

# Chapter 3

## The Driving Forces of Customer Loyalty: A Study of Internet Service Providers in Hong Kong

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### ABSTRACT

*In this study we examine the driving forces of customer loyalty in the broadband market in Hong Kong. We developed and empirically tested a model to examine the antecedents of customer loyalty towards Internet service providers (ISPs) in Hong Kong. Structural equation modeling (SEM) was used to evaluate the proposed model. A total of 737 valid returns were obtained through a questionnaire survey. The results show that customer satisfaction, switching cost, and price perception are antecedents that lead directly to customer loyalty, with customer satisfaction exerting the greatest influence. Although we found that service quality significantly influences customer satisfaction, which in turn leads to customer loyalty, we did not find a direct relationship between service quality and customer loyalty. Our results also reveal that corporate image is not related to customer loyalty. Our empirical investigation suggests that investing huge resources in building corporate image can indeed be a risky strategy for ISPs.*

## INTRODUCTION

Due to a recent significant surge in the number of ISPs, the broadband market in Hong Kong has become very crowded, leading to fierce price competition, which has eventually resulted in the elimination of many ISPs from the market. From 2001 to 2006, the number of ISPs in Hong Kong dropped from 258 to 181. As the broadband market matures, the focus of ISPs has shifted from customer acquisition to customer retention. In March 2006, there were around 2.6 million Internet users, including both broadband and narrowband users, representing a 39% penetration rate in Hong Kong. About 64% of these users access through the broadband Internet (Office of the Telecommunications Authority, 2006). These figures establish Hong Kong as one of the most Internet-connected cities in the Asian-Pacific region.

The significance of customer loyalty cannot be overemphasized because it relates closely to the continued survival, as well as the future growth, of companies. For a company to maintain a stable profit level when the market reaches the saturation point, a defensive strategy aiming at retaining existing customers is more important than an offensive one, which targets at expanding the size of the overall market by inducing potential customers to subscribe to its services (Ahmad & Buttle, 2002; Fornell, 1992).

Previous studies on customer loyalty focused on customer satisfaction and switching barriers (Dick & Basu, 1994; Gerpott, Rams, & Schindler, 2001; Lee & Cunningham, 2001). These studies have found that customers experiencing a high level of satisfaction are likely to remain with their existing service providers and maintain their service subscriptions. Switching barriers, on the other hand, play a moderating role in the relationship between customer satisfaction and customer loyalty (Colgate & Lang, 2001; Lee & Cunningham, 2001). Researchers in this area have further elaborated on the linkages between price factors and perceived value (e.g., Grewal,

Monroe, & Krishnan, 1998), as well as between price and customer loyalty (e.g., Voss, Parasuraman, & Grewal, 1998). In addition, the marketing literature supports the general notion that pricing factors affect the price perceptions of customers, which in turn contribute to customer loyalty (Reichheld, 1996).

By using SEM, this study empirically analyzes whether customer satisfaction, switching cost, price perception, and corporate image are antecedents of customer loyalty in the context of the ISP market in Hong Kong. We also seek to identify elements of service quality as antecedents of satisfaction, and their levels of impact on satisfaction, and to ascertain whether service quality is a direct antecedent of customer loyalty. We examine the degree to which switching cost and price perception account for the variations in the strength of consumer loyalty to ISPs. Finally, we test if corporate image has any impact on customers' loyalty to their present ISPs.

## THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT

Customer loyalty is a purchase behavior, which, unlike customer satisfaction, is an attitude (Griffin, 1996). Customer loyalty is concerned with the likelihood of a customer returning, making business referrals, providing strong word of mouth, as well as offering references and publicity (Bowen & Shoemaker, 1998). Loyal customers are less likely to switch to competitors in view of a given price inducement, and they make more purchases compared to less loyal customers (Baldinger & Robinson, 1996). Although most research on loyalty has focused on frequently purchased package goods (i.e., brand loyalty), the loyalty concept is also important for industrial goods (i.e., vendor loyalty), services (i.e., service loyalty), and retail establishments (i.e., store loyalty) (Dick & Basu, 1994). As evidenced in the previous discussions, customer loyalty has been generally described as

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