

Investigating The Relationship Between Operational Logistics Service Quality (OLSQ) and Customer Loyalty: Critical Review

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Received: 15 February 2019

Accepted: 24 July 2019

Keywords: logistics service quality, operational logistics service quality, customer loyalty

ABSTRACT

Logistics service quality (LSQ) is an essential component of operational achievement. Service quality is viewed based on the customer's evaluation and perception of the logistics service. A good distribution system is required to ensure that product or service can reach customers at the right time and destination. This can attract customers to become loyal to the service provided. Gaining customer loyalty is no doubt amongst the most prioritized concern for the firms. This paper, therefore, will explore previous studies on the relationship between operational logistics service quality (OLSQ) and customer loyalty. This paper uses secondary data to investigate the relationship between OLSQ and customer loyalty. The result of this study is expected to contribute to the existing theories as well as providing knowledge and information to the practitioners in the logistics industry. The critical review suggests that there is a significant relationship between OLSQ and customer loyalty.

INTRODUCTION

This paper investigates the relationship between OLSQ and customer loyalty. Previous studies provided very vague results related to OLSQ and customer loyalty. Secondary data was used to find out the relationship between the variables. The findings from the study will contribute to the existing theory as well as

providing the knowledge and information to the practitioners in the logistics industry. Furthermore, this paper is also beneficial for companies to promote their product or service to the customer through LSQ while understanding their customers to improve their service quality. This paper was also intended to unveil new knowledge to the literature for future researches.

Loyal customers are the everlasting assets for the company. Getting customer loyalty is among the main concerns for companies nowadays. This is because customer loyalty can increase the company's revenue (Sadeghi & Farokhian, 2011) and enable the company to build a long-term relationship with the customers (Saleem, Zahra, Ahmad, & Ismail, 2016). Loyalty has been the most attractive area of concerns for both practitioners and academic writers because of its proximity to the revenue generation (Nukpezah & Nyumuyo, 2009), organizational survival and growth. However, there are many ways of defining loyalty because of its universal importance. Every scholar has defined loyalty from his or her context. Quality service is believed to determine customers' loyalty to a certain firm and increase revenue (Knight, 1999). Quality is viewed based on the customer's evaluation and perception of the logistics service (Zailani, Jafarzadeh, Mohammad Iranmanesh, Nikbin, & Selim, 2018). A good distribution system is required to ensure that the product or services can reach to the customer at the right time and destination. Thus, this will attract customers to become loyal to the service rendered.

Next, LSQ has been widely recognized as a foundation and important for operational success in logistics companies, whereby LSQ had contributed to the customer satisfaction and further customer loyalty (König & Spinler, 2016; Gotzamani, Longinidis, & Vouzas, 2010; Huiskonen & Pirttilä, 1998) and understanding the relationship between LSQ and customer loyalty is crucial to predict customer relationship outcomes. As asserted by Thai (2013), the

quality of service provided by a company will determine its customer satisfaction, which will also reflect their competitive edge over their competitors. Presently, there are various models to measure LSQ (e.g. Zailani et al., 2018; Mentzer, Flint, & Hult, 2001; Perreault & Russ, 1976). Other researchers defined LSQ as a two-dimensional construct made up of OLSQ and RLSQ performance (e.g. Stank, Goldsby, Vickery, & Savitskie, 2003; Davis, 2006; Davis-Sramek, Mentzer, 7 Stank, 2008; Bouzaabia, Bouzaabia, & Capatina, 2013; Tamang, 2014). Hence, examining LSQ is crucial in a business-to-consumer (B2C) context (Murfield, Boone, Rutner, & Thomas, 2017). The rapid growth of a business to customer (B2C) face a limitation due the insufficient in LSQ (Han & Xie, 2018).

LITERATURE REVIEW

The view of LSQ in the context of customer perspective has received much attention in various literature. Yang, Hui, Leung, and Chen (2010) defined LSQ "as a set of performance factors, measured by the ability to distribute products by customer requirements". As stated by Mentzer et al. (2001), it is important to build LSQ by focusing on customer perspective where it can improve service offering by the company. LSQ is also a tool for differentiation which is the most important task of service organizations to increase customer satisfaction and loyalty. As supported by Mentzer et al. (2001) researchers today must possess knowledge on the overall concept of LSQ from the perspective of the customer as well as knowing whether LSQ affects customer satisfaction and customer loyalty.

It is also vital to improve the service quality of the logistics companies as it can directly improve performance. Service quality refers to a comparison between service performance and customer expectation. To ensure the growth of customer loyalty, it is necessary to understand what the customers' needs are, and the expected level of service from

the company (Kiseleva, Nekrasova, Mayorova, Rudenko, & Kankhva, 2016). For companies to ensure customer loyalty, they need to ensure the product or services provided exceed customers' expectations so that the companies can satisfy their customers and further ensure loyalty on the service provided. In a study by Lai and Cheng (2009), if the quality of product or service is in accordance to customer's needs, wants and demands, there is a higher possibility that a customer will be loyal and build trust to the company.

Previous research by Zailani et al. (2018) represents two approaches in service quality and LSQ in shaping the definition and conceptualization. First approach views service quality based on the specifications set by the service provider through an objective context (Crosby, 1991), whereas the second approach views service quality based on customer evaluation and perception through subjective context. LSQ model was developed by Mentzer, Flint, and Kent (1999). According to Mentzer et al. (1999), ordering procedures, order release quantities, information quality, personnel contact quality, order discrepancy handling, timeliness, order condition, order accuracy, and order quality is a set of dimensions to measure LSQ. Another study by Mentzer et al., (2001) showed that the significance of the LSQ dimensions varies based on the type of business. Therefore, logistics companies need to meet customers' expectations and perceptions by ensuring qualities in the services provided.

Operational Logistics Service Quality (OLSQ)

Bouzaabia et al. (2013) defined OLSQ as "a store's operational delivery activities that include physical features of the service and perceptions of reliability, such as the ability to perform the promised service dependably and accurately." The able companies understand their customers well and perform the service comprehensively and accurately. This will

help establish a better relationship with their customers and help the company to understand the customers' exact needs and wants (Davis-Sramek et al., 2008). According to Stank, Goldsby, and Vickery (1999), the companies that are able to cater to the needs and expectations of their customers can focus on the operational means of satisfying them. These companies tend to provide flexible logistics services, which results in customized solutions that have positive effects on operational performance. Davis-Sramek et al. (2008) defined OLSQ as "the perceptions of logistics activities performed by service providers that contribute to consistent quality, productivity, and efficiency". Therefore, companies with high operational capabilities are expected to better understand and communicate more effectively with customers (Day, 1994).

Customer Loyalty

Customer loyalty is an important way that leads to long-term success. On the contrary, finding new customers requires extra time, effort and money (Tamang, 2014). Loyal consumers are more likely to influence others to use and think twice before changing their mind to use other services. Oliver (1999) defined the term loyalty as "deeply held commitment to repurchase and re-patronize a preferred product or service consistently in future causing repeat purchases". Other researchers such as Sanayei, Shahin, and Taheri (2012) referring loyalty as "a degree of continuity in patronage, customer's disposition in terms of preferences and intentions and a psychological process resulting in brand commitment". As such, Gremler and Brown (1996) defined customer loyalty as "the degree to which a customer exhibits repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service exists". Dick and Basu (1994) viewed customer loyalty as "the power of a relationship between an individual's relative

attitude and repeat patronage where the social norms and situational factors play as a mediator of relationship". Moreover, consumer loyalty is related to consumer satisfaction (Sadeghi & Farokhian, 2011). However, it needs to be noted that a loyal customer is not necessarily a satisfied customer (Iddrisu, 2011).

One of the key areas is customer loyalty which requires companies to understand the customers well and obtain information about their needs and wants and serves them satisfactorily (Ndubisi, Wah, & Ndubisi, 2007). Çerri (2012) asserted that in the service industry, companies will not be able to have loyal customers by only serving various tangible products or services. Instead, they are more accountable for creating differentiation by offering combinations of product and services to sustain a long-term relationship with customers. According to Yoo and Bai (2013), by understanding the causes of

repurchase behaviour, the management of a particular company should adjust their services by improving the specific attributes of satisfaction and services which are highly related to repurchase to increase loyalty.

Lastly, according to Tamang (2014), the author stated loyal customers will not only just a secure source of revenues to the company but will also act as an information channel that indirectly links networks of friends, relatives and other potential customers to the company. Patrick (2004) added that another important benefit of loyal customers is that they may be less price-sensitive as compared to non-loyal customers. Davis-Sramek et al. (2008) stated that "customer loyalty has been defined in terms of repeat purchasing, a positive attitude, long term commitment, intention to continue the relationship, expressing positive word-of-mouth, the likelihood of not switching, or any combination of these".

Proposed Framework

Based on the critical review above, the study proposes the framework as follows:

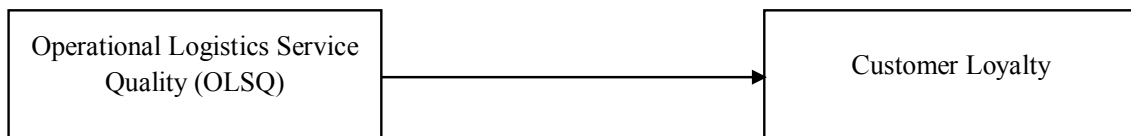


Figure 1 Proposed framework

The literature review explains the effects of OLSQ on customer loyalty. Not only that, based on the reviews, but the author also found that OLSQ has a significant relationship towards customer loyalty.

METHODOLOGY

Data collections are divided into two which is primary data and secondary data. Primary data refers to "the information that obtained first-hand by the researcher" while secondary data refers to "the information gathered by someone other than researcher conducting

the current study". Sekaran (2003) suggested that the secondary data can be internal or external for the organization and can be accessed through the internet or published information. Also, secondary data are important for most researchers and there are several materials of secondary data including census data, the media, books and periodicals, annual report of companies, government publications of economic indicators, and others archival records. Besides, secondary data used as a guideline for this paper because based on previous studies review on OLSQ and customer loyalty the measurement or the results had been tested and valid according

to the theoretical. Lastly, secondary data is used to study the relationship between OLSQ and customer loyalty because the research requires much information to know the result of these variables.

FINDINGS

Tamang (2014) stated that OLSQ, relational logistics service quality (RLSQ), and communication influence customer loyalty mediated by customer satisfaction. By using a survey questionnaire, it was shown that OLSQ and communication have a significant relationship on customer loyalty in the hotel industry in Norway. However, the study by Tamang (2014) shows that the RLSQ does not have a significant impact on customer loyalty. The study suggests that the customer is aware of the service provided in the hotel where they feel comfortable to stay. In this study, the authors suggest that hotels that practise green hotel are of great importance as it can influence the customer to comfortably stay in the hotel and would enable the hotel to sustain their position in the industry.

Besides, a study by Bouzaabia et al. (2013) shows that Romania and Tunisia have examined the effects of OLSQ and RLSQ on customer satisfaction and customer loyalty. The study shows that there were different results for both countries in the hypermarket industry. The customers in Romania reported higher perceived LSQ than the customers in Tunisia for two dimensions. As for the sample in Tunisia, RLSQ was shown as the most significant predictor of satisfaction, while the most significant predictor of loyalty was the OLSQ. The sample in Romania, on the other hand, showed that RLSQ was the most significant predictor of both satisfaction and loyalty. This indicates that LSQ is an important aspect of fulfilling and keeping retail customers in the retail sector. Furthermore, this study suggests that by fully understanding the customer's

expectations of LSQ, companies can influence the customers' behaviours, particularly on satisfaction and loyalty.

Next, a study by Davis-Sramek et al. (2008) and a study by Davis (2006) in examining the effect of OLSQ and RLSQ towards loyalty mediated by satisfaction in manufacturing industry found the same result whereby there is a notable relationship between operational and relational on satisfaction, and satisfaction was found to have a more notable relationship between all dimensions of LSQ and customer loyalty. Also, there is also a notable relationship between manufacturer and retailer (customer) where the manufacturer can learn more about the retailers' operational needs, and hence align processes to meet those needs.

A study by Stank et al. (2003) investigates the relationship of OLSQ, RLSQ, cost performance, customer satisfaction and customer loyalty on market share. The web-based survey indicates that there is a significant relationship between RLSQ and customer satisfaction. On the contrary, OLSQ and cost performance indicate no relationship between customer satisfaction and customer loyalty. However, customer loyalty is found to have significant relationship towards market share. Therefore, based on this study, the company can sustain its business and be more competitive in the market.

Moreover, research by Stank et al. (1999) suggests that using web-based survey operational is important and will affect customer satisfaction and loyalty, while relational is only marginal towards customer satisfaction. Customers' satisfaction is proved to have a significant relationship between all dimensions of LSQ and customer loyalty. Furthermore, this study suggests that the company should be able to meet the customers' desires by understanding their expectations better.

Daugherty, Stank, and Ellinger, (1998) stated that “studies of logistics have concluded that operational performances relative to services have significant positive links to customer satisfaction and loyalty”. However, Stank et al. (2003), found that operational performance did not have a significant relationship with the satisfaction which result in customer loyalty. The authors asserted that “operational performance is an ‘order qualifier’ and not a differentiator in the eyes of customers”. A study by Tamang (2014) suggests that “relational logistics service quality did not have a significant relationship with customer loyalty”. In the context of logistics and supply chain, both operational and relational performance of logistics service proved to affect customer satisfaction and customer loyalty (Maltz & Elliot, 1998; Stank et

al., 1999; Stank et al., 2003; Davis, 2006; Davis-Sramek et al., 2008; Bouzaabia et al., 2013; Jang, Marlow, & Mitroussi, 2013; Tamang, 2014). Consequently, from the various literature, it is proven that there is a significant relationship between OLSQ and customer loyalty.

The pattern of variables that had been used by the previous research is shown in Table 1. Other than that, there are many results of OLSQ on customer loyalty and based on this critical analysis, the author found that most of the researchers who examine OLSQ were from United States followed by other researchers in different countries such as Norway, Romania, and Tunisia. Therefore, this prompted the author to investigate the effect of OLSQ on customer loyalty in Malaysia.

Table 1 Summary of the literature examining the relationship between operational LSQ and customer loyalty

Author(s)	Country and Industry	Variables		Methodology	Findings
		Independent Variables	Dependent Variable		
Tamang (2014)	Norway Hotel Industry	OLSQ, RLSQ, and Communication Mediator: Customer Satisfaction	Customer Loyalty	Survey – Self-administered questionnaire	Operational LSQ and communication indicate a significant impact on customer loyalty. However, relational LSQ does not have a significant impact on customer loyalty. Lastly, for Customer satisfaction as a mediator is positively correlated to all dimensions of LSQ and customer loyalty.
Bouzaabia et al., (2013)	Romania and Tunisia Hypermarket Industry	OLSQ (Carrefour reliability) and RLSQ (employees’ assurance, responsiveness and caring)	Customer Satisfaction and Customer Loyalty	Survey – Self-administered questionnaire	In Tunisia, relational LSQ was the most significant predictor of satisfaction, and the most important predictor of loyalty was the operational LSQ. In Romania, relational LSQ was the most significant predictor of both satisfaction and loyalty. This study shows that logistics service quality is an important aspect of satisfying and retaining retail customers in the retail sector.
Davis-Sramek et al., (2008)	United States Manufacturing Industry	Operational Order Fulfilment service and Relational Order Fulfilment Service Mediator: Satisfaction	Loyalty (Affective Commitment and Purchase Behavior)	Survey – Web-based survey	There is a significant relationship between manufacturer and retailer (customer) where the manufacturer can learn more about the retailers’ operational needs, and therefore align processes to meet those needs. Also, there is a significant relationship between operational and relational on satisfaction. Lastly, there is a significant relationship between satisfaction and loyalty.

Davis (2006)	United States Manufacturing Industry	OLSQ and RLSQ Mediator: Satisfaction	Loyalty (Affective Commitment and Purchase Behavior)	Survey – Web-based survey	There is a significant relationship between manufacturer and retailer (customer) where the manufacturer can learn more about the retailers' operational needs, and therefore align processes to meet those needs. Also, there is a significant relationship between operational and relational on satisfaction. Lastly, there is a significant relationship between satisfaction and loyalty.
Stank et al., (2003)	United States 3PL	Operational performance, Relational performance and Cost Performance Mediator: Customer Satisfaction and Customer Loyalty	Market Share	Survey – Web-based survey	Relational is positively related to operational performance and cost performance. Also, there is a significant relationship between relational performance and customer satisfaction, while for operational and cost performance, there is no relationship towards customer satisfaction. Lastly, there is a significant relationship between customer satisfaction and customer loyalty, and customer loyalty is found to have significant relationship towards market share.
Stank et al., (1999)	United States Food Industry	Operational performance and Relational Performance Mediator: Customer Satisfaction	Customer Loyalty	Survey – Self-administered questionnaire	There is a significant relationship between operational and relational performance. Also, operational is significant to affect customer satisfaction, while relational is only marginal towards customer satisfaction. Lastly, there is a significant relationship between customer satisfaction and customer loyalty.

CONCLUSION

In a nutshell, OLSQ is one of the important factors for gaining customer loyalty. Additionally, there is a notable relationship between OLSQ and customer loyalty. In other words, if the company perform the service accurately, the company can obtain the loyalty of customers, thus increasing their revenues. The implication of this paper is the companies can improve their operational performance by performing the service dependably and accurately to ensure customer loyalty and

establish a positive relationship with the customers. This paper can be further discussed in future studies by using primary data to better understand OLSQ and customer loyalty, particularly in Malaysia. Also, since this paper does not discuss relational logistics service quality in detail, future researchers need to examine the relational aspect of logistics service quality, because the previous study found that relational is directly link to the customer by fulfilling their needs and wants.

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