

Customer Loyalty Development: The Role Of Switching Costs


Valentina Stan, ESSCA School of Management, LUNAM University, France
Barbara Caemmerer, ESSCA School of Management, LUNAM University, France
Roxane Cattan-Jallet, ESSCA School of Management, LUNAM University, France

ABSTRACT

Customer loyalty plays a crucial role in firm's performance. Over the last three decades the antecedents of customer loyalty in the service sector have attracted great interest by academics and practitioners alike. This study has two key objectives. First, we investigate how image perceptions, service quality and customer satisfaction contribute to customer loyalty. The results show that the organizational image customers hold of the service provider and perceived service quality have a similarly strong relationship with customer loyalty. Moreover, both, service quality and organizational image are significantly and positively correlated with customer satisfaction. The findings highlight that it is in particular through the formation of customer satisfaction that service quality and organizational impact customer loyalty. Thus, we can demonstrate that customer satisfaction has a mediating effect between external and interactive marketing initiatives and the development of customer loyalty. Second, we investigate the role of switching costs in the development of customer loyalty. The findings indicate that perceived switching costs, here assessed in terms of price sensitivity, have by far the strongest, positive and direct impact on customer loyalty in comparison to the other antecedents included in the model. The importance of switching costs is further corroborated with the finding that switching costs moderate the link between customer satisfaction and customer loyalty.

Keywords: Customer Loyalty; Switching Costs; Service Quality; Corporate Image

INTRODUCTION

 Over the last three decades marketing thinking and practice has experienced a radical shift from transactional to relational logic. Academics and practitioners alike have come to realize that a focus on long-term relational bonds with key stakeholder groups internal as well as external to the organization may positively impact the ultimate financial bottom-line. Of central interest in this context has been the development of customer loyalty. A plethora of studies has investigated how marketing practices can turn one-off customers into loyal advocates for the organization. Amongst the arguments for why loyal customers may be so important for organizational success are that it costs less to keep existing customers than to attract new ones, that loyal customers may become active marketers for the organization by spreading positive word of mouth, as well as the idea that long-term customers can be more easily up- and cross-sold (Heskett et al., 1994; Reichheld, 1993; Reichheld and Sasser, 1990). Overall, there is some evidence to suggest that for a combination of these and other reasons the financial value of a customer increases over their lifetime with an organization (Bolton et al. 2000; Bolton et al. 2004; Heilman et al. 2000; Reichheld 1996; 2001). As such, it is not surprising that the development of customer loyalty has attracted great researchers' and practitioners' interest across services and manufacturing sectors.

In particular the antecedents of customer loyalty have been well researched. A review of the extant literature suggests that there are two main streams – one considering the external and the other the interactive marketing dimension – that can be observed: Both of these are embedded in the services marketing literature and build on the concept of the Service Triangle (Gronroos, 2000). In essence, the concept suggests that in order to achieve long-term success organizations do not only have to consider how to interact with customers on the external dimension where promises are made (e.g. through external communications messages that are sent via online and

offline channels to the target audience), but also on the interactive dimension where promises are delivered (through the direct or remote interaction with employees of the organization). In order to enable the delivery of these promises the organization needs to identify managerial actions, such as the training and equipment of and communication with staff (the internal, third dimension of the triangle).

Research investigating the external marketing dimension mainly builds on marketing communications theories and investigates how communications messages and the use of different channels contribute to image formation and shape consumers' expectations and perceptions of an organization (e.g., van Heerden and Puth, 1995; de Chernatony and Cottam, 2006; O'Loughlin and Szmigin, 2005; Gylling and Lindberg-Repo, 2006; Kay, 2006; Yavas and Shemwell, 1996). On the other hand, studies focusing on the interactive marketing dimension are often based on the Service Profit-Chain (Heskett et al. 1994). In essence, research following this line of enquiry builds on the assumption that employee satisfaction contributes to enhanced service quality for the customer, which in turn positively impacts customer satisfaction, loyalty and long-term profitability.

In reality, as the Service Triangle suggests, both, the external as well as the interactive marketing dimension play a role in forming customers' attitudes during the moment of truth, the encounter with the organization. For example, it may first be external marketing messages that contribute to consumers' expectations towards an organization and its products and services by creating a particular organizational image. If consumers decide on that basis to engage with the company, the interaction with the employees and, in the case of services, the simultaneous production and consumption (prosumption) of the offer during this encounter impacts their perceptions of the organization. It is at this point where positive or negative attitudes towards the provider are shaped. One of the most prominent of these attitudes in the extant literature is customer satisfaction. Research suggests that congruence between customers' expectations and perceptions positively impacts satisfaction, whereas if unmet expectations can contribute to dissatisfaction.

It is particularly difficult for service organizations to effectively and realistically communicate their offer through external marketing initiatives (due to intangibility, presumption, heterogeneity and perishability they are relatively complex, abstract and performance ambiguous offers that are difficult to portray or explain in indirect messages) (e.g. Singh and Sirdeshmukh, 2000). Therefore it is important to understand how the external marketing dimension in conjunction with the interactive marketing dimension impact customer satisfaction and loyalty. Therefore, the first research objective of our study is to assess how image perceptions (created mainly through external marketing initiatives and referrals for new customers, and through a mix of external marketing initiatives, referrals as well as prior experience with the service provider for existing customers) and quality perceptions (created mainly through the interaction between customers and employees) contribute to these two customer outcomes.

The second research objective of our study is to investigate the direct effect of switching costs on customer loyalty and the moderating effect of switching costs on the relationship between satisfaction and loyalty as well as between quality and loyalty and between image and loyalty. According to our knowledge, little is known about the direct effect of switching costs on loyalty and even less about its moderating effect. However, as outlined by Burnham et al. (2003) there is reason to suggest that perceived switching costs of customers impact on repeat purchase decisions and are thus an important factor to consider when adopting marketing managerial practices.

The paper is organized as follows: We will first present our research framework, hypotheses development and conceptual model. This is followed by the methodology, including the measurement model. Finally, the results are presented, followed by the discussion of the results including managerial implications.

LITERATURE REVIEW AND RESEARCH FRAMEWORK

Customer Loyalty

Due to the emergent relational logic of marketing, the concept of customer loyalty has gained rapid attention amongst research and practitioners alike over the last three decades (Roig et al. 2009). The concept is appealing as it is assumed that loyalty can be of great value to the company as well as for the customer (Yang and

Peterson, 2004). According to Reichheld (1996), customers may become loyal to business that can deliver superior value relative to the offerings of competitors. In return, they are willing to invest more into their relationship with the company over time, which leads to increased marketing savings for the organization as well as a higher turnover – ultimately leading to greater profit.

A review of the literature suggests that the conceptualisation and measurement approaches to the loyalty construct have been manifold. There is some consensus that loyalty may exist of different levels, such as the cognitive, emotional and behavioural dimension (Dwyer et al. 1987; Fornell 1992; Lam et al. 2004). Initially, researchers have paid great attention to the behavioural dimension of loyalty, neglecting its cognitive aspect (Jacoby and Chestnut, 1978; Fandos Roig et al. 2009). Dick and Basu (1994) proposed a theoretical framework where loyalty is composed of attitudes and a pattern of behavior. A few years later, Oliver (1999) introduced a model of loyalty based on the cognition-affect-performance paradigm. This is in line with Jacoby and Chestnut (1978) who suggested that customers first move from cognitive loyalty through to the affective and finally conative dimension (see also Olsen, 2002).

Customer Satisfaction

In the main, two types of customer satisfaction are researched in the extant literature (Jones and Suh, 2000; Chiou and Droge, 2006): The first is attribute satisfaction, which refers to a consumer's cognitive satisfaction with a product or a service. The second is overall satisfaction which is defined as "pleasurable fulfillment" and refers to consumers' affective responses towards a product or service (Oliver, 1999; Machleit et al. 2000; Machleit and Mantel, 2001; Westbrook, 1987). According to Oliver (1981) satisfaction is an emotional reaction to a specific product or service experience, which is informed by consumers' perceived gap between the performance of the product or service and their prior expectations (see also Mano and Oliver, 1993; Swan and Oliver, 1989; Tse and Wilton, 1988; Hu et al. 2009).

Considerable attention has been given to the relationship between customer satisfaction and customer loyalty (Fornell, 1992; Oliver, 1999; Yang and Peterson, 2004; Fandos Roig et al. 2009) because customer satisfaction is considered a major driver of the long-term relationship between suppliers and buyers (Anderson and Sullivan, 1993; Geyskens et al. 1999; Fournier and Mick, 1999). According to Reichheld, 1996; Heskett et al. 1994; Lam et al. 2004, increasing customer satisfaction and customer retention leads to improved profits, positive word-of-mouth, and lower marketing expenditures. In the bank sector, the study conducted by Pandey and Devasagayam (2012) showed that an increase in satisfaction improve the relationship of the customers with the bank. Therefore, the following hypothesis is advanced:

H1: Customer satisfaction has a positive effect on customer loyalty.

Service Quality

There is evidence that service quality is more difficult for the customer to evaluate than the quality of physical goods. Considered as a means by customers to differentiate between competing organizations (Marshall and Murdoch, 2001), quality of service is known to contribute to market share and customer satisfaction (Anderson and Zeithaml, 1984; Parasuraman et al. 1985; Zeithaml, 2000; Hu et al. 2009).

Zeithaml (1988) defined perceived service quality as the customer's assessment of the overall excellence or superiority of the service (see also Turner et al. 2010). Chiou and Droge (2006) suggest that "perceived service quality evaluations are cognitive responses at the attribute level. Consumers perceive at least two types: facility service quality, provided by the physical environment and representing the tangible aspects of service, and interactive service quality provided by employees." In the marketing literature, the interactive service quality is an essential component of perceived service quality (Bitner, 1990; Brady and Cronin, 2001; White and Scheider, 2000; Chiou and Droge, 2006). There has been considerable confusion in the marketing literature concerning the difference between perceived service quality and customer satisfaction. To clarify this confusion, Parasuraman et al. (1988) point out that "perceived service quality is a global judgement, or attitude, relating to the superiority of the service, whereas satisfaction is related to a specific transaction" (p.16) (see also Hemmasi et al. 1994).

Many researchers agree with a conceptual framework in which quality performance leads to satisfaction (Anderson and Sullivan, 1993; Fornell et al. 1996; Dabholkar et al. 2000; Olsen, 2002). According to Hurley and Estelmi (1998) the perceptions of service quality affect feelings of satisfaction which, in turn, influence future purchase behavior. The relationship between satisfaction and loyalty is assumed to be weaker than the relationship between quality and satisfaction (Cronin et al. 2000).

Both academics and practitioners have attached great importance to the relationship between perceived quality and loyalty and several studies found this relationship to be positive (Bitner, 1990; Cronin et al. 2000; Fornell, 1992; Parasuraman et al. 1991). Indeed, the study conducted by Parasuraman et al. (1991) found a positive and significant relationship between customer's perceptions of service quality and their willingness to recommend the company. Fornell (1992) highlights that service quality has a positive effect on client retention, which in turn is strongly related to profitability. In the same vein, Boulding et al. (1993) have found positive relationships between service quality, repurchase intentions and positive referral. More recently, research carried out by Bell et al. (2005) suggests that the effects of technical service quality and functional service quality on customer loyalty were significant and positive. However, there are also some studies that could not find a positive relationship between service quality and behavioral intentions (e.g., Hu et al. 2009). In line with the above we propose the following hypotheses:

H2: Service quality has a positive effect on customer satisfaction.

H3: Service quality has a positive effect on corporate image.

H4: Service quality has a positive effect on customer loyalty.

Corporate Image

Several definitions of the image concept exist in the marketing and psychological literature. According to Nguyen and LeBlanc (1998), corporate image is related to the physical and behavioral attributes of the company, such as business name, architecture, variety of products and services, and interaction with the firm's clients (see also Wang, 2010). Image formation is considered as a process by which ideas, feelings, and potentially previous experiences with an organization are stored in memory and transformed into sense based on stored categories (MacInnis and Price, 1987; Hu et al. 2009). Marketing communications can strongly shape an image potential customers hold about an organization and its products and services and can initiate first purchase intentions. As suggested by Bravo et al. 2010, "a strong corporate image is the most effective means for differentiation in banking, and a powerful brand is a proper alternative to reduce perceived risk-taking and obtain a sustainable competitive advantage" (see also van Heerden and Puth, 1995; de Chernatony and Cottam, 2006; O'Loughlin and Szmigin, 2005; Gylling and Lindberg-Repo, 2006; Kay, 2006; Yavas and Shemwell, 1996).

Therefore, develop a strong corporate image is very important for companies because this can lead to customer preference for first time customers as well as loyalty in existing customers (Bravo et al. 2010; Andreassen and Lindestad, 1998). Clearly, once a customer has had a first service encounter with an organization the image they hold is further influenced by this experience. Previous researches have shown that corporate image can have a direct impact on loyalty (Andreassen and Lindestad, 1998; Dick and Basu, 1994; Nguyen & Leblanc, 2001), but also indirect (Ball et al. 2006; Boloemer and de Ruyter, 1998). There is also evidence that the relationship between image and satisfaction (Ball et al. 2006; Boloemer and de Ruyter, 1998) is positive. Therefore, our study suggests the following hypothesis:

H5: Corporate image has positive effect on customer satisfaction.

H6: Corporate image has positive effect on customer loyalty.

Switching Costs

Heide and Weiss (1995) defined switching costs as “the cost involved in changing from one supplier to another.” For Dick and Basu (1994) the domain of switching costs includes both monetary and nonmonetary costs. Burnham et al. (2003) highlight that switching costs have been associated with higher profits (Beggs and Klemperer, 1992), an inelastic response to price (Farrell and Shapiro, 1988), increased product preannouncements (Eliashberg and Robertson, 1988), and barriers to market entry and sustainable strategic advantage (Karakaya and Stahl, 1989; Schmalensee, 1982; Kerin et al. 1992). As pointed out by Dwyer et al. (1987), Heide and Weiss (1995), all else being equal, a customer will prefer existing relationships to economize on switching costs, such as the transaction-specific investments that he made on the relationships.

Lam et al. (2004) suggest that “part of switching cost may involve loyalty benefits that that have to be given up by a customer when his or her relationship with the service provider ends. The enjoyment of these benefits may lead the customer to recommend the provider to other customers” (p. 297). According to the same authors, switching costs have a positive and significant effect on behavioral loyalty (patronage and recommendation). Therefore, we put forward the following hypothesis:

H7: Switching costs have a positive effect on customer loyalty.

The Moderating Role of Switching Costs

Only recently researchers have started to investigate the moderating effects of switching costs in the formation of customer loyalty (Lam et al. 2004; Yang and Peterson, 2004; Wang, 2010). As for the relationship between satisfaction and loyalty, researchers have analyzed the moderating effect of switching costs with mixed results (Burnham et al. 2003; Jones et al. 2000; Petterson and Smith, 2003). Jones et al. (2000) found that the impact of customer satisfaction on repurchases intentions decreases under conditions of high switching costs. Another study carried out by Lee et al. (2001) discovered that switching costs imposed a moderating effect on customer loyalty. However, Lam et al. (2004) did not find support for this notion.

Fewer studies have considered switching costs as a moderator on the relation between corporate image and loyalty (Wang, 2010). When switching costs increase, it is possible that dissatisfied customers maintain the service provider, even if the image of the firm is subject to a negative change. The study conducted by Wang (2010) showed that as switching costs increase, the relationship between corporate image and customer loyalty diminishes (and also that as corporate image increases, the effect of switching costs on customer loyalty decreases).

Moreover, Jones et al. (2000) highlight that customers with low switching costs will examine more carefully the service quality they receive than customers with high switching costs. According to Wang (2010), customers may stay with a service provider despite a reduction in service quality if the perceived costs of undertaking supplementary search for a new one outgrow the potential benefits of switching. However, Bell et al. (2005) could not find support for the notion that the link between service quality and customer loyalty is moderated by perceived switching costs.

In conclusion, it appears that more research is necessary in order to understand the role of switching costs in the formation of customer loyalty. As this line of inquiry has only recently emerged, empirical results have so far been relatively scarce and partly contradicting. Therefore, we test the following hypotheses:

H8: Switching costs moderate the link between customer satisfaction and customer loyalty.

H9: Switching costs moderate the link between service quality and customer loyalty.

H10: Switching costs moderate the link between image and customer loyalty.

The proposed conceptual model described above is illustrated in figure 1:

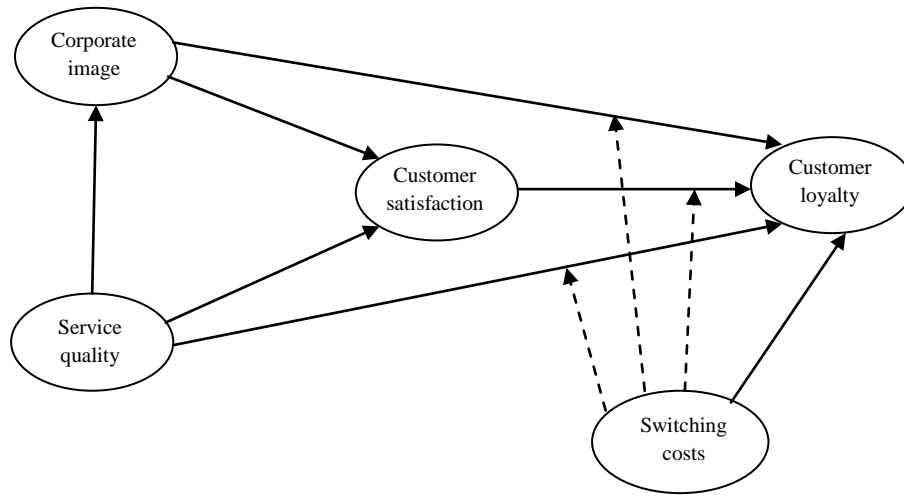


Figure 1. Proposed Conceptual Model
 Note: - -> moderating effect -> direct effect

METHODOLOGY

The design of the questionnaire was based on scales adapted from previous studies. All the items are scaled from 1 to 10. Value 1 expresses strongly disagree while value 10 expresses strongly agree.

Corporate image. We used four items assessing the corporate image dimensions competence, agreeableness and innovation as suggested by Syed Alwi and da Silva (2007).

Service quality. As there is no consensus in the literature on how to conceptualize and measure service quality (Cronin and Taylor, 1994; Gronroos, 2000; Parasuraman et al. 1991), we decided to use a 5-item scale that captured perceptions of overall service quality, as well as quality perceptions that relate to functional and technical aspects of the service (Bell et al. 2005).

Customer satisfaction. Overall satisfaction with the services received was captured by using a single-item (Mittal and Kamakura, 2001). To strengthen reliability, an additional item was used to assess fulfilment of expectations (Oliver, 1981).

Customer loyalty. Again, as there is little consensus on how to measure this construct, we included items that have already been used in the marketing literature and include the cognitive, emotional and conative dimension of loyalty (Jacoby and Chestnut, 1978; Oliver, 1999; Olsen, 2002).

Switching costs. Respondents were asked to react to a short scenario, which assessed service price elasticity and customer switching considerations.

Table 1. Questionnaire Items

Constructs and Items
<p>Corporate Image Competence: Very professional, reliable Agreeableness: Close to their clients Innovation: Innovative</p>
<p>Service Quality The management of your bank account Quality of the person you are in contact with Quality of electronic access to your accounts Overall quality of products that matter to you Overall quality service</p>
<p>Customer Satisfaction Overall satisfaction of your bank Fulfillment of expectations</p>
<p>Customer Loyalty Overall evaluation of bank offer Liking of bank Recommending the bank</p>
<p>Switching Costs Suppose that your bank raises the costs (interests on loans, commissions and other charges) but other banks stay on the same level as today. How much (in percent) can your bank raise the costs before you would definitively choose another bank for your personal needs</p>

The sample was randomly generated from the population of clients of major banks in France. A total of 881 respondents participated in the study.

FINDINGS

To test the model depicted in figure 1 we use the Partial Least Squares (PLS) approach (Wold, 1966; Chin, 1998a; Tenenhaus et al. 2005) with XLSTAT 2013 software. The data are analyzed in two sequentially stages. First, we test the measurement model by assessing reliability, dimensionality and validity (Bagozzi, 1981). Second, we test the structural model by estimating the path coefficients between the constructs.

Measurement Model

The relationships between the manifest and their latent variables are assumed to be reflective here (Chin, 1998; Jarvis et al. 2003). We used Cronbach’s α to establish the consistency and reliability of each construct. Table 1 shows that all α values satisfy reliability analysis conditions: $\alpha > 0.7$ (Tenenhaus et al. 2005) and all constructs are uni-dimensional.

Table 2. Reliability and Unidimensionality

Latent Variable	Cronbach’s α	First Eigenvalue	Second Eigenvalue
Quality	0.842	3.086	0.709
Image	0.820	2.601	0.564
Satisfaction	0.784	1.645	0.355
Loyalty	0.741	1.981	0.613

Convergent validity is assessed with the Average Variance Expected (AVE) (Fornell and Larcker, 1981; Chin, 1998). According to Chin (1998), constructs with an AVE ≥ 0.50 are said to exhibit convergent validity (see also Fornell and Larcker, 1981). Table 2 indicates that all AVE exceed 0.50, confirming that all constructs demonstrate satisfactory convergent validity.

Table 3. Average Variances Extracted

Latent Variable	AVE
Service Quality	0,617
Corporate Image	0,650
Satisfaction	0,822
Loyalty	0,659

Discriminant validity is determined from the latent variable correlation matrix. The following table presents the correlations between the latent variables in the lower left, off-diagonal elements of the matrix, and the square root of the AVE. Discriminant validity is satisfactory if the diagonal values are larger than the off-diagonal values (Fornell and Larcker, 1981). Table 4 shows that these conditions are satisfied.

Table 4. The Latent Variable Correlation Matrix with Square Root of AVE on the Diagonal

Construct	Service Quality	Corporate Image	Satisfaction	Loyalty
Service Quality	0.785	0,777	0,752	0,660
Corporate Image		0.806	0,772	0,677
Satisfaction			0.907	0,756
Loyalty				0.812

Structural Model

The results suggest that the overall model fit, estimated using the Goodness of fit (GoF) index, is satisfactory: GoF= 0.711, which is superior to the recommended level of 0.5 (Tenenhaus et al. 2005). *R*² values show an indication of the predictive ability of the independent variables. As we can see in table 5, the theoretical model explains 63% of the variance of the customer loyalty, which proves a very satisfactory predictability. Furthermore, image and service quality explain 66% of the variance of customer satisfaction and service quality explains 60% of the variance of corporate image.

The results of the structural model are reported in the following table:

Table 5. The Results of the Structural Model

Dependent Variable	Independent Variables	Path Coefficient	Student's t	p-value
Loyalty (R ² =0.628)	Image	0.144	3.381	0.000
	Satisfaction	0.544	13.645	0.000
	Service Quality	0.144	3.554	0.000
	Switching costs	0.766	5.311	0.000
	Satisfaction x Switching costs	-0.597	-3.181	0.000
	Service Quality x Switching costs	-0.042	-0.202	0.840
	Image x Switching costs	-0.012	-0.053	0.958
Satisfaction (R ² =0.655)	Image	0.473	15.001	0.000
	Service quality	0.385	12.218	0.000
Image (R ² =0.604)	Service quality	0.777	36.619	0.000

We can see that eight of the ten hypotheses are statistically significant. As expected, customer satisfaction, service quality, corporate image and switching costs are powerful predictors of customer loyalty. Thus, H1, H4, H6 and H7 are supported, however it is worth noting that the most important variable explaining the variation of customer loyalty is switching costs (path coefficient = 0.766; p-value= 0). Another result to note is that image and service quality have the same effect on customer loyalty (path coefficient =0.144, p-value= 0).

Hypotheses H2 and H5 stated that service quality and corporate image would be positively related to customer satisfaction. Both hypotheses were supported, nevertheless the effect of image on customer satisfaction is greater (path coefficient = 0.473; p-value= 0) than the effect of service quality (path coefficient = 0.385; p-value= 0). Therefore, both H2 and H5 are supported. With regard to the relationship between service quality and image, our results show that H3 was supported (path coefficient = 0.777, p-value= 0).

Moderating Effects of Switching Costs

Hypotheses H8, H9 and H10 posit the moderating effects of switching on the relation between satisfaction and loyalty as well as between service quality and loyalty and between image and loyalty. With regards to H8, the interaction's negative sign supports our prediction that as switching costs increase, the association between customer satisfaction and customer loyalty diminishes (and also that as customer satisfaction increases, the effect of switching costs on customer loyalty decreases). Thus, H8 is supported.

Unexpectedly, the moderating effect of switching costs on the relationship between service quality and customer loyalty is not significant (path coefficient = - 0.042; p-value= 0.840), and therefore H9 is not supported. The study conducted by Wang (2010) suggests the same result. Finally, H10 is also rejected (path coefficient = - 0.012; p-value= 0.958).

DISCUSSION AND CONCLUSION

Over the last three decades the antecedents of customer loyalty in the service sector have attracted great interest by academics and practitioners alike. The main reason for this is that it has been recognized that loyal customers contribute to the long-term profitability of the firm. We identified through our literature review that the majority of studies have either focused on practices on the external marketing dimension that impact customer loyalty, or on initiatives on the interactive marketing dimension. Based on the Service Triangle concept (Gronroos, 2000) we argued that both these dimensions may play a role in forming customers' satisfaction with the service they receive as well as in the development of customer loyalty and should thus be assessed in conjunction.

We contribute to the literature by showing that, in relation to our first research objective, the organizational image customers hold of the service provider and perceived service quality have a similarly strong relationship with customer loyalty. This suggests that both, the external as well as the interactive marketing dimension have a direct impact on loyalty development. This is an important factor to consider for service management in order to decide how to allocate resources across the different marketing dimensions.

Moreover, both, service quality and organizational image are significantly and positively correlated with customer satisfaction. The findings highlight that it is in particular through the formation of customer satisfaction that service quality and organizational impact customer loyalty. Thus, we can demonstrate that customer satisfaction has a mediating effect between external and interactive marketing initiatives and the development of customer loyalty.

Finally, the findings indicate that there is a positive and significant link between service quality and image – thus highlighting that both marketing dimensions are intertwined. From a managerial perspective this is important as it further reiterates the idea that the actual offer needs to match promises made externally, as perceptions of the performed service will be compared with the organizational image held before the service encounter.

The second research objective of this study was to investigate the role of switching costs in the development of customer loyalty. As the literature review revealed, there is reason to suggest that perceived switching costs of customers impact on repeat purchase decisions and are thus an important factor to consider when adopting marketing managerial practices. Therefore, we assessed the moderating effect of switching costs on the relationship between satisfaction and loyalty as well as between quality and loyalty and between image and loyalty. Further, we investigated whether switching costs have a direct impact on customer loyalty.

Our results show that perceived switching costs, here assessed in terms of price sensitivity, have by far the strongest, positive and direct impact on customer loyalty in comparison to the other antecedents included in the model. This further strengthens the notion that perceptions of increased switching costs, which manifest themselves in reduced price sensitivity, are particularly important in establishing a loyal customer base. From a managerial perspective it is thus important to understand how barriers to switching can be further increased. Clearly, in some service industries perceived switching costs will be inherently higher – such as the banking industry, which can be considered as providing services that are relatively high in intangibility and customer involvement.

The importance of switching costs is further corroborated with the finding that switching costs moderate the link between customer satisfaction and customer loyalty. We can demonstrate that if switching costs increase, the link between customer satisfaction and loyalty weakens. From practical point of view, the results confirm the importance of the creation of switching costs in order to retain existing customers in case perceptions of customer satisfaction drop. According to Burnham et al. (2003), financial switching costs – as investigated here – may have the lowest effect on customer loyalty. Thus, it should be further investigated to what extent procedural and relational switching costs may aid in establishing customer loyalty.

Finally, banks should pay special attention in building long-term clients, as switching costs increase over time, whereas they are lower at the beginning of the relationship. As highlighted Bell et al. (2005), “the spirit of relationship marketing and customer retention underscores the importance of looking after older more established clients rather than simply chasing after new ones” (p. 180).

To conclude we provide some limitations and recommendations for future research. As we only collected data in a single service sector, we suggest the replication of this study in other sectors in order to test the generalizability of our findings. Second, as we noted above, there are controversies concerning the definitions of customer satisfaction, service quality, organizational image and customer loyalty. It is possible that other measurements of these constructs may have yielded different results. Finally, to measure switching costs we used a single item, concentrating on financial switching costs. Due to the complex nature of this construct (Jones et al. 2002), future studies may be required to further explore its impact on customer loyalty in the context of the banking system.

AUTHOR INFORMATION

Valentina Stan, Ph.D., Associate Professor of Marketing, ESSCA School of Management, LUNAM University, 55 Quai Alphonse Le Gallo, 92513 Boulogne Billancourt Cedex, France. Dr. Stan received her Ph.D from CNAM Paris. Her research interests include customer satisfaction and loyalty, Structural Equation Modelling. E-mail: valentina.stan@essca.fr (Corresponding author)

Barbara Caemmerer, Professor of Marketing, ESSCA School of Management, LUNAM University, 55 Quai Alphonse Le Gallo, 92513 Boulogne Billancourt Cedex, France. Before joining ESSCA, Paris, as a Professor, Barbara Caemmerer worked for several years in the Department of Marketing at the University of Strathclyde, Glasgow, where she also earned her PhD. Barbara’s research interest is in the field of services marketing and management, as well as franchising. E-mail: barbara.caemmerer@essca.fr

Roxane Cattan-Jallet, Ph.D., Assistant Professor of Statistics, ESSCA School of Management, LUNAM University, 55 Quai Alphonse Le Gallo, 92513 Boulogne Billancourt Cedex, France. Roxane Cattan-Jallet holds a PhD. in Statistics from University Paris VI in 2008 before joining ESSCA as Assistant Professor and ESCP Europe as Affiliate Professor. Her research works deal with functional data analysis and nonparametric regression. E-mail: roxane.cattan-jallet@essca.fr

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