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A mediating and multigroup analysis of customer loyalty

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ABSTRACT

Loyalty is configured here as a key determinant of firm performance. Many studies have proposed models that analyze the relationship between loyalty and its main determinants: perceived value (PV), satisfaction, and perceived switching costs (PSC). Thus, the first aim of this work is to validate a model of the direct and indirect relationships between these variables and loyalty, analyzing the mediating roles of both PSC and satisfaction in the relationship between PV and loyalty.

The second aim is to analyze the influence of customer psychographic characteristics – tendency toward loyalty (based on customer involvement and propensity toward switching) – on the proposed model in the insurance industry. The results show that (a) PV has a direct influence on affective loyalty and an indirect influence through two mediating variables, while only PSC plays a mediating role in the case of behavioral loyalty; (b) there were significant differences between customers with a high tendency toward loyalty and those with a low tendency toward loyalty, in the relationship between satisfaction and affective loyalty and in the relationship between PSC and both affective and behavioral loyalty; and (c) the proposed model presents greater explanatory power for customers with a higher tendency toward loyalty.

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1. Introduction

The analysis of customer loyalty continues to be, at present, an area of immense relevance and interest for both marketing scholars and practitioners (Nyadzayo & Khajehzadeh, 2016). In fact, managing to achieve customer loyalty is one of the principal objectives for service firms (Polo-Peña, Frías-Jamilena, & Rodríguez-Molina, 2016)—an aim that is due to the consequences derived from loyalty. Therefore, the literature points out that loyal customers have a greater probability of completing new purchases and generating higher profits, withstanding the actions of rival firms, and they usually imply lower retention costs (e.g. El-Manstrly, 2016; McNaughton, Osborne, Morgan, & Kutwaroo, 2001).

Service firms and, in particular, those from the insurance sector find it increasingly difficult to retain the loyalty of their customers, because of the greater facility with which companies may be compared, the high influence of the digital environment, and the high levels of customer expectations (PwC-PricewaterhouseCoopers, 2013; World Insurance Report, 2016). In

fact, the data indicate that in this industry, the level of satisfactory experiences with the current supplier has fallen over the recent years, both at the Spanish and European levels (World Insurance Report, 2016). According to this study, an increase in customer expectations, above all in certain segments, has made it necessary for these firms to identify different behaviors and preferences, in order to generate more effective strategies that will require them to adapt to these factors and generate durable and beneficial relationships with their customers.

Therefore, the analysis of the literature clearly shows that the following aspects relate to customer loyalty. First, the literature that analyzes the antecedent and moderating factors of loyalty is very extensive (Kandampully, Zang, & Bilgihan, 2015), although with inconsistent results in many cases. These variations, which also generate differences in the results, may be due to the nature of the proposed (direct/indirect and mediating/moderating) relationship to (1) the set of variables under consideration, (2) the type of product or service being studied, and (3) the characteristics of the customers in those markets.

Second, although there are many decisive factors for loyalty reported in the literature, three of them stand out because of their importance: perceived value (PV), satisfaction, and switching costs (Chocarro, Cortiñas, & Villanueva, 2015; El-Manstrly, 2016; Flint, Blocker, & Boutin, 2011; Floh, Zauner, Koller, & Rusch, 2014; Lin,

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Sher, & Shih, 2005; McNaughton et al., 2001; Yang & Peterson, 2004). Many works have proposed the positive influence of the customer PV on loyalty. However, some of them propose this relationship in a direct way, while others analyze the role of other mediating variables in the relationship, such as satisfaction and perceived switching costs (PSC), proposing an indirect effect through these variables on loyalty (García, Vázquez, & Iglesias, 2006; Lam, Shankar, Erramilli, & Murthy, 2004). The literature highlights that both aspects can act on customer loyalty; hence, numerous works have attempted to define the most effective options. Nevertheless, there is a general agreement that the presence of both variables in business strategies is necessary. Centering uniquely on creating switching costs can cause difficulties for the customer when purchasing the product or service (Fornell, 1992) or can be neutralized by the actions of competitors (Burnham, Frels, & Mahajan, 2003). Moreover, mere satisfaction itself is not enough (Oliver, 1999), as this link is very sensitive to factors such as the type of customer and industry (Kumar, Pozza, & Ganesh, 2013).

Third, as pointed out earlier, the reality in this industry highlights the consideration of a key variable: customer heterogeneity. Despite this fruitful line of research, it is true that the empirical results have not been as conclusive as expected. In fact, recent research (Fuentes-Blasco, Moliner-Velázquez, & Gil-Saura, 2014; Hair, Sarstedt, Matthews, & Ringle, 2016) has pointed out that the use of an aggregated market perspective can prompt unrealistic analyses, errors, and inconsistencies in the estimated parameters, etc. Therefore, some authors have underlined the importance of studying the differences between customers because of their heterogeneous behavior patterns (Floh et al., 2014). Hence, differences at demographic, socioeconomic, and psychographic levels between customers can influence their expectations and behaviors (Castro, Martin, & Martin, 2007; Mittal & Kamakura, 2001).

Fourth, numerous works have centered on mechanisms for the identification of customer profiles with a propensity to remain loyal. This kind of customer knowledge facilitates the development of appropriate strategies for marketing actions (Roos & Gustafsson, 2007). The majority of these works center on customer-related demographic and socioeconomic factors such as age, sex, income level, and educational level. However, there are few works that center on psychographic factors related to personality, tastes, interests, and values. In addition, these works usually analyze a single variable separately (Chocarro et al., 2015). However, these variables can jointly impact the strength of the relationships between different determinants of loyalty, which makes it necessary to study customer heterogeneity.

On basis of the above findings, we seek to cover various gaps with our work. On the one hand, we set up our model in a different way from the existing literature on loyalty. Although there are many studies on marketing that sustain the relationship between value and loyalty, few have analyzed the role of the variables that mediate this relationship. In this sense, our first contribution is our proposal of a model for the generation of loyalty based on PV through two mediator variables: customer satisfaction and PSC. This model seeks to give a more complete explanation of the relationship between PV, satisfaction, PSC, and customer loyalty. Moreover, the generation of strategies that are adapted to customers from the insurance industry require the existence of heterogeneity to be considered and determined among other factors by the psychographic characteristics of the customers; this is because the effect of heterogeneity has hardly been analyzed in this field. This fact leads us to the second contribution of our work that considers the effect of these characteristics on the relationships that are established in our model through latent segmentation and multigroup analysis (MGA). Of all the customer characteristics included in this category, the one that is best adapted to the

insurance industry is their tendency toward loyalty, which is based on the level of customer involvement with the service and the degree of customer propensity toward switching. In other words, we aim to demonstrate the influence of customer heterogeneity on generating customer loyalty and its determinant variables.

In pursuit of these objectives, we first conduct a theoretical review of the determinants of customer loyalty and the relationships between these constructs and the concept of customer heterogeneity, centering on their psychographic characteristics. On the basis of this theoretical review, the research hypotheses are formulated and the conceptual model is developed that describes the aim of the study. Subsequently, we present the empirical study in the Spanish insurance industry and the developed methodology, with particular emphasis on latent segmentation, mediation analysis, and MGA. Finally, we present a discussion of the results and the main conclusions of our work.

2. Conceptual framework

2.1. Customer loyalty: determinant factors

The literature has pointed to the relevant role of loyalty as one of the principal priorities of marketing (Fuentes-Blasco et al., 2014). The degree of loyalty instilled in customers is an indicator of the probability of their remaining in a future relationship with a company. If future patterns are to be determined, the triggers of customer behavior have to be established, as the likelihood of customers continuing their long-term relationship with the company will vary according to their origins (Roos & Gustafsson, 2007). Likewise, the various approaches to the analysis of loyalty have to be differentiated. The literature has attached greater relevance to behavioral and attitudinal approaches. Thus, behavioral loyalty refers to the degree to which a customer engages in repeated purchasing behavior toward a service provider (Gremler and Brown, 1996). Affective loyalty reflects a positive feeling toward the products or services of a firm that awakens desire in the customer to maintain a relationship with the firm over time (Oliver, 1999).

Variables such as customer satisfaction, PSC, service quality, commitment, customer PV, customer trust, and brand experience (i.e. Kandampully et al., 2015) are among the principal antecedents of loyalty. In line with Lam et al. (2004) and Yang and Peterson (2004), the focus of this study is on customer PV, customer satisfaction, and PSC. These factors are critical in helping firms maintain customer loyalty and enhance it.

The literature on services argues that firms will only achieve true loyalty in their customers through the delivery of greater added value. In this sense, many investigations point to PV as one of the determining principles of loyalty, although not the only one (Chen, 2015; Floh et al., 2014). The relationship between customer value and loyalty remains one of the most fruitful lines of research in the area of marketing (Flint et al., 2011). The high level of interest in customer value and loyalty among academics and business managers is due to their joint influence on firm profitability (Olsen & Johnson, 2003) and their importance for the survival of the firm and the maintenance of competitive advantage (Grönroos, 2009).

From the marketing perspective, PV refers to the criteria or perceived value of the proposal in the mind of the customer. These criteria are based on the perceptions held by the customer in relation to the benefits obtained from the product and the service from or relationship with the provider firm (in terms of quality, image, etc.), as well as the sacrifices that have to be made for their acquisition (in terms of time, money, and effort). Moreover, the literature points out that this valuation is done in comparison with the other competing offers (Woodall, 2003).

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