

Different paths from service personal values to customer loyalty - A study of retail banking services

Nguyen Tran Cam Linh* and Pham Ngoc Thuy**

This research investigated the relationships among service personal values, service value, switching costs and customer loyalty. A structural model was developed and tested using data surveyed from 397 customers of retail banking services in Vietnam. The results indicated three significant paths (one direct and two indirect effects) from service personal values to customer loyalty. Statistic estimates showed that the direct path effect is $\beta=.247$, and the total indirect effect via service value and switching costs is $\beta=.310$. It is concluded that the concept of service personal values is the root cause being capable to explain all concepts in the research model.

Field of research code: 612

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1. Introduction

Customer loyalty is one of key concerns for researchers and marketers who are interested in understanding its predictors and causal structure. Previous research on this concept mainly relied on the “satisfaction leading to loyalty” paradigm (Baumann et al., 2011). In service research, many studies attempted to explore firm-related factors explaining satisfaction, presumably satisfaction leads to loyalty. Concepts being investigated included service attribute (Auh, 2005), service quality (Bloemer et al., 1999) or service value (Ruiz et al., 2008).

While the satisfaction-loyalty relationship has been strongly supported in many empirical studies (e.g. Faullant et al., 2008), it is not the case in some situations. For instance, Gan et al. (2006) found that customer satisfaction does not make a significant contribution to loyalty, while customer value and switching barriers are key antecedents.

Given the notion that customer loyalty is more important for marketers than customer satisfaction, the present study attempts to explore antecedents of loyalty ignoring the role of satisfaction. Moreover, under the S-D logic perspective (Vargo and Lusch, 2004) the post-purchase state of a customer (i.e. loyalty) is a result of the process of value co-creation between the service provider and the customer. Therefore, firm-related antecedents of loyalty should be investigated together with customer-related antecedents in an interactive fashion.

*Nguyen Tran Cam Linh, PhD. Student of School of Industrial Management, Ho Chi Minh City University of Technology, Vietnam. Email: linhnguyen310884@gmail.com

**Dr. Pham Ngoc Thuy, School of Industrial Management, Ho Chi Minh City University of Technology, Vietnam. Email: pnthuy@sim.hcmut.edu.vn or thuyph@yahoo.com

In so doing, this study covers three antecedents of loyalty namely, service value, switching costs and service personal values. While service value is to represent the supplier's offers, switching costs is to reflect customer perception on lost if she/he changes supplier. Preceding these two constructs, the concept of service personal values is employed to explain the perception of service value, switching costs and on loyalty eventually. Particularly, this research develops a structural model and then tests it in the context of retail banking services in Vietnam. In this model, service personal values is proposed to affect customer loyalty via three paths, i.e. the direct path and the two indirect paths via customer value and switching costs.

2. Theoretical background and hypotheses

Customer loyalty is defined as the tendency of holding favorable attitudes towards a service and commit to re-use it (Bowen and Chen, 2001). A loyal customer may offer favorable word of mouth regarding the service. He/she is also a person who easily forgives any mistakes related to the service. Therefore, to service companies, making customer loyal is much more important than only serving them to be satisfied (Cooil et al., 2007).

Service personal values and customer loyalty

Following Rokeach (1973, p.5) definition, personal value refers to "an enduring belief that a specific mode of conduct or end-state of existence is personally or socially preferable". It can determine "desirable goals, varying in importance that serves as guiding principles in people's lives" (Schwart, 1994, p.88). Personal values form standards/norms which lead to the formation of beliefs, attributes and finally to purchase and post purchase behavior (Thuy and Hau, 2010; Carlson, 2000). Applying this concept in service sector, Lages and Fernandes (2005) introduced the term *service personal values* by proposing a model with three components including value to peaceful life, value to social recognition and value to social integration. The first component refers to the assessment of service that may make customer's life more pleasurable, tranquility, safety and/or harmony. The second component specifies the assessment related to receiving more respect from community, getting higher social status and more recognition. The last component refers to improving customer relationships and integrating well into society where he/she is working/living.

Based on means-end chain theory (Zeithaml, 1988), a customer's consumption process gets through four hierarchical abstract levels from lower to higher, respectively, as service attributes, service quality, service value and personal values. This indicated that personal values is a customer's base for his/her cognitive structure and attitudes towards others and objects (Kamakura and Novak, 1992). Therefore, service personal values positively affect the behavior of a customer because it provides a frame of reference, which the customer uses to judge what is good or bad, what is important or not important to him/her.

Consequently, it is hypothesized that:

H1: There is a positive impact of service personal values on customer loyalty towards a service.

Service personal values, service value and customer loyalty

Service value is customer's judgment of the utility of the service based on his/her perception of what is taken and given or a trade-off between "give" and "get" components (Zeithaml, 1988). The value of a service is characterized by two components namely,

process (or functional) value and outcome (or technical) value (Hau and Thuy, 2011). This conceptualization is in line with Gronroos's (1982) technical and functional quality or Babin et al.'s (1994) utilitarian and hedonic values.

When using a service, a customer usually compares what he/she gives (i.e. time, effort, money...) with the benefits (i.e. functional, affective) that he/she gets back. The higher perception of the service value received could motivate the customer to trade again with the provider (Wang, 2010). In other words, perceived service value positively relates to customer loyalty.

In the consumption process of a service, "means" and "end" in the means-end theory can be explained as follows. The word "means" implies the service, and "end" expresses a customer/personal values (Huber et al., 2001). The assessment of a customer on service quality/features will transform into perceived service value of the customer combining with the "gives". Then he/she assesses how the service value fits with his/her personal values (Zeithaml, 1988). Thus, it is reasonable to believe that a customer uses his/her personal values as a frame to value the service that he/she consumed.

Consequently, it is hypothesized that:

H2: There is a positive impact of service personal values on service value towards a service.

H3: There is a positive impact of service value on customer loyalty towards a service.

Service personal values, switching costs and customer loyalty

To customer, *switching costs* refer to additional costs a customer must pay for changing to new service providers, or the risk of using new service providers (Jones et al., 2000). These costs include the consumer's perception of time, money, and effort associated with changing the current provider. Burnham et al. (2003) divided switching costs into three types: procedural costs (economic risk, evaluation, learning, and set up costs) which related to time and effort expenditures; financial costs which concerned the loss of financial resources; and relational cost which involves emotional discomfort for losing personal relationship. Therefore, if customers see that it takes much cost to change new provider, they will decide to stay with the current one.

Given that switching costs is a barrier to make a customer feels more difficult or costly to change the current provider (Jones et al., 2000) service personal values exist as a part of the customer's life to explain how he/she acts or behaves towards a service (Durvasula et al., 2011). Therefore, this study views a customer's values based on his/her outer and inner states towards switching costs. At the outer side, a person who cares more about respect from others, higher status in society usually looks for a higher quality provider. He/she may easily leave the current provider if there are no costs for changing. At the inner side, a person who prefers a stable life is usually afraid of changing. To this person, switching to other service providers is quite luxurious and risky.

Consequently, it is hypothesized that:

H4: There is a positive impact of service personal values on switching costs towards a service.

H5: There is a positive impact of switching costs on customer loyalty towards a service.

3. Methodology and Results

The research model (Figure 1) and hypotheses were tested using a data set collected from 397 customers using retail-banking services in Vietnam. Convenient sampling with face-to-face interviews was used in this study. The measurement scales of all constructs were adopted from previous studies (i.e. Lages and Fernandes, 2005; Hau and Thuy, 2011; Oliver, 1997). The SEM method with Amos 16.0 was employed to test the measurement and structural models.

The informants who have been used retail banking services less than 3 years accounted for 35.6%; 3-5 years group was 49.9 and 15.5% of them were above 5 years experiencing the service. Table I shows other statistical characteristics of the sample.

Table I: Sample characteristics

| Marital status | % | Age | % | Gender | % | Income | % |
|-----------------------|----------|------------|----------|---------------|----------|---------------|----------|
| Married | 54.8 | 18-35 | 55.9 | Female | 52.3 | < 5 millions | 49.1 |
| Single | 45.2 | >35 | 44.1 | Male | 47.7 | ≥ 5 million | 51.9 |

The scales were refined and validated by exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). For CFA, the distributions of variables showed that all of them gained kurtosis values within (-.715 to +.108). Their skewness values were within (-.501 to +.115). Although the data exhibited slight deviations from normal distribution, it is appropriate for maximum likelihood estimation to be applied because all the absolute values were less than 3.0 for skewness and 10.0 for kurtosis (Kline, 1998). Of the 34 original items, 10 items were excluded due to low factor loading or cross loading. The results show that factor loadings of all remaining items on their designate constructs range from 0.775 to 0.895, indicating satisfactory level of convergent validity (Hair et al., 2006). The composite reliabilities for constructs ranged from 0.846 to 0.908.

The correlations between constructs ranged from 0.221 to 0.807, which were lower than 0.85, meaning that all scales achieved discriminate validity (Kline, 1998). In sum, the results of CFA indicated that all measurement scales achieved reliability, convergent and discriminate validity.

The theoretical model was then estimated. Model estimation results in a satisfactory fit between the model and the data with $\chi^2=553.151$; $df.=242$; $p=.000$; $\chi^2/df.=2.286$; $GFI=.894$; $TLI=.943$; $CFI=.950$; $RMSEA=.057$; $HOETLER=200$.

The results (Figure 1) showed that all five hypotheses (H1 – H5) were supported. Service personal values has significant standardized effect on customer loyalty via three paths. The direct effect of service personal values on customer loyalty was $\beta=.247$ ($p=.003$); the indirect effect level via service value was $\beta=.238$ ($=0.470 \times 0.506$) and the indirect effect level via switching costs was $\beta=.072$ ($=0.518 \times 0.139$). The three paths (one direct and two indirect) together indicated a significant value of standardized total effect $\beta=.557$.

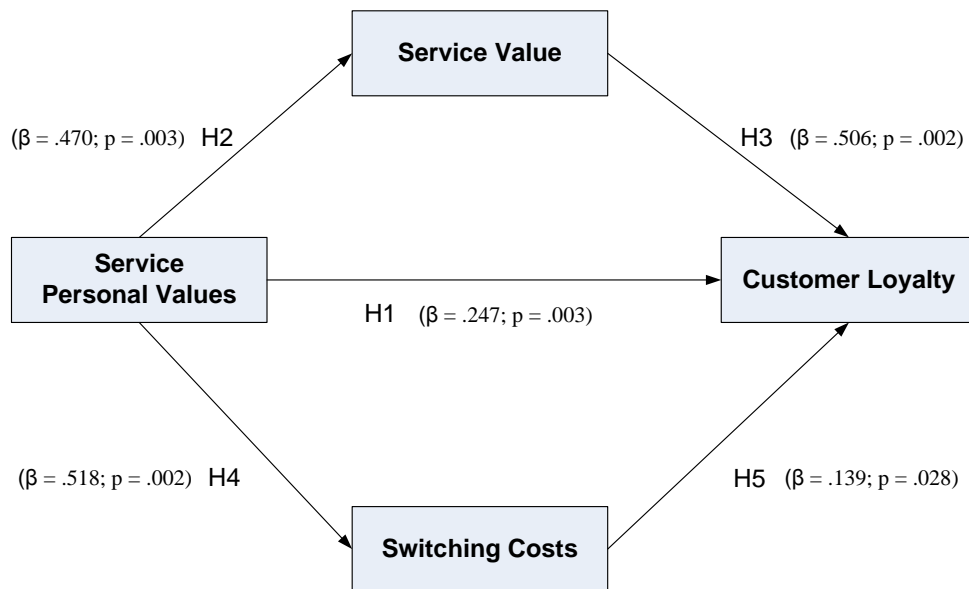


Figure 1: Model of Service personal values and Customer loyalty relationships

4. Discussion

In this research, all five hypotheses are supported which indicate the existence of three paths (one direct and two indirect effects) of service personal values on customer loyalty. The effect size of direct path is 0.247 and the total effect level of two indirect paths (via service value and switching costs) is 0.310. The direct path shows a consistent result with the previous findings (Thuy and Hau, 2010; Carlson, 2000). The indirect path via service value can be explained that after experiencing the service, a customer will base on his/her personal values to subjectively judge the service (i.e. service value) which can derive his/her own behavior (i.e. customer loyalty) towards the service. The indirect path via switching costs indicate the role of service personal values as a frame that a customer uses to adjust his/her attitude towards any added benefits (i.e. switching costs) which may lead to his/her decision to stay or change the current service provider (i.e. customer behavior). If well understanding the above relations service providers know that not only service quality itself but personal values also affect a customer's decisions towards the service.

About the roles of two mediating constructs, the results show that service value ($\beta=0.506$) has a stronger impact on customer loyalty than switching costs ($\beta=0.139$). This empirical result supports the value-in-use concept of S-D logic perspective (Vargo and Lusch, 2004). A customer values a service based on what he/she gives and gets, so a highly judgment to the service implies that he/she will repurchase or give positive talks about the service. Therefore, compared the effects of two indirect paths, the indirect path via service value has a stronger effect on customer loyalty ($\beta=0.238$) than the indirect path via switching costs ($\beta=0.072$).

In addition, the strong effect of service personal values on switching costs ($\beta=0.518$) in this study implies that switching costs is a significant tool that service marketers can use to maintain current customers by offering better conditions or appearance in comparison with other providers.

5. Conclusion

The current study attempted to investigate the different paths from service personal values to customer loyalty, which includes service personal values, service value and switching costs. It reinforces the role of service personal values in predicting customer's behaviors towards a service.

From a managerial point of view, the findings suggest that in order to build a good relationship with customers, bank managers should create the environment/conditions where the customers and bank (e.g. bank's employees and facilities) become co-producers in the process of creating service values. The assessment of service value is not only focusing on the service quality itself but also on what and how customers judge the service. In so doing, bank managers should frequently communicate with their current customers to figure out what they weigh (strength, weakness) the bank services. Through the customer feedback, bank managers can find the ways to improve the service offerings (Valenzuela, 2009) to keep customers staying with the bank.

Beside the above contributions, this study also has a number of limitations that suggest future studies. First, the generalizability of the results is somehow limited due to data collected from only retail banking customers in Ho Chi Minh City. Second, the discussion is based on only three antecedents including service personal values, service value and switching costs. Other antecedents should be included in figuring out other paths from service personal values to customer loyalty, i.e. service quality.

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7. Appendix

Appendix I. Correlations between constructs with 95 percent confidence interval

| Parameter | | | Estimate | Lower | Upper | P |
|---------------------|------|---------------------|----------|-------|-------|------|
| PEACEFUL LIFE | <--> | SOCIAL RECOGNITION | .584 | .515 | .654 | .002 |
| PEACEFUL LIFE | <--> | SOCIAL INTERGRATION | .498 | .411 | .578 | .002 |
| PEACEFUL LIFE | <--> | PROCESS VALUE | .393 | .288 | .497 | .003 |
| PEACEFUL LIFE | <--> | OUTCOME VALUE | .465 | .378 | .546 | .003 |
| PEACEFUL LIFE | <--> | SWITCHING COST | .388 | .287 | .484 | .002 |
| PEACEFUL LIFE | <--> | LOYALTY | .483 | .380 | .568 | .004 |
| SOCIAL RECOGNITION | <--> | SOCIAL INTERGRATION | .675 | .598 | .743 | .002 |
| SOCIAL RECOGNITION | <--> | PROCESS VALUE | .333 | .229 | .428 | .003 |
| SOCIAL RECOGNITION | <--> | OUTCOME VALUE | .299 | .200 | .378 | .003 |
| SOCIAL RECOGNITION | <--> | SWITCHING COST | .346 | .245 | .440 | .002 |
| SOCIAL RECOGNITION | <--> | LOYALTY | .370 | .280 | .455 | .003 |
| SOCIAL INTERGRATION | <--> | PROCESS VALUE | .221 | .125 | .312 | .003 |
| SOCIAL INTERGRATION | <--> | OUTCOME VALUE | .286 | .199 | .376 | .002 |
| SOCIAL INTERGRATION | <--> | SWITCHING COST | .451 | .360 | .542 | .002 |
| SOCIAL INTERGRATION | <--> | LOYALTY | .442 | .357 | .517 | .003 |
| PROCESS VALUE | <--> | OUTCOME VALUE | .807 | .751 | .856 | .003 |
| PROCESS VALUE | <--> | SWITCHING COST | .221 | .120 | .333 | .001 |
| PROCESS VALUE | <--> | LOYALTY | .602 | .526 | .664 | .003 |
| OUTCOME VALUE | <--> | SWITCHING COST | .311 | .211 | .411 | .002 |
| OUTCOME VALUE | <--> | LOYALTY | .583 | .508 | .646 | .003 |
| SWITCHING COST | <--> | LOYALTY | .410 | .313 | .504 | .002 |