

# CORPORATE REPUTATION INFLUENCES CONSUMER SATISFACTION AND LOYALTY: EVIDENCE FROM CELLULAR INDUSTRY OF PAKISTAN

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## Abstract

*Research suggests that it takes five times more expenses to attract new customer than to retain existing consumer. The growing concern of corporations in today's competitive environment is to retain consumers. As a result, plenty of researches have been conducted to identify the approaches to satisfy and retain consumers. The current study examines the affects of corporate reputation on consumer satisfaction and consumer loyalty. The primary data has been collected from the consumers of cellular industry in Pakistan. The rationale behind selecting respondents from cellular industry is the intense competition, which is enduring in the cellular companies of Pakistan. The study used SPSS and AMOS to analyze the data. The correlation analysis, regression analysis, reliability analysis and model fit index analysis has been used to test hypotheses and interpret some interesting results. The study found significantly positive associations of corporate reputation on consumer satisfaction and consumer loyalty. The study also found strongly positive affects of consumer satisfaction on consumer loyalty for the case of cellular industry of Pakistan. The study proposes some useful recommendations for policy makers in the area.*

**Keywords:** Corporate reputation, consumer satisfaction, consumer loyalty, cellular industry, Pakistan.

## 1. Introduction

Corporations are recognized on the basis of their worth of the in the marketplace. There is growing appreciation by the academic researchers and professional executives regarding the significance of corporate reputation for all the corporate stakeholders engaged in the legal, functional, and monetary judgments of any corporation. Corporate reputation, when understood by numerous stakeholders, is decisive as it helps to slash the operational costs, and positively affects both monetary and customer-related indicators, like consumer satisfaction, confidence and loyalty (Kreps and Wilson 1982; Shapiro 1983; Williamson 1985; Dowling 2001; Roberts and Dowling 2002; Caruana et al. 2004; Rose and Thomsen 2004). Kay (1993) recognized corporate reputation as extremely critical aspect for higher corporate performance. Many researchers, for instance Gotsi and Wilson (2001) and Groenland (2002) suggested that companies with superior reputation have distinctive lead over their contemporaries to magnetize consumer. Most past studies on corporate reputation to quote few (Doney and Cannon, 1997; Fomurun et al 2000; Davies et al. 2002; and Page and Fearn, 2005) has applied multiple stakeholder approach to corporate reputation and explored influence of customers' behavior regarding corporate reputation. Researchers considered consumers as one of the most essential stakeholder groups as they generate revenue flows for corporations. Research scholar has also emphasized on consumer satisfaction as one of the strongest determinant of consumer loyalty. Higher satisfaction level motivates consumers to adopt repetitive buying behavior and recommending others to do the same. Altogether, if corporation is having strong reputation within the consumers and they are also satisfied with the quality of services provided by the corporations, it would ultimately lead them to adopt loyal behavior to that corporation. Therefore, current study emphasizes on corporate reputation which is mainly associated with consumer behavior towards corporation. The study is conducted in the context of service industry; in service industry the

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strong corporate reputation and higher level of consumer satisfaction and loyalty are more important than other industries. The study has particularly focused the cellular industry of Pakistan. The cellular industry is undergoing through oligopolistic competition. There are only few cellular service providers, but they are having very extreme competition and trying to build good image in the industry as compare to their competitors. Cellular companies in Pakistan are also facing high switching costs due to rapidly changing pricing and other policies to provide customer maximum value of their money. Therefore, the main focus of corporations is to retain their existing consumers after attracting new customers. There is contest amongst cellular service provider companies for doing well e.g corporate social performance to create positive image and reputation in the industry in Pakistan. Corporations are trying to find out the social areas where they can intervene and build positive image of doing good in the society.

The objective of this study is to investigate the affects of corporate reputation on consumer satisfaction and loyalty and to examine the affects of consumer satisfaction on consumer loyalty. The following questions have been investigated in this research:

- Does corporate reputation influences consumer satisfaction in cellular industry of Pakistan?
- Does corporate reputation influence consumer loyalty in cellular industry of Pakistan?
- Does consumer satisfaction influence consumer loyalty in service industry?
- How the findings add to the knowledge regarding effects of corporate reputation on consumer behavior?

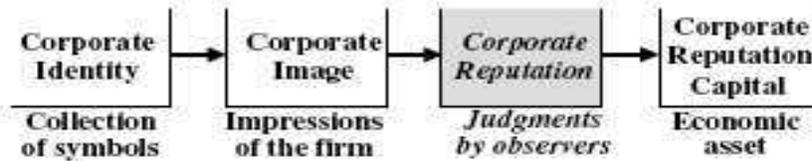
To answer these questions the paper has been structured in various sections. The following section contains theoretical discussions on the topic along with development of the hypotheses. The succeeding section contains the research methods including sample and sampling, measurement and instrumentation and data and analysis. The subsequent section includes results and discussions on the results. The final section concludes the paper with useful recommendations for policy makers.

## **2. Theoretical Framework and Development of Hypotheses**

### **2.1. Corporate Reputation and Consumer Satisfaction**

The concept of corporate reputation emerged from corporate image in 1950's and evolved into corporate identity in 1970's and 1980's (Bennett and Kottasz, 2000). Corporate is the general perceptions of stakeholders regarding any corporation. Corporation reputation has been defines by many authors in various ways. Fombrun (1996) stated that reputation is based on a set of collectively held beliefs about a company's ability and willingness to satisfy the interests of various stakeholders. Bromley (2002) and Sandberg (2002) viewed reputation as a socially shared impression and a consensus about how firm will behave in any given situation. These definitions denote that a reputation is the widely shared beliefs of stakeholders that the corporation will behave in the best of their interests and the future actions of corporations can also be predicted to be in favor of stakeholders. Therefore, corporations always keep perspectives of all stakeholders in the center in its decision making. Most remarkable contribution towards corporate reputation is done by Fombrun and van Riel (1997) who bridge the gap of diverse perspectives on corporate reputation and build Reputation Institute and the journal to address confusions between corporate image, corporate reputation and corporate identity. Baranett et al. (2006) also moved forward in this field and declared reputation capital; they predicted the future of reputation and anticipated that corporations with higher reputation are having higher capital enjoy more benefits than those having low reputation. Gray and Balmer (1998) stated that in today's competitive environment, the firms' ultimate survival depends upon building and maintaining a good corporate reputation. The progression from corporate identity to corporate reputation capital is presented in Figure 1 given below.

Figure 1: Disaggregating Corporate Reputation



Source: Barnett et al. (2006)

Corporate reputation conveys significantly important messages to number of stakeholders which facilitates them in decision making regarding various transactions pertaining to corporations. Numbers of studies have identified the prospects of corporate reputation in the eyes of stakeholders. These stake holders includes investors who consider investing into any corporation owing to its reputation in the market, another important stakeholder in this context is consumer who primarily takes into account corporate reputation in his purchase decision. For instance Walsh et al. (2006) found strongly significant association between corporate reputation and customer satisfaction in the context of Germany. Shapiro (1983) and Wilson (1985) and Lines (2003) declared customers as one of the main stakeholders that spread the corporate reputation in the market. Helm et al. (2010) also analyzed the relationship between corporate reputation and consumer satisfaction and declared corporate reputation as an antecedent of consumer satisfaction. The following hypothesis can be generated based on previous theoretical discussion.

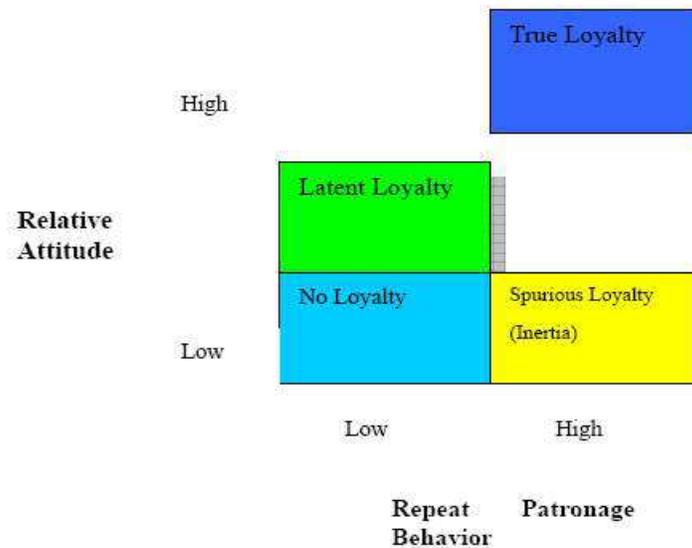
**H1:** Consumer satisfaction is positively influenced by higher level of corporate reputation

## 2.2. Consumer Satisfaction and Consumer Loyalty

Cardozo (1965) initially addressed the term customer satisfaction and stated that customer satisfaction results in enhancing the repeated buying attitude. Oliver (1981) viewed customer satisfaction as an emotional reaction resulted from any specific transaction. Both authors stressed customer's feeling about the corporation, therefore satisfaction is all about attracting and influencing customers' emotions and paving his/her attitude in favor of corporation. Several assumptions can be found in literature regarding customer satisfaction, for instance one assumption is that customer can be influenced by internally established standards for quality. Another assumption presumes that customer's future purchase behavior can be predicted by customer satisfaction level.

Consumer loyalty has been explained many researchers in marketing literature. Trucker (1964) hold that consumer's loyalty with any specific corporations can be judged by the repeated purchase of services by the consumers. Jones and Sasser (1999) stated customer loyalty as the sense of belonging and affection that customers hold towards certain firm's staff, products or services. Oliver (1999) presented more comprehensive approach to measure customer loyalty and offered four components of loyalty i.e. cognitive loyalty, affective loyalty, conative loyalty and behavioral loyalty. Number of studies have examined the predictors of consumer loyalty and majority of them have pointed consume satisfaction as basic component of consumer loyalty. Cornin et al (2000) found that service quality influences on consumer loyalty via consumer satisfaction.

Figure 2: The Loyalty Conditions



Source: Weiwei (2007)

Consumer loyalty in the service industry also referred as service loyalty means customer's faithfulness to specific brand in the service industry. Therefore customers maintains a series of loyalties to the organizations whose service they usually consumer. Their faithfulness level with corporations also determines their purchasing behavior. Researchers therefore, measure the loyalty level of consumers with organizations with their buying behavior. Controversy existed regarding consumer loyalty for a long span of time, few researchers considered loyalty as attitude whereas some also viewed consumer loyalty as attitude. Dick and Basu (1994) resolved this conspiracy by conceptualizing consumer loyalty as a composite construct. Dick and Basu (1994) defined consumer loyalty as strength of the attitude towards the target relative to available alternates and patronage behavior. Later researchers developed the metrics of loyalty and found that 'true loyalty' can only be achieved when strong positive relative attitudes are associated with high levels of repeated patronage. Different associations of loyalty conditions are explained in Figure 2.

Existing literature in marketing confirms the relationship between customer satisfaction and consumer retention. For instance Fornell (1992); Jones and Sasser (2000) found customer satisfaction as a mean to retain customer and attain sustainable growth. Brown and Gulycs (2001) hold customer satisfaction as an antecedent of customer retention. Ali et al. (2010a; 2010b) also investigated the relationship between consumer satisfaction and consumer retention in cellular industry of Pakistan. In their study Ali et al. (2010) analyzed the determinants of consumer satisfaction and retention and reported strong influence of customer satisfaction on consumer loyalty. Juan and Yan (2009) also documented association between customer satisfaction and customer loyalty in the context of China.

**H2:** Consumer loyalty is positively influenced by consumer satisfaction

### 2.3. Corporate Reputation and Consumer Loyalty

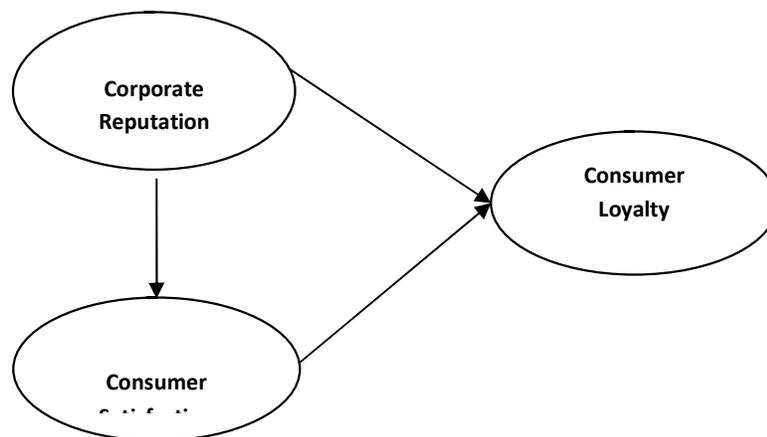
Corporate reputation is acknowledged as one of central determinants of consumer loyalty. Corporate reputation not only motivates the existing customers to adopt favorable attitude, but also to potential customers. Potential customers conceive idea about corporations from their advertisements

and from other sources for instance word of mouth from existing customers. Building strong corporate is more important in the context of service organizations who are not offering tangible products to customers. Therefore, service providing organizations uses corporate reputation as a tool to mold consumer behavior for repetitive purchases from the organizations. Tang and Weiwei (2007) stress the significance of corporate reputation for service industries more important than those providing tangible products. Corporations are increasingly working hard to build positive image and good reputation in the community. Previous researches also confirm strong relationship between positive corporate reputation and consumer loyalty. For instance Shapiro (1982) asserted that good corporate reputation results in higher market share of firms and better financial performance. Porter (1985); Yoon et al. (1993); Robertson (1993); and Andreassen and Lindestad, (1998) suggests that good reputation help firms building stronger relationships with customer. Nguyen and Leblanc (2001) hold that degree of consumer loyalty is perceived to be higher when consumer is having strong and favorable perceptions regarding corporation reputation.

**H3:** Consumer loyalty to corporation is positively influenced by corporate reputation

The following conceptual model can be developed on the basis of above theoretical discussion. The self-explanatory model presented in Figure 3 shows the association between corporate reputation, consumer satisfaction and consumer loyalty. In this relationship consumer loyalty is the result of higher level of corporate reputation and consumer satisfaction. Moreover, consumer satisfaction can also be increased through higher level of corporate reputation in the eyes of consumer.

**Figure 3:** Conceptual Model of CSR, Investor Satisfaction and Investor Loyalty



### 3. Research Methods

#### *Sample and Sampling*

The target population in this study is the consumers using cellular services in Pakistan. The reason behind selection of cellular industry is the intense competition enduring in the cellular companies in Pakistan. The companies are rigorously trying to develop some competitive advantage over their contemporaries. They are trying to offer products at minimum possible prices in order to

snatch existing consumers from their competitors. In this scenario corporate reputation plays an important role to retain satisfied and loyal customers. A total of 250 questionnaires were distributed in the university students in Pakistan. Student being more critical about the quality of services, corporate overall reputation makes rationale decisions to maximize its value from the cellular services. The students were given sufficient briefed to consider the case of cellular service provider companies and provide their response to the given items. A total of 243 questionnaires were found useful. The sampling technique may be attributed as convenience sampling which is quite appropriate for such research.

#### *Measurement and Instrumentation*

The study contains three variables, corporate reputation, and consumer satisfaction and consumer loyalty. The instrument to measure corporate reputation was adopted from Sabrina (2007) the instrument contained 10 items which discusses different aspects which contribute in building strong image of corporation to gauge the perceptions of the respondents regarding over reputation of corporation. The instrument measured the response of respondents on 7 points Likert scale attributing 1= a very good reputation and 7= a very bad reputation. The instrument to measure consumer satisfaction was adopted from Cornin et al. (2000) and is quite similar to Oliver (1997). The instrument contained 3 items measuring satisfaction level of consumer regarding products of corporations. Whereas, the instrument to measure consumer loyalty is adopted from Zeithaml et al (1996). The instrument consisted of 5 items explaining level of consumer loyalty with some corporation. The instruments for measuring consumer satisfaction and consumer loyalty were measured on five point Likert scale ranking from 1 for Strongly Agree to 5 for Strongly Disagree.

#### *Data and Analysis*

The data collected through self administered survey was entered in to SPSS sheet. Correlation and reliability analysis are conducted through SPSS; the correlation analysis explains the correlations between all variables whereas reliability analysis depicts the correctness of the data. Both of these analyses are useful before proceeding to final analysis. Regression analysis and model fit analysis are carried through AMOS. The structural equation model (SEM) is mainly adopted to test the hypotheses.

#### **4. Results and Discussions**

Table 1 represents the table of correlations. This table reflects variables – corporate reputation and consumer satisfaction – are positively correlated to consumer loyalty ( $r = .500$ ,  $p = .000$  and  $r = .649$ ,  $p = .000$  respectively). The magnitudes of correlations of corporate reputation and consumer satisfaction are greater than 0.3 in the absolute terms, which shows the moderate correlations between the said pair of the variables. All the correlations are statistically significant at one percent level of significant.

Table 1: Correlations

		Corporate reputation	Consumer satisfaction	Consumer loyalty
Corporate reputation	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	243		
Consumer satisfaction	Pearson Correlation	.580**	1	
	Sig. (2-tailed)	.000		
	N	243	243	
Consumer loyalty	Pearson Correlation	.500**	.649**	1
	Sig. (2-tailed)	.000	.000	
	N	243	243	243

\*\* Correlation is significant at the 0.01 level (2-tailed).

Table 2: Index of Fit of the Model

Model Summary		
Chi Square	Degree of freedom	P value
129.342	12	0.000

Table 2 depicts the index of fit for our model. The degree of freedom is (12) which meets the general standard of model fit. It apparent from our analysis that over all research model is significant (Chi= 129.342), (P<0.05).

Table 3: Hypotheses testing based on Regression Weights

Estimates	Estimates S.E.	Critical Ratio	P-value	Results	
CS <--- CR	.888	.125	7.089	.000	Accepted
CL <--- CR	.296	.146	2.024	.043	Accepted
CL <--- CS	.561	.095	5.883	.000	Accepted

Table 3 presents the results of the regression analysis. The results show that consumer satisfaction is significantly and positively influences by higher level of corporate reputation, therefore, we accept our H1. Ali et al. (2010) found significant association between consumer's perceptions about corporations' quality of product on consumer satisfaction in the context of cellular industry of Pakistan. Walsh et al. (2006) also found strongly significant association between corporate reputation and customer satisfaction in the context of Germany. Consumer loyalty is also significantly and positively affected by the corporate reputation as shown by the values of the

corresponding P-values (.043), we therefore accept our H2 as well. Nguyen and Leblanc (2001) found strongly favorable connection between corporate reputation and consumer loyalty. Helm et al. (2010) declared corporate reputation as antecedents of customer satisfaction and customer loyalty.

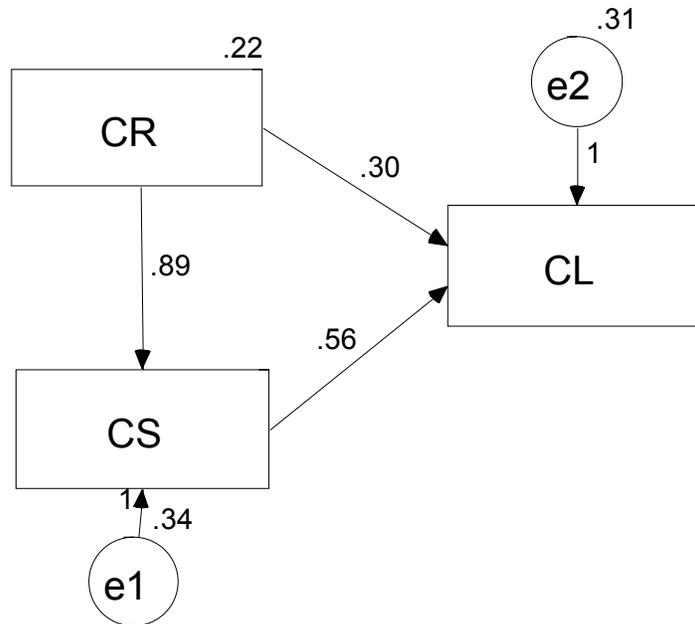
Finally, the results shows highly significant and positive association between consumer satisfaction and consumer loyalty, leaving our H3 accepted. Ali et al. (2010) also found positive relationship between consumer satisfaction and consumer retention in cellular industry of Pakistan. Juan and Yan (2009) also documented strong association between customer satisfaction and customer loyalty in the context of China. This test shows that the coefficients of all the predictors are statistically significant at less than five percent level of significance. All of the significant coefficients have the positive signs.

**Table 4: Reliability Statistics**

Cronbach's Alpha	N of Items
.790	3

Reliability analysis of this model is also conducted in order to check the health of collected data. Table 4 shows the reliability of data. The value of cronbach's Alpha is 0.790 which is statistically strongly reliable.

**Figure 4: Structural Equation Model of CR, CS and CL**



Above given Figure 4 shows the structural equation model (SEM) of this study. The SEM model displays positive associations between all three variables i.e. corporate reputation, consumer

satisfaction and consumer loyalty. The model also presents the values of error term and the nature of relationship between all variables.

## 5. Conclusions

This study is conducted to investigate the nature and levels of associations between corporate reputations, consumer satisfaction and consumer loyalty in the cellular industry of Pakistan. This is an important study because it provides pertinent research findings to cellular industry of Pakistan. The cellular industry is one of the leading industries amongst the growing industries in Pakistan. The cellular industry of Pakistan is also facing intense competition and cellular service providing corporations are striving hard to develop some competitive advantage over its contemporaries. They are also having the high consumer switching costs. Therefore, any research which focuses on their real world problems would be highly beneficial to them.

The study concluded that strong corporate reputation is mandatory in terms of overall quality of products, value of services which company is delivering to its customers against their money, their commitment to protect environment, offer better welfare opportunities to employees and their families, orientation towards customer, contribution towards charitable avenues, qualification of its management and above all the credibility of corporations claims in its advertising claims. Higher corporate reputation leads to higher level of satisfied customers. Therefore, if any corporation intends to develop its highly good reputation in the eyes of consumers, it must pay utmost attention to above mentioned points. Higher satisfaction level of consumers results in higher level of customer loyalty which in turn motivates consumers to purchase services of corporations again and again. Moreover, higher corporate reputation also leads to higher level of customer loyalty. The study therefore, declares corporate reputation as one of the leading indicator not only to satisfy and retain existing customers but also to attract new customers as well.

The findings of this study provide fruitful thoughts and directions for the future researchers in this field. It also provides useful recommendations for professionals and policy makers to enhance corporate performance through higher level of consumer satisfaction and consumer loyalty.

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