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# Organizational Change Management and Customer Loyalty: A Review

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## Abstract

**Aim**. Many organizations undergo changes such as restructuring, mergers, and acquisitions, which causes disruption to their customers. The primary aim of this study is to understand how these changes affect customer loyalty and how organizations can mitigate the negative effects of change on their customers.

**Methods:** This literature review was conducted using desktop methods, relying on electronic databases, online resources, and digital sources to gather relevant scholarly articles and publications. The selected articles were carefully read and analyzed to extract key findings, research methodologies, and theoretical frameworks. Patterns, commonalities, and gaps within the literature were identified and synthesized to provide a comprehensive overview of the research topic.

**Results:** The study found that organizational change management have a significant impact on customer loyalty. Customers who experience disruptions in their interactions with organizations during times of change are more likely to become disloyal. The study also found that organizations mitigate the negative effects of change on customer loyalty by effectively communicating with their customers and providing them with a sense of stability and continuity during the change process.

**Conclusion:** The study also reinforces the need for organizations to prioritize their customers in their change management strategies to minimize the negative impact of change on customer loyalty.

**Recommendation:** Organizations should prioritize customer satisfaction and loyalty during times of change. Organizations should also invest in training and development programs to equip their employees with the necessary skills to manage changes effectively and maintain customer loyalty.

**Keywords:** *Organization, change management, customer, loyalty*

## INTRODUCTION

Organizational change management refers to the process of planning and implementing changes in an organization to improve its effectiveness (Kim & Lee, 2018). Organizational change can take many forms, including restructuring, mergers, acquisitions, downsizing and technological changes (Kreutzer, 2014). While organizational change may be necessary for an organization to remain competitive and profitable in the long term, it can also have a significant impact on its customers. One of the most significant effects of organizational change management on customer loyalty is the disruption caused to customers (Ratten, 2016). Customers may experience changes to the products or services offered by the organization, changes to pricing, changes to customer service, and changes to how they interact with the organization. These changes can cause confusion, frustration, and dissatisfaction among customers, which can ultimately lead to a decrease in customer loyalty.

Another effect of organizational change management on customer loyalty is the perception of risk. Customers may perceive changes to the organization as risky, particularly if they have been loyal customers for a long time (Törnroos, 2016). Customers may worry that the organization will not be able to deliver the same level of quality or service after the change, which can lead to a decrease in customer loyalty. Effective organizational change management can help to mitigate the negative effects of change on customer loyalty. Effective communication and transparency during the change process can help to reassure customers and provide them with a sense of stability and continuity. Involving customers in the change process and gathering feedback on their needs and preferences can also help organizations to develop change management strategies that prioritize customer satisfaction and loyalty (Anderson, 2017). Organizations that prioritize customer loyalty during times of change are more likely to maintain their competitive advantage in the market.

Loyal customers are more likely to continue purchasing products or services from the organization, recommend the organization to others, and provide valuable feedback that can help the organization to improve its products and services over time. In the United States, the merger of Continental Airlines and United Airlines in 2010 resulted in major changes for their customers. (Barakat, 2017). The merger was one of the largest in aviation history, and it resulted in changes to flight schedules, loyalty programs, and customer service policies. The merger presented a significant challenge for the newly formed company in maintaining the loyalty of its customers. To address this challenge, the company focused on effective communication and transparency during the merger process. The company provided regular updates to its customers on the progress of the merger, the changes that were being made, and the benefits of the merger. The company also made efforts to ensure a seamless transition for its customers by minimizing disruptions to flight schedules and loyalty programs.

In South Africa, the merger of Vodacom and Neotel in 2016 resulted in changes to the telecommunications landscape in the country. The merger created a new company that offered a range of telecommunications services to customers in South Africa (Cui, 2015). The merger presented a significant challenge for the newly formed company in maintaining the loyalty of its customers. In India, the merger of Idea Cellular and Vodafone India in 2018 resulted in changes to the telecommunications landscape in the country. The merger created one of the largest telecommunications companies in India, but it also resulted in changes to products and services offered by the company. The merger presented a significant challenge for the newly formed company in maintaining the loyalty of its customers.

In Brazil, the merger of Itaú and Unibanco in 2008 resulted in changes to the banking landscape in the country. The merger created one of the largest banks in Brazil, but it also resulted in changes to products and services offered by the bank (Bento, 2015). The merger also presented a significant challenge for the newly formed company in maintaining the loyalty of its customers. Effective communication and transparency during the change process, involving customers in the change process, providing a sense of stability and continuity, and minimizing disruptions to services are key strategies that can help organizations maintain customer loyalty during times of change.

## Customer Loyalty

Customer loyalty refers to the tendency of customers to repeatedly purchase products or services from a particular brand or organization (Pérez, 2015). Customer loyalty plays a crucial role in the success of any organization. Loyal customers are more likely to recommend the organization to others, which can help attract new customers and increase revenue. Maintaining customer loyalty is essential for organizations to remain competitive and profitable in today's market (Kandampully, 2015). One of the key drivers of customer loyalty is customer satisfaction. Customers who are satisfied with their interactions with an organization are more likely to continue doing business with that organization in the future. Organizations can improve customer satisfaction by providing high-quality products or services, offering competitive pricing, delivering excellent customer service, and responding promptly to customer complaints or feedback (Kumar,2016). Customers who feel a sense of loyalty or attachment to a brand are more likely to continue doing business with that organization, even if other options are available (Al-Haddad & Al-Sa'eedi, 2017).

Customer loyalty is influenced by external factors such as competition, economic conditions, and technological changes. Organizations that are able to adapt to these changes and continue providing value to their customers are more likely to maintain customer loyalty over time (Chernyak-Hai, 2018). Customer loyalty is a critical factor for the success of any organization. It is directly linked to customer satisfaction, which is influenced by various factors such as product quality, pricing, customer service, and emotional connections (Lee, 2019). When an organization goes through a significant change, such as a merger or acquisition, it can have a negative impact on customer loyalty. Customers may experience disruption in the products or services offered, changes in pricing, or changes in how they interact with the organization. This disruption can lead to a decrease in customer loyalty, which can ultimately affect the organization's overall success.

According to Aminu and Aliyu (2016), effective organizational change managements help to mitigate the negative impact of change on customer loyalty. By involving customers in the change process and prioritizing their needs, organizations can maintain customer satisfaction and loyalty. Effective communication and transparency during the change process can also help to reassure customers and provide them with a sense of stability and continuity (Loyal, 2020). Organizations that prioritize customer satisfaction and loyalty during times of change are more likely to maintain their competitive advantage in the market. Organizations can also use various strategies to strengthen customer relationships and foster loyalty during times of change (Pérez, 2015). For example, loyalty programs can incentivize customers to continue doing business with the organization, even in the face of change. Personalized marketing and social media engagement has been found to help organizations to maintain customer loyalty by providing personalized experiences and fostering emotional connections (Rahman & Haque, 2019; Das & Chatterjee 2015).

## LITERATURE REVIEW

### Theoretical Framework

#### Social exchange theory

The social exchange theory was proposed by George Homans in the 1950s. It explains the relationship between individuals and their social environment based on the principles of reciprocity and exchange. According to this theory individual engage in social interactions to maximize their rewards and minimize their costs. The theory posits that the level of commitment and loyalty of individuals to a social relationship is based on the balance of rewards and costs that they perceive in that relationship (Chernyak-Hai, 2018).

The theory is used to explain how customers and organizations interact during periods of change in the context of organizational change management. Customers will probably assess the advantages and disadvantages of the changes the company is implementing, and this assessment will affect their loyalty to the company (Ahmed & Al-Otaibi, 2018). Customers are more inclined to stick with the company if they believe the benefits outweigh the costs. The idea is pertinent to the proposed issue since it clarifies the elements that affect patron loyalty when things are changing. Researchers may create practical plans to keep clients loyal during times of change by understanding the principles of reciprocity and exchange and how they apply to the connection between customers and businesses (Das et al., 2015).

#### Service profit chain theory

The Service Profit Chain (SPC) theory by James L. Heskett, W. Earl Sasser, and Leonard A. Schlesinger developed in 1997 is a business theory that explains the relationship between employee satisfaction, customer satisfaction, and financial performance. The SPC theory posits that there is a direct relationship between employee satisfaction, customer satisfaction, and financial performance. The theory argues that organizations that invest in employee satisfaction and customer satisfaction are more likely to achieve financial success (Hong, 2013).

In this study, the theory is used to explain the impact of change on customer loyalty. Organizational change affects employee satisfaction, which in turn can affect customer satisfaction and loyalty. The SPC theory suggests that organizations that prioritize employee satisfaction during times of change are more likely to maintain customer satisfaction and loyalty, which can ultimately lead to financial success. The theory is relevant to the study because it emphasizes the importance of customer satisfaction and loyalty in achieving financial success (Kim, 2014). By understanding the relationship between employee satisfaction, customer satisfaction, and financial performance, researchers can develop effective strategies for managing organizational change that prioritize customer satisfaction and loyalty.

### Empirical Review

Choi and Han (2019) aimed to investigate the impact of organizational change on customer loyalty in the hospitality industry in South Korea. The study used a survey questionnaire to collect data from 246 customers of hospitality firms. The results showed that effective communication, employee participation, and leadership support positively affect customer loyalty in the hospitality

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industry. Kim and Lee (2017) examined the effect of organizational change on customer loyalty in the retail industry in South Korea. The study used a survey questionnaire to collect data from 305 customers of retail stores. The findings revealed that employee empowerment, communication, and training positively affect customer loyalty in the retail industry.

Similarly, Ahmed and Al-Otaibi (2018) investigated the impact of organizational change on customer loyalty in the telecommunications industry in Saudi Arabia. The study used a survey questionnaire to collect data from 400 customers of telecommunications service providers. The results showed that effective communication, employee involvement, and leadership support positively affect customer loyalty in the telecommunications industry. Das et al. (2015) examined the effect of organizational change on customer loyalty in the automobile industry in India and study used a survey questionnaire to collect data from 300 customers of automobile companies. The findings revealed that effective communication, employee training, and customer relationship management positively affect customer loyalty in the automobile industry.

A study by Al-Haddad and Al-Sa'eedi (2017) investigated the impact of organizational change on customer loyalty in the insurance industry in Jordan. The study used a survey questionnaire to collect data from 236 customers of insurance companies and the results showed that effective communication, employee participation, and leadership support positively affect customer loyalty in the insurance industry. Aminu and Aliyu (2016) examined the effect of organizational change on customer loyalty in the banking industry in Nigeria. The study used a cross-sectional research design and collected data from 350 customers of banks through a survey questionnaire. The findings revealed that effective communication, employee training, and involvement in change management positively affect customer loyalty in the banking industry.

Kim (2017) investigated the impact of organizational change on customer loyalty in the higher education industry in South Korea. The study used a survey questionnaire to collect data from 306 students from 6 universities. The results showed that effective communication, employee empowerment, and leadership support positively affect customer loyalty in the higher education industry. Raza and Zaman (2018) examined the effect of organizational change on customer loyalty in the airline industry in Pakistan. The study used a survey questionnaire to collect data from 250 customers of airlines. The findings revealed that effective communication, employee training, and leadership support positively affect customer loyalty in the airline industry.

Kim et al. (2018) looked at how organizational change affected consumer loyalty in the South Korean fast food sector. A total of 250 patrons of fast food restaurants participated in the study, and information was gathered via a survey questionnaire. According to the research, the fast food business is positively impacted by good communication, employee involvement, and customer relationship management. Al-Madi and Al-Saeedi (2019) looked at how organizational restructuring affected consumer loyalty in Jordan's pharmaceutical sector. A survey questionnaire was employed in the study to gather information from 240 clients of pharmaceutical companies. According to the research, the pharmaceutical industry's use of efficient communication, employee involvement, and customer relationship management has a beneficial impact on customer loyalty.

Al-Haddad and Al-Sa'eedi (2020) aimed to examined the impact of organizational change on customer loyalty in the tourism industry in Jordan. The study used a survey questionnaire to collect data from 236 customers of tourism companies. The findings revealed that organizational change has a significant negative impact on customer loyalty in the tourism industry in Jordan. This

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suggests that customers may become less loyal to tourism companies that undergo significant changes, such as restructuring, mergers, or changes in management. Rahman et al. (2019) examined the effect of organizational change on customer loyalty in the financial services industry in Bangladesh. The study used a survey questionnaire to collect data from 300 customers of financial service providers. The findings revealed that effective communication, employee training, and customer relationship management positively affect customer loyalty in the financial services industry.

## SUMMARY OF LITERATURE REVIEWED

The reviewed literature on the effect of organizational change management on customer loyalty suggest that effective change management positively affects customer loyalty by improving communication, employee participation and empowerment, leadership support, customer relationship management, and service quality. Studies conducted in various industries, including banking, hospitality, retail, telecommunications, automobile, insurance, airline, e-commerce, and healthcare, have consistently shown that these factors play a crucial role in determining the impact of organizational change on customer loyalty.

Effective communication has been identified as a key factor in ensuring that customers are informed about organizational changes and are provided with the necessary information to make informed decisions. Employee participation and empowerment have also been found to be crucial in ensuring that employees are involved in the change process and are motivated to provide high-quality service to customers. Leadership support has been identified as a critical factor in ensuring that employees are motivated and committed to organizational change, while customer relationship management has been found to be essential in building trust and loyalty among customers.

The literature presented in this collection of studies examines the relationship between customer loyalty and various factors such as customer characteristics, personal selling strategies, service quality, branding strategies, and internet banking service quality. The studies utilized different research designs such as cross-sectional research, descriptive research design, and survey questionnaires to collect data. The findings reveal that customer loyalty is positively related to factors such as personal selling strategies, service quality, branding strategies, and internet banking service quality. The results of these studies provide insights into the factors that influence customer loyalty in different industries and contexts, which can be useful for businesses in developing effective customer retention strategies.

The literature reviewed in this study highlights the importance of organizational change management in enhancing customer loyalty. The findings suggest that customer loyalty can be improved through various strategies such as implementing effective loyalty programs, adopting personal selling strategies, building brand awareness, understanding customer values, providing high-quality services, ensuring fairness and convenience, improving internet banking service quality, and implementing effective branding strategies. These findings have implications for businesses that are undergoing organizational change and seeking to maintain or improve customer loyalty. By implementing these strategies, businesses can not only improve customer loyalty but also gain a competitive advantage in the marketplace.

## CONCLUSION

Based on the empirical literature review, it can be concluded that effective organizational change management positively affects customer loyalty in various service industries. The studies consistently found that effective communication, employee involvement, leadership support, employee training, customer relationship management, and empowerment are key factors that contribute to an increase in customer loyalty. These findings suggest that service firms should focus on improving these factors when implementing organizational change, as it can have a significant impact on customer loyalty. It is worth noting that the studies were conducted in different countries and industries, which suggests that the positive effects of organizational change management on customer loyalty are universal.

It is important for service firms to tailor their organizational change initiatives to their specific industry and customer base. By doing so, service firms can better meet the needs and expectations of their customers, which can lead to greater customer loyalty. The findings highlight the importance of effective organizational change management in improving customer loyalty in service industries. Service firms should prioritize communication, employee involvement, leadership support, employee training, customer relationship management, and empowerment when implementing organizational change. By doing so, service firms can create a customer-centric culture and build strong relationships with their customers, which can lead to increased customer loyalty

## RECOMMENDATIONS

Organizations should involve employees in the change process by providing training and empowering them to make decisions that benefit customers. Empowering employees can increase their level of engagement and commitment to providing quality customer service. Organizations should also provide leadership support and direction to ensure that organizational change is implemented effectively and efficiently. Leaders should communicate the importance of the changes and provide the necessary resources and support for employees to implement them. Organizations should also establish a customer relationship management strategy to build strong relationships with customers and create a sense of loyalty. Service firms should prioritize building long-term relationships with customers by providing personalized service and addressing their unique needs and concerns. Organization should use customer feedback to guide the change process and ensure that changes are aligned with customer needs and expectations. Service firms should regularly collect and analyze customer feedback to identify areas for improvement and make changes that will have a positive impact on customer loyalty.

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