), switching cost (3 items) and personalization (4 items). All items were tested on a five point Likert Scale. The response categories for each item were denoted by 1 (Strongly Disagree), 2 (Disagree), 3 (Neither Disagree nor Agree), 4 (Agree) and 5 (Strongly Agree).

#### V. RESULTS AND DISCUSSION

The majority of the sample consists of male (78%) and highest proportion of consumers (30%) is reported between 41to 50 years of age. Majority income group represent 28% of customers with the income between Rs. 51,000 - 60,000. Majority of the respondents has been completed their secondary education (52%).

##### 5.1 Reliability Analysis

Cronbach's alpha reliability analysis was conducted on the independent and dependant variables in order to determine the

reliability of the instrument used According to the standard, less than 0.7 "Cronbach's Alpha" value indicates unsatisfactory internal consistency reliability. Using SPSS statistical tool the "Cronbach's Alpha" was calculated to find out the reliability of the SERVQUAL instrument and CR instrument which was used in the study.

##### 5.1.1 Reliability Test of SQ Instruments

	Cronbach's Alpha Based on Standardized Items	N of Items
Cronbach's Alpha	.921	5

Source: Survey Data 2018

As the Table represents, Cronbach's Alpha is greater than 0.7, it indicated that perceived service quality is accurately measured from 21 perception items .Thus, it emphasizes the reliability of the scales are high.

##### 5.1.2 Reliability Test of CR Instruments

	Cronbach's Alpha Based on Standardized Items	N of Items
Cronbach's Alpha	.866	4

Source: Survey Data 2018

As the Table represents, Cronbach's Alpha is 0.860. It indicates that, customer retention is accurately measured using 16 instruments. Thus, value begin closer to 1 is inductive of the higher end of reliability of this measure.

##### 5.2 Testing Hypothesis

Here, the hypotheses that were developed are tested by using the one sample t-test and regression analysis.

**5.2.1 Service Quality**

In order to identify the level of perceived service quality, the researcher has developed the following research hypothesis.

Alternate Hypothesis (H1) - There is a high level of perceived service quality

Null Hypothesis (H0) - There is no high level of perceived quality

In order to test above hypothesis, researcher has developed the following three decision criteria.

MEAN	DECISION CRITERIA
1 – 2.29	Low perceived service quality
2.3 – 3.59	Moderate perceived service quality
3.6 – 4.89	High perceived service quality

	Total perceived service quality
Mean	2.7814
Median	2.6433
Mode	2.51 <sup>a</sup>

Source: Survey Data 2018

As shown in the above table, the mean of the total perceived service quality is 2.7814 and it belongs to the second decision criteria. Therefore it can be concluded, perceived service of ABC Company is moderate.

In order to test the developed hypothesis, the researcher has run the following one sample t-test and the results were as below.

**One-Sample Test**

Test Value = 3.6						
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
TOTSQ	-10.681	49	.072	-.81860	-.9726	-.6646

Source: Survey Data 2018

Since the significant level is 0.072, there is no enough evidence to reject null hypothesis. Therefore, null hypothesis is accepted and it can be concluded that there is no high level of Perceived service quality in ABC company.

**5.2.2 Customer Retention**

In order to identify the level of customer retention, the researcher has developed the following research hypothesis.

Alternate Hypothesis (H2) - There is a high level of customer retention

Null Hypothesis (H0) - There is no high level of customer retention

In order to test above hypothesis, researcher has developed the following three decision criteria.

MEAN	DECISION CRITERIA
1 – 2.29	Low customer retention
2.3 – 3.59	Moderate customer retention
3.6 – 4.89	High customer retention

	Total customer retention

Mean	2.6984
Median	2.6063
Mode	2.59 <sup>a</sup>

Source: Survey Data 2018

As shown in the above table, the mean of the total customer retention is 2.6984 and it belongs to the second decision criteria. Therefore the customer retention of ABC company is moderate.

In order to test the developed hypothesis, the researcher has run the following one sample t-test and the results were as below.

**One-Sample Test**

	Test Value = 3.6					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
TOTSQ	-10.681	49	.064	-.81860	-.9726	-.6646

Source: Survey Data 2018

Since the significant level is 0.064, there is no enough evidence to reject null hypothesis. Therefore, null hypothesis is accepted and it can be concluded that there is no high level of customer retention in ABC Company

**5.2.3 Regression Analysis for investigation of the impact of perceived service quality on customer retention.**

**Correlations**

		TOTCR	TOTSQ
Pearson Correlation	TOTCR	1.000	.928
	TOTSQ	.928	1.000
Sig. (1-tailed)	TOTCR	.	.000
	TOTSQ	.000	.
N	TOTCR	50	50
	TOTSQ	50	50

Source: Survey Data 2018

As the table represents, Pearson Correlation values of perceived service quality and customer retention are positive. Therefore, there is a positive impact of perceived service quality on customer retention for the service offered by ABC Company.

- To what extent perceived service quality has an impact on customer retention is measured by coefficient of determination (R Square).

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.928 <sup>a</sup>	.861	.858	.19329

a. Predictors: (Constant), TOTSQ

b. Dependent Variable: TOTCR

Source: Survey Data 2018

According to the results given in above Table, the value of R Square is 0.861, which indicates that approximately 86% of the variance of customer retention is explained by perceived service quality. As this is a significant percentage, the model can be said successful in explaining variance in the dependent variable. However; it is obvious that there are other minor variables that contribute to customer retention and those variables would collectively account to only 13.9% of the variance of the customer

retention. So it can be believed that perceived service quality acts as a dominant concept in developing customer retention.

**VI. CONCLUSION**

This study sought to identify the impact of perceived service quality on customer retention of the service offered by ABC Company in Kandy Region. The exploration was guided by the

following objective, to identify the impact of perceived service quality on customer retention of the service offered by ABC Company in Kandy Region. The study used regression analysis to find the impact of perceived service quality and customer retention. The study established a significant positive relationship; the results shows that perceived service quality attributes are positively related to customer retention. This implies that any increase in perceived service quality will substantially lead to increased customer retention. Therefore we can conclude that reliability, responsiveness, assurance, empathy and tangibles are positively related to customer retention. Thus, study has proved that the perceived service quality of the service provided by ABC Company is not at satisfactory level and there is a room for improvement and the company should revise their service operations in order to meet customer needs and this will sustain or increase the rate of customer retention.

## VII. RECOMMENDATIONS

Some of the recommendations that can be made as a results of the findings of this study and ABC company management should weigh following strategies in accordance with their business situation which would go a long way in improving overall service quality of the organization.

- **Develop a customer feedback system to evaluate your company's performance so that service quality can be easily measured.**

Get prompt feedback from the customer about the service they received and identify the areas to be improved and make necessary adjustments in order to improve the customer satisfaction which would lead to retain customers with the organization. For this purpose managers can maintain suggestion/complain box or book. Thus, they can collect customer opinions soon after the service delivery and establish proper monitoring system to analyze collected information in order to make further improvements.

- **Establish Streamlining customer service system.**

Customers understandably prefer to have their problem solved in the first interaction rather than being transferred around the employees. In order to provide better solution right at the first time have to streamline the customer service and should develop proper communication between employees as well as with the customers. Thus, do not make the system complicated because if the system is inflexible customers would be dissatisfied.

- **Take the consumers consent before starting or activating a service.**

Always service need to be activated with the customer permission. And should establish proper and transparent system to verify whether customer actually requested the service or not. Because sometimes sales staff might activate service without customer consent in order to earn commission.

- **Promise fulfillment.**

Have to deliver better service to customer within the time it promised to do so. Power and authority should be delegated to appropriate parties in order to provide better service on time and

management should supervise entire service delivery process from start to end, if there is any delay keep customers informed about when service will be performed. Do not make unrealistic promises.

- **Offer training and development opportunities to staff and reward based on the performance.**

- Organization must invest more on training and development of their staff with regard to new strategies, products knowledge, and customer service techniques to make them more efficient and to treat customers in a pleasant, professional and friendly way. Thus, Management needs to be able to measure individual employee skills and strengths, as well as areas of improvement. This will assist in creating necessary training materials to give individualized attention to support team members who may need a bit of extra guidance. Ultimately efficiency of the organization will increase with active and talented group of staff. Best performers should be rewarded and motivated in order to have a set of highly satisfied employees. If the service provider is satisfied he/she has the ability to deliver high quality service to customers.

- **Make information available and Accessible**

Have to make service related details available and accessible to customers. Do not make the customer to work to find the information that they need. Therefore, need to deliver service information by updating website content regarding latest offers, packages etc, and conduct promotions in order to keep customers informed about the services provided by the organization. Importantly, should deliver reliable information through all the sources and it would assist organization to retain and maintain loyal set of customers.

- **Remove Anonymity of employees and sales staff of the organization.**

Real personal connection is important in establishing customer confidence. The more down to earth and transparent the team can be, the more likely that customer will feel safe and looked after. Thus, good positive communication is more likely to happen when there is transparent relationship between organization and customers. Hence, it would improve service quality and build customer loyalty.

- **Establish proper database management system.**

In order to have significant increase in customer retention the organization must practice a proper database management system. And it will help organization to reduce annoyance and win over customers.

- **Improve the quality of after sale service**

- Quality customer service doesn't end at the point of sale. Have to nurture good environment within the organization that, follow up customers, help customer to solve service and technical disputes and thankful for end customer. Thus, it would drive to improve overall service quality and gain and retain loyal set of customer through positive word of mouth.

- **Development of proper and uninterrupted communication between and among employees and other divisions.**

- There should be proper communication system among and between all the levels and divisions of the organization in order to provide consistent messages.
- **Introduce innovations and always try to be the first mover.**
- Customers could retain with the organization if they introduce new service or bring new technology to the market. Importantly, management should establish proper communication between organization and the customer to keep inform them what organization does and competitive advantage compared to competitor.

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