



# Structural equation modelling of determinants of customer satisfaction of mobile network providers: Case of Kolkata, India

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**Abstract** The Indian market of mobile network providers is growing rapidly. India is the second largest market of mobile network providers in the world and there is intense competition among existing players. In such a competitive market, customer satisfaction becomes a key issue. The objective of this paper is to develop a customer satisfaction model of mobile network providers in Kolkata. The results indicate that generic requirements (an aggregation of output quality and perceived value), flexibility, and price are the determinants of customer satisfaction. This study offers insights for mobile network providers to understand the determinants of customer satisfaction.

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## Introduction

The telecommunication services market has witnessed considerable growth worldwide during the past two

decades. Telecommunication services are classified into two broad categories – fixed line and mobile communication services. According to [Kenny and Keremane \(2007\)](#), there has been a record increase in landline subscribers all over the world, from 524 million to more than one billion during the period 1990 to 2004. More than 50% of households the world over had a fixed telephone in the year 2003, compared to 49.8% in the year 2002 ([World Bank, 2005a,b](#)). Fixed telephone lines existed for 113 years before the fixed tele-density reached 1 in 10 of the global population, and the same level of penetration was achieved by mobile phones in just 15 years ([Kenny & Keremane, 2007](#); [Kenny, Lanvin, & Lewin, 2003](#)). Mobile phone ownership leapfrogged during the period 1990 to 2004. Mobile phone subscribers

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worldwide numbered 11 million in 1990 and increased to 1.7 billion in 2004, which surpassed the number of fixed subscribers in 2002 (Kenny & Keremane, 2007). The research on mobile phones carried out by Minges and Simkhada (2002) suggested that more than 95% of rural India could have access to a telephone in their villages. India is one of the fastest growing markets of communication networks in the world (DOT Annual Report, 2006–2007).

The telecom reform process started in India with the National Telecom Policy in 1994. The Telecom Regulatory Authority of India (TRAI) was set up in 1997. The National Telecom Policy in 1999 pushed reforms further. The contribution of private network providers has been significant post 1998. The Government of India has opened up the telecom sector and foreign players are allowed to have equity participation up to 74%, considerably higher from the earlier 49% (DOT Annual Report, 2006–2007), a move that will encourage foreign players to operate in India. The Department of Telecommunications (DOT) Annual Report (2006–2007) stated that the National Target Plan was to have a 250 million subscriber base by December 2007. India has crossed the 250 million mark of mobile subscribers in February 2008 (Times of India, Kolkata, 2008). These developments led India to become the world's second largest wireless market and TRAI declared that there were 261.07 million wireless users in India at end-March 2008, which recorded a 58% jump from the previous year (Times of India, Kolkata, 2008). This unprecedented growth of the mobile phone service industry was mainly due to tariff reductions, compared to tariff rates in 1994, making mobile telephony affordable for all groups of customers. The initiatives of TRAI have encouraged healthy competition and, together with maintenance of standards in quality of services at prices affordable to customers, have resulted in the transformation of the telecommunications sector, benefitting Indian consumers who enjoy a wide choice of services with low tariff. This has led to a large number of subscribers in the market which helped in meeting the objectives of the Telecom Policy 1999. The subscriber base was 391.76 million and tele-density rose up to 37% as on 31st March 2009 (TRAI Annual Report, 2008–09). In 2010 the subscriber base reached 584.32 million and tele-density at the end of March 2010 rose to 53% as on 31st March 2010 (TRAI Annual Report, 2009–10).

According to the TRAI Annual Report, 2009–2010, the goals and objectives of the telecom policy were to increase tele-density and access to telecommunication services in India at affordable prices, and to make available telecommunication services which in terms of range, price, and quality are comparable to the best in the world. The telecom policy also aims to provide a fair and transparent environment which promotes a level playing field and facilitates fair competition, establish an interconnection regime that allows fair, transparent, prompt, and equitable interconnection, re-balance tariffs so that the objectives of affordability and operator viability are met in a consistent manner, protect the interest of consumers, and address general consumer concerns relating to availability, pricing, and quality of service provided by the various operators.

Many researchers have conducted studies in this field which, however, mainly focussed on the acceptance and adoption of wireless service (Anckar & D'Incau, 2002; Chae

& Kim, 2001; Malhotra & Segars, 2005; Sarkar & Wells, 2003) but there is little research on the retention behaviour of consumers, a vital factor in the post adoption stage in the highly competitive markets of mobile network providers (Seo, Ranganathan, & Babad, 2008). Seo et al. (2008) suggested that it is more difficult and expensive to acquire new customers than retain existing customers. The cost to attract a new customer can be as much as six times the cost to keep a current customer (Rosenberg & Crepiel, 1984). Edward and Sahadev (2011) suggested that there is a high cost of customer acquisition compared to the lower cost of serving repeat customers. This is one important reason for companies being advised to increase levels of customer retention. Perceived service quality, perceived value, and customer satisfaction have traditionally been associated with customer retention (Bloemer, Ruyter, & Wetzels, 1999; Edward & Sahadev, 2011; Sirdeshmuk, Singh, & Sabol, 2002). Surveys of customers of mobile network providers in the US indicate that the level of satisfaction is much lower for mobile network providers compared to other service sectors (Consumer Report, 2005). It is important to understand drivers of customer satisfaction and loyalty intentions (Braff & Laogue, 2004).

Mobile network providers may investigate satisfaction level of customers as it may affect service adoption and use (Turel & Serenko, 2006). The significance of customer satisfaction, loyalty, and retention are vital determinants of financial performance of the industry (Lin & Wang, 2006). Porter (1985) asserted that in order to achieve superior performance it is important to develop and sustain competitive advantage. Companies have always faced a challenge in knowing how to achieve competitive advantage in an uncertain and swiftly changing environment (Dobni & Luffman, 2000; Javalgi, Whipple, & Ghosh, 2005). In order to maintain competitive advantage, mobile network providers need to adapt to changing customer needs and preferences and offer choices to different segments of customers on a continuous basis, which would exhibit company flexibility to adapt to uncertain environment conditions. Flexibility is defined as an organisation's ability to adapt to substantial and uncertain environmental changes that require the capacity to react quickly and that have a significant impact on performance (Aaker & Mascarenhas, 1984; Verdu-Jover et al., 2004). A study conducted by Ivens (2005) indicated that flexibility of service providers can have a positive impact on customer satisfaction. The current research has taken into account this determinant (flexibility) of customer satisfaction in a high-growth market.

The objective of this paper is to develop a customer satisfaction model of mobile network providers in Kolkata, where the market of mobile network providers is growing at a rapid pace. This is also the first study on determinants of customer satisfaction of mobile network providers in the city of Kolkata, India.

## Characteristics of the Indian mobile telecommunications market

Mobile phones have become an integral part of the daily lives of urban Indians. The growth driver of mobile network providers is urbanization with increasing income of

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