Chapter 16
Investigating Switching Cost Roles in Determining Loyalty in the Mobile Telecommunications Market

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ABSTRACT

The paper evaluates various roles (direct antecedent, mediator or moderator) of perceived switching costs in determining customer loyalty in the mobile telecommunications market. Data were collected through a field survey of mobile phone users in Pakistan. Structural equation modeling was used to evaluate hypothesized relationships. Perceived switching costs were found to play all three roles. Findings suggest that perceived switching costs directly influence customer loyalty, mediate the impacts of perceived service quality, value, and trust on customer loyalty and negatively moderate the relationships of satisfaction and perceived service quality with customer loyalty. Implications of these findings are discussed.

INTRODUCTION

Loyal customers are vital to the success of organization since they award suppliers with increased revenues from price premiums, customer referrals, reduced operating costs, increased purchases, and greater balances (Reichheld & Sasser, 1990). In mobile telecommunications, loyal customers are especially important because of increasingly intense competition. To develop a loyal customer base, managers use several strategies, the imposition of high switching costs a common one (Jones, Mothersbaugh, & Beatty, 2000; Yang & Peterson, 2004). When switching costs are high, even dissatisfied customers continue relationships

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with current service providers (Jackson, 1985). Switching costs reduce customer sensitivity to satisfaction levels (Hauser, Simester, & Wernerfelt, 1994), perceived service quality and value (Wang, 2010), and trust (Aydin, Ozer, & Arasil, 2005). They help service providers retain customers in times of inevitable, temporarily sub-optimal performance. Switching costs are also valuable to firms with satisfied customers; these firms want protection against switching due to changes in perceptions (Jones et al., 2000; Wang, 2010). For these reasons, switching costs recently gained more attention from researchers investigating development of customer loyalty.

Research into switching costs inconsistently conceptualizes the roles of perceived switching costs in determining customer loyalty. Many authors (Huan, Xu, & Li, 2005; Kim, Park, & Jeong, 2004; Seo, Ranganathan, & Babad, 2008) consider switching costs a direct antecedent of customer loyalty. Others (Aydin et al., 2005; Wang, 2010; Yang & Peterson, 2004) regard it as a moderator that influences the relationships between customer loyalty and various antecedents. Still others (Aydin & Ozer, 2005; de Matos, Henrique, & Rosa, 2009; Zeng & Zhang, 2008) examine switching costs as a mediating variable that explains the underlying relationships between customer loyalty and other variables.

Given prominent use of switching costs as an instrument for customer loyalty, it is desirable to know what role and to what extent they play in determining customer loyalty. Few studies exist that simultaneously consider all three switching costs' roles, especially in modelling customer loyalty. Only recently, de Matos et al. (2009) investigate these roles in a single satisfaction-loyalty model.

To understand the complex nature of the interrelationships among switching costs and other factors, this study proposes and tests a model that allows for assessment of the roles perceived switching costs play in customer loyalty in the mobile telecommunications market.

CONCEPTUAL MODEL AND HYPOTHESES DEVELOPMENT

This paper adopts the attitudinal approach to customer loyalty, reflected and measured by customer preference, likelihood to recommend, and intention to re-patronize a preferred service. Several authors advocate this approach because it emphasizes cognitive and affective loyalty aspects and differentiates true from spurious loyalty (de Matos et al., 2009; Javadein, Khanlari, & Estiri, 2008). Adoption of this attitudinal concept also allows use of cross-sectional data available for this study.

There are many possible antecedents of customer loyalty in general services industries. Research into mobile phone industries over the last decade suggests a number of factors that influence customer loyalty (see Table 1).

Since this study investigates the roles of perceived switching costs, a model must include (1) all direct impacts of these factors - including switching costs - on customer loyalty, (2) all direct impacts of the other factors on switching costs itself that explain the mediating role of switching costs, and (3) the moderating impacts of switching costs on the relationships of other factors with customer loyalty. Figure 1 presents such a model and is followed by explanations of the constructs and hypothesized relationships.

THE ANTECEDENTS OF CUSTOMER LOYALTY

Perceived Switching Costs

Switching costs are costs customers bear when switching from one service provider to another (Burnham, Frels, & Mahajan, 2003); they include both monetary and non-monetary expenses (Burnham et al., 2003; Dick & Basu, 1994; Lam, Shankar, Erranmilli, & Murthy, 2004). In markets with high switching costs, customers tend to buy

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