Chapter 3

Model Development

This chapter outlines the conceptual model, the relationships between the constructs, and the respective hypotheses, which have been derived from the literature review and research gaps existing in literature. The literature review identified six antecedents of loyalty: customer satisfaction, trust, affective and calculative commitment, switching costs and corporate image. The construct of customer loyalty is composed of two dimensions: attitudinal and behavioral loyalty. The proposed model contains paths indicating direct and indirect relationships between antecedents and two dimensions of loyalty (see Figure 3.1) The chapter also proposes a competing model that contains paths indicating a direct effect between several of the antecedents of both attitudinal and behavioral brand loyalty.

3.1 Rationale for the Constructs and Relationships within Model

3.1.1 Dimensional Structure of Loyalty and Influence of Attitudinal Loyalty on Behavioral Loyalty

Conceptual definition and measurement of loyalty has received many different definitions and interpretations in the literature (Rundle-Thiele 2005). The contradictory views about loyalty are result of systematic lack of a rigorous study of the reliability and the validity of the proposed measurement instruments (Odin, Odin and Valette-Florence 2001). Loyalty has largely been defined and measured either in behavioral and attitudinal terms (Rundle-Thiele and Bennett 2001).
The views on loyalty have oscillated between uni-dimensionality and bi-dimensionality (Bennett and Bove 2002). The uni-dimensional approach defines and measures loyalty in either behavioral or attitudinal terms (Guest 1944; Cunningham 1956; Mellens, Dekimpe and Steenkamp 1996. The bi-dimensional concept integrates both the attitudinal and behavioral dimensions of loyalty and considers loyalty as comprised of favorable attitudes, intentions and repeat-purchase (Jacoby and Chestnut 1978; Rundle-Thiele 2005). Three conceptualizations of customer loyalty have been identified in literature: behavioral loyalty, attitudinal loyalty and composite measure of loyalty (Jacoby and Kyner 1973; Uncles, Dowling and Hammond 2003). Attitudinal loyalty focuses on the individual’s emotions and personality, while behavioral loyalty takes on a market focus, looking at penetration, repeat buying, brand shares; and other indicators that can be monitored over time (Moore and Sekhon 2005). The composite measure combines both attitudinal and behavioral loyalty (Day, 1969; Pritchard, Havitz, and Howard 1999).
Jones and Taylor (2007) tested a multi-dimensional conceptualization of loyalty based on theory from the interpersonal psychology literature. The findings supported a two-dimensional model of service loyalty, consisting of behavioral service loyalty and a combined attitudinal/cognitive loyalty. Li and Petrick (2008) explored the dimensional structure of the loyalty construct. The results of the study supported the traditional two-dimensional conceptualization of loyalty, which maintains that loyalty has an attitudinal and a behavioral component.

Based on recent development on the conceptual domain of loyalty (Rundle-Thiele 2005; Russell-Bennett, Kennedy and Coote 2007; Jones and Taylor 2007; Li and Petrick 2008), it is proposed that:

**H1: Loyalty is explained by behavioral loyalty and attitudinal loyalty**

It has long been suggested that attitudes precede behavior (Aizen and Fishbein 1980). Attitudes play a powerful role in influencing consumers’ intentions and actual behavior (Hoyer and Macinnis 2009). A high relative attitude contributes significantly toward long-term maintenance of loyalty (Dick and Basu 1994). Russell-Bennett, Kennedy and Coote (2007) examined the relationship between attitudinal loyalty and behavioral loyalty in a business services context. The results indicate that attitudinal loyalty is a significant explanatory variable in the prediction of behavioral loyalty. The findings suggest that high levels of attitudinal loyalty are antecedent to high levels of behavioral loyalty. Li and Petrick (2008) in their study found attitudinal loyalty significantly influences behavioral loyalty. Thus the relationship between attitudinal and behavioral loyalty is hypothesized as being:

**H2: Attitudinal loyalty relates positively to behavioral loyalty.**

**3.1.2 Satisfaction Influences Attitudinal Loyalty**
Customer satisfaction refers to the emotion of happiness or disappointment a customer feels after they compare the perceived effects of a certain product with the effects they expect (Juan and Yan 2009). Satisfaction is an affective antecedent of customer loyalty (Anderson, Fornell and Lehmann 1994; Dick and Basu 1994; Oliver 1999). High customer satisfaction indicates increased loyalty, lower costs of future transactions, reduction in failure costs, lower costs of attracting new customers and an enhanced reputation for firm (Anderson et al. 1994). Satisfied customers are more likely to stay with the firm (Anderson and Sullivan 1993; Bolton 1998), make repeat purchases (Anderson and Mittal 2000; Seiders et al. 2005), and engage in positive word-of-mouth (WOM) behavior (Anderson 1998; Zeithmal, Berry and Parasuraman 1996).

Many marketing studies have shown that customer satisfaction is a key antecedent to loyalty and repurchase behavior (Jones and Sasser 1995; Mittal, Katrichis and Kumar 2001; Seiders et al. 2005). Cronin, Brady and Hult (2000) examined the positive influence of customer satisfaction on behavioral intentions in six industries. Results supported that customer satisfaction is directly related to behavioral intentions.

Chiou and Droge (2006) demonstrated a direct positive effect of overall satisfaction on attitudinal loyalty and an indirect positive effect on behavioral loyalty. In a B2B setting, Rauyren and Miller (2007) report strong impact of overall satisfaction on both behavioral and attitudinal loyalty. Han, Kwortnik Jr. and Wang (2008) examined the impact of cumulative satisfaction on service loyalty in varied services (airlines, banks, beauty salons, hospitals, hotels, mobile telephone). They concluded that customer satisfaction is directly related to behavioral loyalty.

has a positive effect on customer loyalty. Thus the relationship between satisfaction and loyalty is hypothesized as being:

**H3: Customer satisfaction relates positively to attitudinal loyalty.**

### 3.1.3 Trust Influences Attitudinal Loyalty

Trust is a primary predictor of future purchase intentions in relational exchanges (Garbarino and Johnson 1999). Urban, Sultan and Qualls, (2000) suggest that trust-based strategies are an essential element in building positive relationships with customers and increasing market share and profits of companies. Selnes (1998) examine the role in trust in maintaining and enhancing the relationship between a supplier and buyer. The results show that trust is a strong antecedent of motivation to enhance the scope of the relationship. Chaudhuri and Holbrook (2001) found that trusted brands are purchased more often and evoke a high degree of attitudinal loyalty. Ranaweera and Prabhu (2003) examine the effects of trust on customer retention and positive word of mouth (WOM). Their empirical survey of fixed line telephone users in the UK confirmed that trust has strong positive associations with customer retention and positive WOM.

In a study of patient-physician relationships, Leisen and Hyman (2004) provide evidence of positive influences of benevolence and technical competence dimensions of trust on WOM behavior and repurchase intentions. Harris and Goode (2004) surveyed online customers of books and flight purchasing, to examine the impact of trust on loyalty. The results reveal that trust is a key driver of loyalty. The findings support the view that trust is a key and central factor during exchange. Agustin and Singh (2005) reported the enhancing role of trust on loyalty intentions in two different service contexts – retail clothing and non-business airline travel. Chiou and Droge (2006) explored the relationships between trust and customer loyalty. They found that trust directly affects attitudinal loyalty. The results also supported significant indirect effect of trust on behavioral loyalty through attitudinal loyalty. Ndubisi (2007) using repurchase behavior as an indicator of customer loyalty, empirically reported a direct impact of trust on
customer loyalty. Thus the relationship between trust and loyalty is hypothesized as being:

**H4: Trust relates positively to attitudinal loyalty.**

### 3.1.4 Commitment Influences Attitudinal Loyalty

Commitment is essential component of successful long-term relationships (Gundalch, Achrol and Mentzer 1995). Commitment creates ‘stickiness’ that keeps customer loyal to a brand or a company (Johnson et al. 2001; Gustafsson, Johnson and Roos, 2005). Pritchard, Havitz and Howard (1999) examined how commitment influences loyalty. The empirical tests in both hotel and airline services revealed that higher levels of commitment lead to higher levels of loyalty. Wang (2002) investigate the impact of affective commitment on exclusive purchase intention. The analysis supports the hypothesized path from brand commitment to exclusive purchase intention. The author conclude that true loyalty is commitment-based, and must be distinguished from non-commitment based, spurious loyalty. Fullerton (2005) investigated the extent to which two components of commitment (affective and continuance commitment) enhance and reduce customer loyalty in three service settings – banking services, telecommunications services and grocery retail service. Results indicate that affective commitment negatively influences switching intentions and positively influences advocacy intentions. The findings support that continuance commitment is negatively related to advocacy intentions and positively related to switching intentions.

Evanschitzky et al. (2006) investigated the impacts of affective and continuance commitment on attitudinal and behavioral loyalty in a service context. The findings suggested that emotional bonds with customers provide a more enduring source of loyalty as compared to economic incentives and switching costs. Results show that affective commitment has a positive and significant impact on both attitudinal and behavioral loyalty. Continuance commitment was found to have a weak impact on attitudinal loyalty and a strong impact on behavioral loyalty. Huang, Cheng and Farn (2007) examined the
relationships between affective commitment, continuance commitment and customer loyalty. The results indicated that customers would stay in a relationship when they are psychologically and economically committed to the e-broker. Bloemer and Odekerken (2007) studied the influence of affective, calculative and normative commitment on customer loyalty (in terms of word of mouth, purchase intention, price insensitivity and complaining) in a bank setting. The results indicate that affective commitment is the most important determinant of customer loyalty. The findings also support the hypothesized negative impact of calculative commitment on customer loyalty.

Chenet, Dagger and O’Sullivan (2010) examine the influence of commitment on loyalty in business-to-business relationships. They report that commitment significantly influences word of mouth recommendation. Fullerton (2011) examined the forces that lead to a customer’s willingness to act as an advocate for a service provider in a marketing relationship. The empirical tests in three service settings (banking, hairstyling, auto-repair service) reveal that affective commitment has a strong and positive effect on advocacy intentions in all three service settings. The findings support the negative impact of continuance commitment on advocacy intentions. Thus the relationship between commitment and loyalty is hypothesized as being:

**H5: Affective commitment relates positively to attitudinal loyalty.**

**H6: Calculative commitment relates negatively to attitudinal loyalty.**

### 3.1.5 Perceived Switching Costs Influences Attitudinal Loyalty

Switching costs are an important factor impacting a customer’s decision to remain with a service provider (Jones, Mothersbaugh and Beatty 2000; Jones, Reynolds, Mothersbaugh and Beatty 2007). Lee, Lee and Feick (2001) examined the effect of switching cost on satisfaction-loyalty link. The findings supported the moderating role of switching costs. Ranaweera and Prabhu (2003) examined the relationship between switching costs and customer loyalty. They report that high switching costs act as a constraint and deter
customers from leaving the service provider irrespective of level of satisfaction. Lam et al. (2004) explored the role of switching costs on customer loyalty in a business-to-business service setting. The findings indicate that switching costs are positively related to dimensions of customer loyalty – patronage and recommended behavior. Ngobo (2004) examined the drivers of the customer’s cross-buying intentions of services. The empirical survey of retail customers revealed that switching costs are positively associated with repurchase intentions.

Vazquez-Casielles, Suarez-Alvarez and Rio-Lanza (2009) surveyed mobile phone users, to examine the effect of positive and negative switching barriers on key manifestations of attitudinal loyalty (repurchase intentions, positive recommendations and price tolerance). They report that negative switching barriers are positively associated with repurchase intentions and negatively associated with price tolerance and word-of-mouth recommendations. The findings further indicated that positive switching barriers are positively associated with repurchase intentions, word-of-mouth recommendations, and price tolerance. In another study, Deng et al. (2010) found that switching costs significantly affect customer loyalty.

Yen (2010) surveyed online shopping customers, to examine the relationship between switching costs and customer loyalty. The empirical tests revealed that switching costs are positively associated with customer loyalty. The findings suggest that higher the switching costs, the higher the customer loyalty. Wang et al. (2010) also reported that switching costs have a significant relationship with customer loyalty in e-tailing services. Liu, Guo and Lee (2011) explored how switching barriers influence customer loyalty for mobile phone users. The findings indicate that switching barriers have significant effect on customer loyalty. Thus the relationship between switching costs and loyalty is hypothesized as being:

**H7: Switching costs relate positively to attitudinal loyalty.**

**3.1.6 Corporate Image Influences Attitudinal Loyalty**
Marketing literature identifies corporate image as an important factor in evaluation of the service and the company (Andreassen and Lindestad 1998; Gronroos 1984; Kandampully and Suhartanto 2000). In case of services, corporate image serves as an important factor influencing the perception of quality, consumer’s evaluation of satisfaction with the service, and customer loyalty (Andreassen and Lindestad 1998). Nguyen and LeBlanc (1998) proposed and tested a conceptual framework that investigates the effects of customer satisfaction, service quality, and value on perceptions of corporate image and customer loyalty towards the service. The survey of the customers in the banking industry suggested that customers who form a positive overall impression of the image of the financial institution are more likely to prefer the organization and recommend it to others. Andreassan and Lindestad (1998) examined the impact of corporate image on customer loyalty in complex services with varying degrees of service expertise. The study of package tours revealed that corporate image has stronger effect on customer loyalty than customer satisfaction.

Kandampully and Suhartanto (2000) surveyed customers in hotel industry, to examine the relationship between hotel image and customer loyalty. The findings indicated that hotel image positively influences customer loyalty. Johnson et al. (2000) proposed and tested modification and improvements to the national index models. Using survey data from the Norwegian Customer Satisfaction Barometer (NCSB), the authors reported positive impact of corporate image on customer loyalty. In another study investigating loyalty in retail banking, Lewis and Soureli (2006) found that image positively affects customer loyalty.

In a rural tourism context, Loueiro and Gonzalez (2008) examined the impact of corporate image on customer loyalty. The results revealed direct effect of corporate image on customer loyalty. The authors conclude that an overall image of a lodging held by an individual enhances his or her intention to return and to recommend in the future. Faullant, Matzler and Fuller (2008) developed a causal model of image predicting customer loyalty. Their empirical tests in ski resorts revealed that image executes a strong
impact on loyalty intentions. Thus the relationship between corporate image and loyalty is hypothesized as being:

**H8: Corporate image relate positively to attitudinal loyalty.**

### 3.1.7 Mediating Role of Affective Commitment

A high level of satisfaction provides the customer with a repeated positive reinforcement, thus creating commitment-inducing emotional bonds (Hennig-Thurau, Gwinner and Gremler 2002). According to Fullerton (2011), both satisfaction with the service and trust in the service provider create the kind of identification and attachment based consumer attitudes that lead the customer to be a strong advocate. Johnson et al. (2001) found that affective commitment mediates the relationship between satisfaction and loyalty. Huang, Cheng and Farn (2007) investigating the relationship between satisfaction, affective commitment and customer loyalty in online financial communities showed that commitment is an essential mediator in cultivating customer loyalty. Han, Kwortnik and Wang (2008) developed an integrative model of service loyalty. The model is tested with data from varied services (airlines, banks, beauty salons, hospitals, hotels, mobile telephone) and 3,500 customers in China. The findings reveal that the effects of cumulative customer satisfaction on behavioral loyalty are partially mediated by commitment (affective as well as calculative). Thus we hypothesize that:

**H9: Affective commitment mediates the relationship between customer satisfaction and attitudinal loyalty.**

Trust leads to a high level of affective commitment. Trust addresses central social needs of the customer, the fulfillment of which leads to an affective commitment to the relationship (Hennig-Thurau and Klee 1997). When customers trust suppliers, they strongly believe in future potential of the relationship (Walter and Ritter 2003). Ruyter, Moorman and Lemmink (2001) found that trust has a positive impact on affective commitment in supplier-customer relationships in high-technology markets. In business-
to-business services context, Gounaris (2005) found that trust significantly influences affective commitment, which in turn influences intention to invest and intention to stay. Thus we hypothesize that:

**H10: Affective commitment mediates the relationship between trust and attitudinal loyalty.**

### 3.1.8 Mediating Role of Calculative Commitment

Calculative commitment captures economic consequences or costs associated with switching service providers (Johnson et al. 2001). Davis-Sramek et al. (2009) argue that the more satisfied a retailer, the more likely he invests significant time and effort in acquiring new knowledge about that supplier’s new offerings, which significantly increases the need to continue to purchase. Jones and Sasser (1995) provide that customers may be held economically hostage to particular service provider even when satisfaction is low. Han, Kwortnik and Wang (2008) proposed that commitment mediates the satisfaction-loyalty relationship through the effects of utilitarian and hedonic dimensions of satisfaction on calculative and affective commitment, respectively. Johnson et al. (2001) found that calculative commitment mediates the relationship between satisfaction and loyalty. Davis-Sramek et al. (2009) in the B2B context found that calculative commitment mediates the relationship customer satisfaction and loyalty behavior. Han, Kwortnik and Wang (2008) also found that calculative commitment mediates the relationship between satisfaction and loyalty. Thus we hypothesize that:

**H11: Calculative commitment mediates the relationship between customer satisfaction and attitudinal loyalty.**

According to Ganesan (1997), trust enhances commitment to a relationship by: (a) reducing the perception of risk associated with opportunistic behaviors by the partner, (b) increasing the confidence that short-term inequities will be resolved over a long period, and (c) reducing the transaction costs in an exchange relationship. A customer who continues the relationship with the service provider is more likely to be motivated to do
so because the same resources and outcomes outside the current relationship cannot be easily secured (calculative commitment) (Gounaris 2005). Trust may lead customers to focus more on the positive motivation because of a sense of affiliation and identification with the supplier, and this may be a stimulus to focus less on calculative reasons for attachment to a supplier firm (Ruyter, Moorman and Lemmink 2001). Gounaris (2005) found that trust significantly influences calculative commitment, which in turn has a negative impact on the customer’s intention to maintain the relationship and to further invest in it. Thus we hypothesize that:

**H12: Calculative commitment mediates the relationship between trust and attitudinal loyalty.**

#### 3.1.9 Mediating Role of Corporate Image

Customer satisfaction affects corporate image, which in turn affects customer loyalty (Nguyen and Leblanc 1998; Johnson et al. 2001). Satisfaction is a function of consumption experiences (Fornell 1992) and corporate image is developed in the consumer’s mind through communication and experience (Andreassen and Lanseng 1997). As a result, customers’ purchase and consumption experiences, summarized in their satisfaction evaluation, naturally influence their evaluation of corporate image (Johnson et al. 2001).

Johnson et al. (2001) using behavioral intention as measure of customer loyalty, reported that cumulative satisfaction updates corporate image, which in turn impacts customer loyalty. In a recent study, Loueiro and Gonzalez (2008) reported an indirect effect of corporate image on customer loyalty through customer satisfaction. Thus we hypothesize that:

**H13: Corporate image mediates the relationship between customer satisfaction and attitudinal loyalty.**
Ball, Coelho and Machas (2004) and Ball, Coelho and Vilares (2006) argue for possible relationship between image and trust on grounds that trust is to some extent built on reputation (Ganesan 1994; Doney and Cannon 1997). In both studies, the findings revealed that image produces indirect influence on loyalty through satisfaction and trust using attitudinal dimension of loyalty. Loureiro and Gonzalez (2008) also found an indirect influence of corporate image on loyalty through trust. For a better understanding of the indirect effect of corporate image on formation of customer loyalty, we seek to investigate influence of corporate image on both aspects of customer loyalty. Thus we hypothesize that:

**H14: Corporate image mediates the relationship between trust and attitudinal loyalty.**

### 3.1.10 Mediating Role of Switching Costs

The main effect of switching costs on customer loyalty has been empirically validated in various studies (Fornell 1992; Anderson and Sullivan 1993; Ping 1993; Gremler and Brown 1996; Jones et al. 2002; Burnham et al. 2003), few studies have investigated the indirect effects of switching costs (Sharma and Patterson 2000; Jones et al. 2002; Burnham et al. 2003). When the cost of switching service providers is high, the service providers are likely to retain dissatisfied customers due to perceptions that switching costs outweigh switching benefits (Burnham et al. 2003). Switching costs in terms of time, money and effort help service providers to retain their customer (behavioral loyalty) and also encourage customers to recommend their firm to other customers (attitudinal loyalty) (Lam et al. 2004).

Thus we hypothesize that:

**H15: Switching costs mediate the relationship between customer satisfaction and attitudinal loyalty.**
Trust is critical to formation of service-based relationships. Because of the intangible and interactive nature of services, customers have an inherent desire need to trust in their service provider to deliver desired service outcome (Coulter and Coulter 2002). Consumers desire relationship partners that they can trust because a trusted partner reduces the risks associated with relational exchange (Hunt, Arnett and Madhavaram 2006). The consumers trust in the service provider reduces uncertainty and vulnerability associated with services and also minimizes transaction costs (Berry 1995; Bendapudi and Berry 1997; Aydin and Ozer 2005). The reduced uncertainty associated with the service provider increases the customer’s dependence on the company by increasing the uncertainty of alternatives and thereby increasing the perceived switching costs (Bendapudi and Berry 1997; Aydin and Ozer 2005). Thus we hypothesize that:

**H16: Switching costs mediate the relationship between trust and attitudinal loyalty.**

### 3.2 Competing Model

The strongest test of a proposed model is to identify and test competing models that represent different truly different hypothetical structural relationships (Hair et al. 2010). By using a competing models strategy, the researcher can determine whether the proposed model, regardless of overall fit, is acceptable, because no other similarly formulated model can achieve a higher level of fit (Hair et al. 1998). Thus, the present thesis examined antecedes of loyalty by testing a competing model.

To test the mediating role of commitment, corporate image and switching costs in the relationship between satisfaction, trust and loyalty dimensions, we developed a second model, Model 2, which does not contain the indirect effects of commitment; corporate image and switching cost (see Figure 3.2).
Figure 3.2: Competing Model 2 (Excludes the Indirect Effects of Commitment, Corporate Image and Switching Cost Constructs)

3.3 Summary

Despite the existing research, there is little consensus among researchers as to the conceptual domain of customer loyalty. A theoretical understanding of the factors that help a firm maintain and increase customer loyalty seems to be lacking. A two-dimensional loyalty conceptualization consisting of attitudinal and behavioral loyalty is proposed. The relationships between the constructs and the respective hypotheses have been discussed. The fifteen relationships proposed have been derived from the literature review. A competing model has been proposed that excluded indirect effects of corporate
image and switching costs on attitudinal and behavioral loyalty. The next chapter discusses the methodology used in this research.