Research on the influencing factors of customer referral behavior based on social network—Application in the catering industry

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A R T I C L E I N F O

A B S T R A C T

Purpose: The purpose of this paper is to investigate how customers' social network affects customer referral behavior.

Methodology: A survey of 180 qualified questionnaires from ordinary consumers in China was conducted. Structural equation model was performed on the collection of data.

Findings: The results show that condensed subgroups and the relationship strength between customers and between customers and companies have a greater influence on customer referrals than network density and centrality. In contrast, network scale and structural holes do not influence customer referrals.

Originality/value: Contributing to customer referral theory, this paper examines the influencing factors of customer referral behavior based on social network, providing theoretical suggestions for enterprises better using customer referral to acquire customers.

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1. Introduction

The advent of the information age facilitated effective, efficient communication, making a substantial amount of enterprise information available to customers. However, this flood of information often frustrates customers' efforts to determine which information is reliable in making purchase decisions. Although enterprises have an increasing number of channels through which to share their message with customers, the efficiency of this process is surprisingly low. How to effectively and efficiently spread information to customers becomes a significant challenge. Word of mouth, a low-cost customer acquisition method, has received much attention (e.g. Godes and Mayzlin, 2009; Iyengar, Van den bulte, and Valente, 2011). The influence of the word of mouth method on customers is seven times that of magazines (Katz & Lazarsfeld, 1955) because using the customers' friends and acquaintances as the "advertisers" is typically more credible than sales promotions.

Word of mouth can be positive or negative. Positive word of mouth refers to informal interpersonal communication about positive products/service information, also known as customer referral. Those communicating are dynamically embedded in a social network that, in turn, affects customer referral. Banerjee (1992) noted that customers' reliance on specific social networks acts as a typical characteristic of customer referral. Thus, we investigate the factors influencing customer referral from a social networking perspective to identify valuable managerial implications for enterprises.

Social networks use a variety of classification methods based on different perspectives (Fu & Peng, 2011; Tang, 2011). Because this study focuses on the networks in which customers and enterprises embed themselves, we generally divide a social network into four

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parts: the network between customers, the network between customers and enterprises, the network between enterprises, and the intra-company network. This study looks exclusively at the network between customers and that between customers and enterprises because the customer referral process mainly involves the contacts within these two groups.

The remainder of this article is structured as follows. First, we review the relevant customer referral literature. Then, we propose nine hypotheses based on our analysis of the relationship between social networks and customer referrals. Next, we obtain data through questionnaires and conduct an empirical analysis using a structure equation model. We conclude with an overview of our findings, the managerial implications, and suggestions for future research.

2. Literature

Whyte's (1954) analysis of the information shared over clotheslines and across backyard fences prompted a stream of research on word of mouth—an information transfer process typically involving two actors, the transmitter and the receiver (Dichter, 1966). There are four motives for transmitters to engage in word of mouth: product-related (Dichter, 1966), ego-related (Arent, 1967), others-related (Sundaram & Webster, 1999), and information-related (Dichter, 1966). The factors influencing the transmission of word of mouth are the attribution of customer dissatisfaction (Richins, 1983), the customers' perception of product/service quality and value (Harrison-Walker, 2001), the relationship between employees and customers (Price & Eric, 1999), and emotional reactions to the product (WestBrook, 1987). When the receiver is faced with an unknown situation, he/she may initiate a word of mouth search in response to perceived risk. In addition to personality and perception risk, the transmitter's reliability and the strength of his/her relationship with the receiver affect the latter's willingness to accept. Additional factors influencing the information receptivity of the receiver include culture (Money, Gilly, & Graham, 1998), brand familiarity, and brand preference (Ahluwalia, 2002).

A review of the relevant literature reveals that while the research on word of mouth, including that conducted in relation to customer referral (positive word of mouth), has produced fruitful results, the majority of it has been conducted from the perspectives of customers and enterprises. Very rarely have social networks been considered despite the fact that customers and enterprises are embed in such networks. Thus, there is a lack of research on how social networks affect customer referrals.

The research on social networks originated in Simmel's definition of society as a set of complicated relationships from a metaphorical perspective. Follow-up scholars have further developed the definition of a social network (Brass, Galaskiewicz, Greve, & Tsai, 2004; Brown & Peter, 1987). If we consider social actors (individuals or organizations) as points and the relationships between actors as lines, then it becomes clear that countless points and lines intricately connect to form social networks. Specifically, a social network refers to the set of relationships between actors (e.g. individuals, organizations, or countries) that stand to gain resources and information from the relationships. Social networks' universality has prompted its application in many research areas such as customer purchase behavior (Frenzen & Davis, 1990; Wathne, Biong, & Heide, 2001), company performance (Rowley, Behrens, & Krackhardt, 2000), and commerce websites (Goldenberg, Oestreicher-Singer, & Reichman, 2012). In this study we broaden this view to include customer referral.

3. Structural dimensions of social networks

A social network's structure comprises the following aspects: centrality, condensed subgroups, scale, structural holes, and density.

3.1. Customer referrals and centrality

Centrality describes the degree to which the core position node occupies a network (Freeman, 1979), a quantitative indicator used to reflect the node's power. Members near the center of social network enjoy more relationships and rights (Kilduff & Tsai, 2003), and communicate more closely and frequently with other members, giving them more opportunities to engage in customer referrals. Such members also play a vital role in information transfer process, at times even controlling the flow of information (Bao, Xie & Shen, 2003) or acting as "opinion leaders" (Yang & Zhang, 2003). This results in other members being more willing to accept the information provided by the central members. To maintain a position as an "opinion leader," a central member initiates communication with other members. Therefore, we propose:

H1. Network centrality positively influences customer referral.

3.2. Customer referrals and condensed subgroups

When some of the members in a network are more closely connected than others, they form a condensed subgroup. For example, a college might be divided into condensed subgroups such as departments, classes, and dormitories (Luo & Ma, 2003). Members in the same condensed subgroup communicate more frequently than they do with members outside the group (Ranaweera & Prabhu, 2003), thus the opportunities for customer referral are high. In addition, members in the same condensed subgroup usually share common interests and mutual understandings, making them more likely to trust each other. When one member faces substantial unknown information, he/she tends to ask members in the same condensed subgroup for advice. Luo and Ma (2003) testified that word of mouth usually occurs within subgroups. Therefore, we propose:

H2. Network condensed subgroups positively influence customer referral.