

**FACTORS INFLUENCING CUSTOMER LOYALTY
IN THE E-COMMERCE ERA: THE CASE STUDY
OF POS MALAYSIA**

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ABSTRACT

Postal service is essential to the efficient functioning of the economy and society as a whole, with its extensive physical connectivity and network across the country. However, there is increasing competition from the threats of technological innovations. The aim of this study is to analyse what drives customer loyalty in the Malaysian postal sector in the e-commerce era. The study investigated the following constructs together with customer loyalty: service quality with dimensions according to SERVQUAL model, customer satisfaction in a mediator role, and transformation programmes and e-commerce as moderating variables. 315 post office customers were surveyed with a structured questionnaire using systematic sampling technique. This study revealed that customers are fairly satisfied with the services provided and considered post office personnel as professional, dependable, prompt, courteous and skillful. However, these customers are found to be not loyal enough. Data analysis supports the hypothesis that customer satisfaction mediates the relationship between service quality and customer loyalty. Without customer satisfaction, service quality alone is not sufficient to produce customer loyalty. Transformation programmes are found to be a moderator (despite providing an opposite direction effect) while the path relationship with e-commerce as a moderating variable is found to be not significant. From customers' perspective, post offices' lack of e-commerce technology requires action. It should be upgraded for customer convenience and operational efficiency (eg. online system, cashless payment). This research has provided an insight into the level of customer loyalty on the Malaysian postal organisation and the factors influencing it. These findings are vital in providing focus for a postal organisation to attain customer loyalty, which will be invaluable towards achieving profitability and success.

APPROVAL PAGE

I certify that I have supervised / read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, as a thesis for the fulfilment of the requirements for the degree of Doctor of Business Administration.

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DECLARATION

I hereby declare that the thesis/dissertation submitted in fulfilment of the DBA degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

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CHAPTER I

INTRODUCTION

This chapter provides a synopsis of this research. It includes background of the study, overview of Pos Malaysia Berhad and the Malaysian Postal Service, problem statement, research questions and research objectives in order to provide clarity and insight of this research. Furthermore, this chapter explains about the scope and significance of study and definition of key terms and concepts, which are important to understand the topic that will be discussed in the subsequent chapters. The organisation of research is summarised at the end of this chapter.

1.1 Background of the Study

Technological advances have altered the way people live. With the advent of technology, the mode and manner of interaction and communication among people are now different than before. With digital media, the way people enjoy entertainment and obtain information has changed. Similarly, postal organisations around the world today are facing intensifying competition from globalisation, liberalisation and advances in technology, particularly the internet and digital media. Other than the government, not many realise that postal service is actually very closely intertwined with any country's economy and society. Postal sector has the physical reach and network with community, homes and businesses across the nation, unmatched by any other sector.

In Malaysia, or formerly Malaya, the postal service has been around since the early 1800s. It was first established in Penang, Malacca and Singapore (previously collectively known as the Straits Settlements). By early twentieth century, the whole of Malaya was already served with the service. As one of the oldest organisations in the country, Pos Malaysia has successfully maneuvered past challenges and is focused on improving itself to stay relevant in the ever-changing world.

The main attention of this study is on customer loyalty for postal services in Malaysia, and its relationship with post offices' service quality as well as the customers' satisfaction. For decades, researchers, scholars and practitioners have been studying customer satisfaction in great detail. It has always been a topic of interest due to the fact that generally customers, in most cases, bring revenue to the firms. Common sense suggests that customer satisfaction is good and important for the business because:

- a) Satisfied customers may repeat the purchase or business in the future, while dissatisfied customers may take their business to another firm.
- b) Satisfied customers may share their good experience with other people, bringing more customers to the firm, while dissatisfied customers may share their bad experience with even a lot more people.

Several researches have been conducted on postal services around the world. In Tunisia, a study on the relationship between perceived quality of postal services, customers' satisfaction and customers' loyalty for postal services was carried

out by Ltifi and Gharbi in 2012. A comparable study was conducted in Iran to examine the characteristics of service quality of post offices there. This was done by Azizzadeh, Khalili & Soltani in 2013. The technology-based service scenario with different interfaces and technologies that are suitable for post office products and services was also explored (Theotokis et al., 2008).

Ltifi and Gharbi (2012) suggested conducting research on services of post offices, such as postal distribution centres, parcel post services agencies and quick post, and the impact of information technology and communication, especially the internet, on the quality of postal services. Similar studies are gaining momentum in India (S. VijayAnand & M. Selvaraj (2015) and Birajdar & Joshi (2016)) and other parts of the world. This field of study is relatively new in the Malaysian context. While several studies have been conducted on Malaysian post offices in recent times, there is still lack of understanding and knowledge of customer loyalty in the postal sector in Malaysia. Therefore, it is indeed important to analyse what drives customer loyalty in postal environment.

1.2 Pos Malaysia Berhad and the Malaysian Postal Service

Pos Malaysia is the sole company granted license under the Postal Services Act 2012 to carry out the postal service in Malaysia. Pos Malaysia today is the result of a journey of more than 200 years (Pos Malaysia's Annual Report 2018). It has successfully transitioned from a government agency to a corporate and listed entity. This is summarised in Figure 1.1 below.

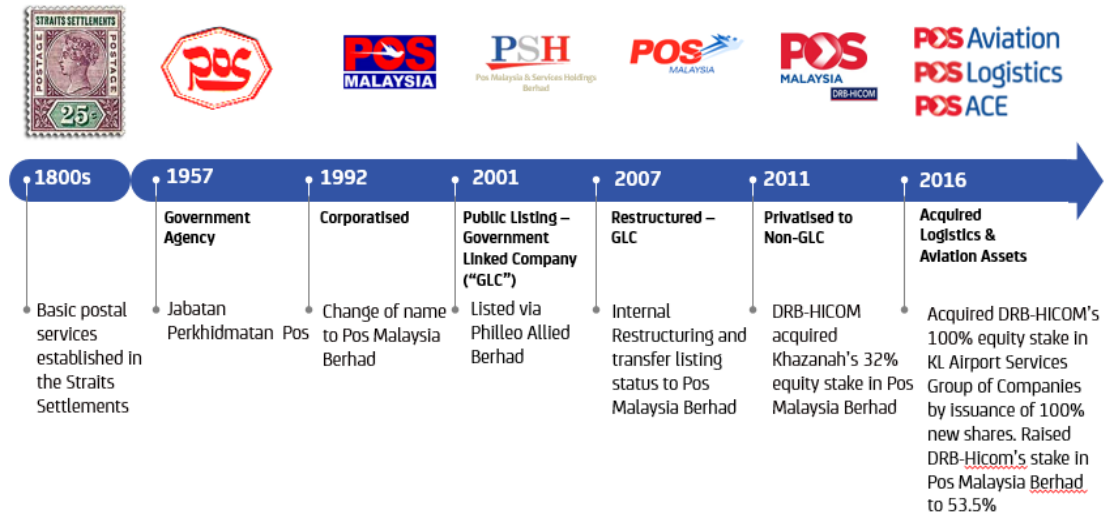


Figure 1.1: Pos Malaysia’s Journey over the Years

In the process, Pos Malaysia has also embarked on several transformation programmes in order to improve the organisation as well as to ensure its sustainability in a challenging and changing environment. This can be seen in Figure 1.2.

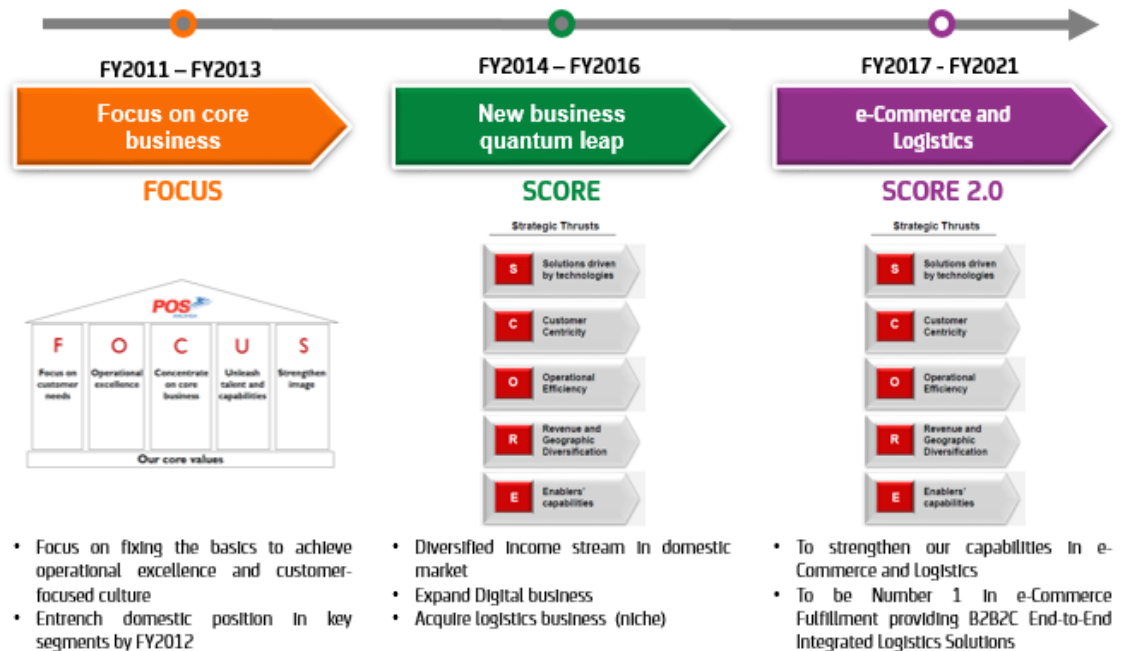


Figure 1.2: Pos Malaysia’s Transformation Programmes

The postal reach and the connectivity it provides is of paramount significance to the nation. Post offices with its more than a thousand outlets nationwide enable the *rakyat* to access various essential services such as postal, bill payments, road tax, insurance and *Amanah Saham*, to name a few. Although undeniably the digital era with particularly online transactions have posed a serious competition to post offices, it is still a key infrastructure for the nation especially for its presence at remote rural areas (National Postage Strategy, 2010-2014). Post offices have been handling lesser and lesser over-the-counter transactions over the years. From over 100 million transactions recorded in 2009, the number of transactions at post offices in 2019 was approximately 62 million only.

While over-the-counter transactions have been dwindling, costs have been on the rise. This is because as a labour intensive organisation, more delivery personnel and vehicles need to be deployed when there are more addresses to be served due to new townships and industrial areas, increasing population and growing online shopping (National Postage Strategy, 2010-2014). Based on Pos Malaysia's Annual Report 2019, there were about 655 million (2009: 1 billion) pieces of postal items and 100 million (2009: 14 million) pieces of courier items being delivered to the customers every year. More than 23,000 (2009: 20,000) delivery personnel were deployed to deliver postal and courier items to more than 9.2 million (2009: 6.3 million) addresses across the whole country.

Amidst all the challenges, the postal sector is expected to still continue to serve the nation. However, the operating landscape will continue to change with many

great challenges driven by various factors such as challenging economic environment, high fuel prices, changing customer behavior, population growth and globalisation. These challenges have started to affect Pos Malaysia’s financial performance, resulting in a significant loss, as summarised in Figure 1.3 below.



Figure 1.3: Pos Malaysia’s Financial Performance

1.3 Customer Loyalty

Zeithaml, Parasuraman, and Malhotra (2002) described customer loyalty as the behaviour or attitude of customer towards a certain product or service. Loyalty of customers to a product is proven by their inclination for further purchase and verbal recommendations. Rania A.M. Shamaha, Michela C. Masonb, Andrea Morettib and Francesco Raggiotto (2018) claimed that recurring purchases, positive words of mouth and readiness to pay higher prices are outcomes of

loyalty. Customer loyalty is an effective commercial consequence (Hong Zhang, Ling Zhaob and Sumeet Gupta, 2018). Customers who do exhibit loyalty have the tendency to spread positive word-of-mouth and enhance the referrals (Lai, 2019). As a result, a loyal customer has become a vital asset for any organisation (Petzer & van Tonder, 2019; Shankar & Jebarajakirthy, 2019) and has become a focal management concern (Rokonuzzaman et al., 2020). Alexandris et al. (2002) and Zeithaml et al. (1996) have demonstrated empirical evidence for the usefulness of predicting customer loyalty for organisational success. Organisational success and increased profitability are the outcomes of loyalty (Hong & Goo, 2004; Johnson et al., 2001).

According to Oliver (1999), loyalty is defined as “a deeply held commitment to re-buy or re-patronise a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior”. Loyalty is manifested by favourable inclinations towards a particular brand, product, service or corporation. These inclinations may be expressed behaviourally or attitudinally. In marketing, behavioural loyalty is interpreted as brand or customer retention (Reichheld, 1996; Reinartz and Kumar, 2000). In previous studies, a lot of attention has been given to the precursors and signs of customer loyalty. Nevertheless, literature seems to be unable to provide consistent explanations pertaining to the variables which influence customer loyalty (MunyaradziW.Nyadzayo and SamanKhajehzadeh, 2016).

Previous researches have suggested for further thorough and comprehensive studies to be carried out on customer loyalty in the context of internet and e-commerce. For example, Lai, Griffin and Babin (2009) opined that the internet has a revolutionary and groundbreaking role in customer loyalty, and it is one of the most exhilarating topics that must be researched. Intriguingly, post offices provide “old” basic services. Maintaining the customer loyalty on post offices is a great matter of concern. Previously traditional commerce had no competitors. With the rise of e-commerce, those once traditional outlets are now either decreasing or disappearing (Smiley, 2015). Doherty and Ellis-Chadwick (2010) addressed the increase and influence of e-commerce and how the phenomenon continues to evolve. Recently, Road (2017) noted the trend of global commerce is increasing as companies engage e-commerce in satisfying the demands of customers. The arrival of e-commerce is causing companies with traditional supply chain models to re-evaluate the ability to meet customer expectations. Prest (2015) predicted the traditional supply chain model will become extinct by 2025, stemming from the accelerating global economy and the increased online usage.

1.4 Gaps in Research

The main aim of this study is to explore the factors influencing customer loyalty in the post office sector. Previous studies (Masoumi Mayni, 2012; Mosahab, Mahamad & Ramayah, 2010) have shown positive effect associated with service quality, innovation and customer loyalty. There is a rich body of literature over several decades documenting relationships among service

quality, customer satisfaction and loyalty (Cronin, Brady, Hult, 2000; Ganiyu, 2016). Nevertheless, evidence of the relationships among these constructs has been ambiguous, leaving the extent/direction of their relationships largely unsettled (Nor & Wan, 2013). Furthermore, there is little empirical research conducted to evaluate how the specific service components/dimensions benefit customers in the post offices in Malaysia. Despite managers' emphasis on customer loyalty, it remains one of the most challenging issues facing firms in the modern business era that is characterised by intense competition (Alaei, Z., 2017).

This study attempts to fill the existing gap in literature whereby there is limited study on service quality and customer loyalty specifically on the postal sector in Malaysia. Even though there are recent studies on postal services in Malaysia, they are centering on service innovation, as studied by S. Kiumarsi, Salmi Mohd Isa and K. Jayaraman in 2014 and 2015. Thus, this study will add to the growing knowledge of the relationships between service quality, customer loyalty and customer satisfaction, specifically in the postal environment.

An in-depth literature review revealed an abundance of suggestions that customer satisfaction mediates the relationship between service quality and customer loyalty (Lenka et al., 2009; Mosahab et al., 2010; Vinita Kaura et al., 2015; Ltifi & Gharbi, 2012; Kiumarsi, Mohd Isa and Jayaraman, 2015). At the same time, Kumar et al (2013) stressed that customer satisfaction by itself is not a qualifying factor retaining the customer, lifetime duration and usage. More variables will play a significant role in improving the customer loyalty. They

postulated that even though the customer satisfaction has a positive influence on customer loyalty, more research could be undertaken by taking other moderators, mediators and antecedent variables.

In this connection, it is observed that companies all around the world are increasingly setting up transformation initiatives and echoing this, several studies have suggested that transformation is a must (Eddy, 2014; Min and Santhapparaj, 2011; Drucker, 1999). This has prompted the researcher to study transformation as a moderating variable in the relationship between service quality and customer satisfaction in the postal environment. As the existing literature on the topic of transformation is still scarce, this has created a research gap: implementation of transformation initiatives are gaining momentum while the academic literature does not cover holistically these new initiatives.

Similarly, technology or e-commerce has been claimed to be an important factor influencing quality, satisfaction and loyalty (Zehir and Narcıkara, 2016; Toufaily, Ricard, Perrien, 2013; Khatibi, Ali, Ismail, Mohd & Ismail, Hishamuddin, 2003). Technology continues to change and when technological change such as e-commerce development is rapid, customers may be constantly looking for enhancement in offering and hence previous satisfaction with a company's product or service may not guarantee continued patronage. This suggested the role of technology such as e-commerce might have as a moderating variable on customer satisfaction, and the researcher had ensured this was studied in the postal context. There is potentially a gap on any previous study when a fast-changing variable like technology is in the picture.

The relevance of transformation programmes and E-commerce which are extensively discussed in this study, makes this study unique and differentiates this study from previous studies, providing significant contribution to the body of knowledge in the field of customer loyalty and the postal industry.

1.5 Problem Statement

Academic research pertaining customer loyalty in the postal environment is limited and at the same time, postal volumes and earnings are deteriorating - if this worrying situation persists, this could spell the end of postal services. The situation which postal organisations are in today can be attributed to (among others) competition, quality of service, digital substitution and effectiveness of transformation programmes, as described further below.

Postal organisations around the world today are experiencing growing competition from globalisation, liberalisation and improvements in technology (Kiumarsi et al, 2015). The internet and digital media have altered and will continue to alter the way customer service is approached. As such, post offices today are confronting competition like never before, particularly in the area of customer service.

Ltifi and Gharbi (2012) had previously called for the quality of postal services to be studied further. They suggested for research to be conducted on the impact of technology, chiefly the internet, on the postal services quality.

Coincidentally, complaints from customers on the unsatisfactory services of Pos Malaysia at post offices have been emerging from time to time. Complaints by Pos Malaysia customers about slow service at the post office counters are quite common. An example is:

Can Pos Malaysia please look into improving its efficiency?

Customers waste a lot of their precious time at long queues and time is money.

(The Star, 4 October 2014)

While the above is anecdotal, a study to assess the level of Pos Malaysia's customer satisfaction and other related questions, on a bigger scale and in a more objective manner, should be carried out.

At the same time, Pos Malaysia is operating in a very challenging business environment due to the inevitable substitution risk. The earnings of Pos Malaysia have been affected by the decline of mail volumes, which is attributed to the surge in migration to electronic and digital communications. As mentioned earlier, Pos Malaysia has been reporting losses in recent times:

KUALA LUMPUR (Nov 21): The accelerated reduction in mail volumes pushed Pos Malaysia Bhd to a net loss of RM16.58 million or 2.12 sen per share in the second quarter ended Sept, its first quarterly loss in nearly 10 years.

"The accelerated contraction of mail volumes continues to be the primary drag on our financial performance," its group chief executive officer Syed Md Najib Syed Md Noor, said in a statement today. "Mass migration to digital statements and bills has surged and this has resulted in a substantial drop in mail volume."

(The Edge Markets, 21 November 2018)

Although substitution risk (availability of online options to substitute physical counter services) is not a surprise to Pos Malaysia and a transformation plan has been in place to address this, the execution effectiveness of the transformation plan may be in doubt. This is due to the seemingly continuous change of the person helming the leadership (Chief Executive Officer) of Pos Malaysia. Pos Malaysia has seen a new Chief Executive Officer every 1 or 2 years. Naturally, this would imply the plans laid out will always be subject to review and change.

KUALA LUMPUR: Pos Malaysia Bhd is back on the hunt for a chief executive officer (CEO) to replace Al-Ishsal Ishak, who has held the post for only seven months since February this year.

To recap, Pos Malaysia's previous CEO Datuk Mohd Shukrie Salleh stepped down in December last year after he had been in the post for barely two years. His resignation sparked concerns that the plans he had put in place to transform the postal group would be abandoned.

(The Edge Markets, 27 September 2018)

There have been numerous postal reforms (transformation) programmes rolled out by the Management of Pos Malaysia, as acknowledged in the above news report. There is a clear need to investigate if the transformation plan is felt by the customers, which is the litmus test of the effectiveness of its execution. As mentioned earlier, there is very little known from previous studies about transformation and e-commerce factors having influence on customer satisfaction and loyalty.