The Effect of Corporate Image in the Formation of Customer Loyalty

An Australian Replication

Allison E. Hart & Philip J. Rosenberger III

Abstract

Using a mall-intercept survey of 116 female Grace Bros. customers who had had a shopping experience at the upmarket department store in the previous six months, Andreassen and Lindestad’s (1998) model of corporate image and its influence on customer loyalty was evaluated using path analysis. The results are generally consistent with the previous study, with corporate image having a significant impact on core service and customer satisfaction perceptions. Corporate image was found to have only a marginally significant direct influence on customer loyalty, though the total effects of corporate image (both direct and indirect) on customer loyalty are much more substantial.

Keywords: Replication, Corporate image, Loyalty, Department store retailing, Grace Bros.

1. Introduction & Background

This paper replicates the model proposed by Andreassen and Lindestad (1998, hereafter referred to as ‘A&L’) relating to the effect of corporate image in the formation of customer loyalty. Drawing on the disconfirmation-of-expectations paradigm (e.g. Oliver, 1980), A&L propose that customer loyalty is based on an attribute-performance evaluation path (quality\(\rightarrow\)disconfirmation\(\rightarrow\)satisfaction) and an image path (corporate image\(\rightarrow\)service quality, corporate image\(\rightarrow\)customer satisfaction and corporate image\(\rightarrow\)customer loyalty). This is illustrated in Figure 1. To contrast goods and services for high-involvement products characterised by long-term customer relationships, A&L evaluated their model for regional newspapers and insurance services in Norway.

Replication means the reproducibility or stability of research results (Monroe, 1992). Though replication has an acknowledged role in marketing and the social sciences and its advancement (Monroe, 1992; Bass, 1993; Madden, Easley and Dunn, 1995; Easley, Madden and Dunn, 2000; Hunter, 2001), there has been a reluctance to publish replication studies (Easley and Madden, 2000, Hubbard and Lindsay, 2002), with few strict replication studies having been reported in marketing (Madden, Easley and Dunn, 1995; Easley, Madden and Dunn, 2000). Replication contributes to the establishment of external validity, by enabling the generalisation of findings to other populations (Easley, Madden and Dunn, 2000), since “A result which does not hold next time is generally of little practical use” (Uncles, Hamond, Ehrenberg and Davis, 1994, p. 376). Replications help to establish boundary conditions (Lynch, 1999) for theories where the generalisation will fail to hold, which leads to ‘higher level’ understanding (Bass, 1995) and the advancement of science.

The importance of replications for validating results is emphasized by Hunter (2001 p. 155) who admonishes that: “We desperately need replication studies”. Only about 3% of published marketing studies consist of replications-with-extensions (Hubbard and Lindsay, 2002), yet Hunter (2001) calculates that, depending on the accuracy desired and the average sample size, ten replication studies are needed even for rough or approximate estimation. To accurately validate the original findings of a given study he suggests upwards of hundreds of replications are needed in large sample domains and thousands of replication studies in small sample domains. Easley et al. (2000) described three different types of replications: duplication, similar and modification, which reflect the extent to which the original study is followed. Monroe (1992) notes that replications can vary according to their timing, the researchers conducting the work and the level of planned similarity; he argues that replications involving
modifications are preferable, such as those by different researchers at different times and locations.

The present study comprised a replication designed to explore the cross-cultural generalisability of the original A&L findings to the Australian storefront-retailing context. Cross-national testing of the applicability of consumer-behaviour theories is needed in the ongoing expansion and integration of the global marketplace (Durvasula, Andrews, Lyonski and Netemeyer, 1993) and is the case for a number of replications (Easley et al., 2000). As the attitudes of consumers might vary across countries, a standardised marketing approach across cultural boundaries may have varying effects, some of which could be negative (Neal, Quester and Hawkins, 2000; de Mooij and Hofstede, 2002). The convergence of technology, income and media promotes homogenous consumption behaviour, though recent empirical research has concluded that cultural differences will lead to more heterogeneous behaviours (e.g., de Mooij and Hofstede, 2002, found that culture has become a more useful explanatory variable than national wealth for predicting and explaining consumer behaviour across a range of European countries - see also Netemeyer, Durvasula and Lichtenstein, 1991). Thus, relationships among constructs in our models must be established in a cross-cultural context in order to identify what, if any, cross-cultural confounds or limitations may exist with respect to the theory or model’s generalisability – otherwise the (unrecognised) presence of these confounds could give rise to misleading inferences (Durvasula, Andrews, Lyonski and Netemeyer, 1993). Establishing the cross-cultural bounds of theories such as A&L also gains currency with more retailers operating the same or similar retail formats and operations internationally (e.g., The Body Shop, IKEA, Toys-R-Us).

This study also extends the original A&L study to the storefront retail context (i.e., department stores in a shopping mall), which provides an alternative ‘product category’ for testing, in that consumers are likely to process information about and/or respond differently to different types of retail stores and/or product categories (Baker et al., 2002). A&L examined regional newspapers and insurance (acquired through regional salesforces) to represent differences in goods versus services. These were categorised by A&L as offering high-involvement products/services with long-term customer relationships. In the case of the newspaper, the consumer interacts with the product on a daily or weekly basis (by reading), whilst the insurance service is ‘consumed’ daily, although actual interaction with the firm will likely only occur if a claim is made or when the policy is renewed (i.e., once or twice a year). In both cases, there is a general lack of storefront retail interaction (i.e., bricks-and-mortar) and an absence of the rest of the nine retail-mix elements (Merrilees and Miller, 1996). Furthermore, the newspaper and insurance product/service experiences are likely to take place in the home for the most part. In contrast, retail storefront environments are extremely complex in practice (Kozinets et al., 2002), with retail storefront consumers experiencing multiple store-environment cues simultaneously that influence their perceptions of the retailer (Baker et al., 2002). Thus, the retail storefront context of this replication study provides a greater range of retail-mix elements designed to impact on the consumer’s evaluation process—such as merchandising, store design and customer service—than in the A&L study. The contextual focus on a Grace Bros. department store provides a combined assessment of both tangible elements (e.g., store-design materials and features, and merchandise) and intangible elements (e.g., customer service, and a ‘premium’ department-store brand) in an alternative location (i.e., the retailer’s store located in a shopping mall).

One feature of storefront retailers is that store image (and its perceptions by consumers) is something that they take seriously in its role as a strategic competitive tool (Reardon, Miller and Coe, 1995). Storefront retailers devote considerable energy and resources to plan and build a physical space that creates the retail purchase setting (Baker, Grewal and Levy, 1992; Ward, Barnes and Bittner, 1992; Little and Czech, 2002). The retail store can be seen as “a bundle of cues, messages and suggestions which communicate to shoppers” (Markin, Lilis and Narayana, 1976, p. 43), where the image of a store is a combination of factual and emotional material, and, like a photograph, “...is more than the sum of its parts” (Oxenfeldt. 1974-1975, p. 9). Managers are encouraged to “engineer customer experiences” that establish and maintain customer preference for an institution, much as Disney has done with its theme parks and Barnes & Noble with its bookstores (Carbone and Haeckel, 1994), purposively using store atmospheres and servicescapes in this process. Kotler (1973-1974, p. 50) defined atmospheres as “the effort to design buying environments to produce specific emotional effects in the buyer that enhance his purchase probability,” suggesting that one of the most significant features of the product is the place where it is bought or
consumed. In some cases, the place, more specifically the atmosphere of the place, is more influential than the product itself in the purchase decision. In exploring servicescapes, Bitner (1992, p. 65) refers to atmosphere as “a complex mix of environmental features” consisting of an “endless list of possibilities... involving ambient conditions, spatial layout and functionality, and signs, symbols and artefacts”. Ambient conditions include temperature, lighting, noise, music and scents that affect the senses. For example, Kerin, Howard and Jain (1992) demonstrated that store-related stimuli in a retail setting can shape merchandise price and quality perceptions and consumer impressions of store value. More recent work by Baker et al. (2002) found that three types of store-environment factors—social factors (store employee perceptions), design factors (store design perceptions) and ambient factors (store music perceptions)—had significant direct effects on store-choice criteria—interpersonal service quality, shopping experience costs and merchandise value—and significant indirect effects on the resulting store patronage intentions. In sum, through manipulation of the store-environment factors, the retailer seeks to communicate ‘something’ (a certain image) to shoppers, bring about a pleasant shopping experience and, thus, encourage repeat patronage.

The focus of this research is Grace Bros., part of the Coles-Myer retail group. At the time of this research, Grace Bros. was one of Australia’s leading department stores, with a geographical focus on New South Wales and the Australian Capital Territory. Myer stores were located in the remaining five states (Myer/Grace Bros. Fact Sheet, 1993). This distinction persisted until mid-2004 when Grace Bros. stores were re-branded as Myer stores (this change occurred after the date of our study). Grace Bros was a name that was interwoven with Australian history. The brand had been in existence since 1895 – over 100 years – and it had become synonymous with quality, class and service – a premium department store (Myer/Grace Bros Fact Sheet, 1993).

Thus, the purpose of this paper is to replicate the Andreassen and Lindestad (1998) study and determine if their Corporate Image-Customer Loyalty model generalises to the Australian department-store sector through the examination of the Grace Bros department store context. The rest of the paper is structured as follows: first, the methodology is described, followed by the presentation of the results and a comparison with the original study, with the conclusion thereafter.

2. Methodology

A self-administered, mall-intercept survey was used. In this study, the respondents targeted were women aged between 20 and 55 years of age, as this group had been identified as representing the typical or core customers of Grace Bros. and their main target market (Evans, 2001). This was confirmed by store managers. Focusing on core customer groups (i.e., women aged 20-55 in this case) is recommended for gaining more meaningful insights when conducting customer-loyalty research (Reichheld, 1996), and combined with focusing on one company improves the internal validity of the study (Malhotra et al., 2002). The Charlestown Square Mall Grace Bros was used as the focal store. Charlestown Square is a large, regional shopping mall located in a metropolitan suburb of Newcastle, NSW. To ensure that evaluations were based on recent experiences of the Charlestown Grace Bros. store, respondents were disqualified if they had not shopped at the store in the previous six months (Cronin et al., 2000). Interviews were undertaken in Charlestown Square Mall and the Hunter Street Mall in Newcastle, with care taken to randomise the data collection through the strategies of approaching every fourth woman, surveying in multiple locations and surveying at different times of day (Sudman, 1980; Mehta et al., 2000).

116 useable questionnaires were collected. The female respondents were 34 years old on average, ranging from 20 to 50. Some 45 different postcodes and suburbs were represented, with a varied mix of 40 different occupations being reported. Respondents reported shopping at Charlestown Grace Bros. approximately every six weeks on average, with 28% visiting once a month (mode) and 60% of all respondents shopping at Charlestown Grace Bros once a month or more frequently. Thus, respondents were judged to represent a reasonable cross-section of Grace Bros. core customer group, have sufficient recent and ongoing experience with shopping at the store and were deemed suitable for analysis.

For this analysis, A&L’s measures were reworded and modified as required to reflect the Grace Bros. department store context, and confirmed through pre-testing. The constructs were represented by summated (mean) scores, excluding Disconfirmation, which was measured by a single item. Construct reliabilities were comparable to A&L’s and are as follows: Core Service (five items, α = .63), Customer Satisfaction (two items,
α = .74), Corporate Image (three items, α = .66) and Customer Loyalty (two items, α = .77). Path analysis was used to test the model (shown in Figure 1), as it is more efficient than structural equation modeling (SEM), yields an acceptable variable-to-sample-size ratio and produces comparable results to SEM (Li and Calantone, 1998; Grapentine, 2000). Path analysis has also been used in other marketing studies to validate models and confirm results from other research techniques (e.g. Goldsmith et al., 2000; Chaudhuri, 2002).

3. Results

The path model was tested using the maximum likelihood (ML) method in AMOS 4.0.1. The advantage of using AMOS is that an overall model fit is produced as well as modification indices for suggested model improvements. The fit statistics fall within the recommended ranges indicating a good model fit to the data (Byrne, 2001): χ² (2) = 2.07, p = .355, GFI = .993, AGFI = .947, RMR = .007, RMSEA = .017. A check of the model diagnostics was also positive, showing only two small standardised residual covariances (both less than ±1), with no suggested modifications greater than four reported. Grapentine (2000) noted the potential for error-term differences in the way structural equation modelling programs (e.g. AMOS) calculate model estimates versus OLS (ordinary least squares), therefore the path model was also estimated using OLS in SPSS. The OLS path coefficients and variance explained were the same as the AMOS results, with no problems indicated in the multicollinearity and residual diagnostics.

The construct correlations are presented in Table 1, and the standardised path coefficients and variance explained are presented in Figure 1. The coefficients were significant (p < .01) for the following paths: Customer Satisfaction → Customer Loyalty, Disconfirmation → Customer Satisfaction, Corporate Image → Disconfirmation, Corporate Image → Customer Satisfaction, and Corporate Image → Customer Loyalty. The Corporate Image → Customer Loyalty path was marginally significant (p = .07). Non-significant paths (p > .34) were found for Core Service → Disconfirmation, and Core Service → Satisfaction. The variance (squared multiple correlations) explained for each of the constructs is as follows: Satisfaction (.70), Image (.32), Disconfirmation (.24) and Core Service (.38). The variance for Loyalty was .34.

The results are consistent with A&L (1998) in a number of areas, suggesting the existence of a certain degree of ‘sameness’ across the two studies, which is one goal of replication research in establishing empirical generalisations (Ehrenberg, 1995; Hubbard and Lindsay, 2002). As seen in Table 2, the results from both studies indicate that corporate image has a significant influence on core service and customer satisfaction, and both studies found no direct significant relationship between corporate image and customer loyalty, which was contrary to A&L’s original expectations. However, this study did find a marginally significant influence, which could be explained by the greater importance placed upon store image by retailers, as well as the overall more involved (both cognitive and affective) consumer storefront retail experience (Baker et al., 2002). In contrast, whilst it was found that image directly influenced disconfirmation for Grace Bros. and A&L’s insurance industry, no significant relationship was found for A&L’s newspaper industry.

As with the exogenous variable results presented in Table 2, the results of the endogenous variables in the path model (presented in Table 3) were similar between Grace

<table>
<thead>
<tr>
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<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
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</thead>
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<td>Loyalty</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Image</td>
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<td>1.00</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Satisfaction</td>
<td>.57</td>
<td>.83</td>
<td>1.00</td>
<td></td>
<td></td>
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<td>.49</td>
<td>.52</td>
<td>1.00</td>
<td></td>
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<tr>
<td>Core Service</td>
<td>.42</td>
<td>.62</td>
<td>.50</td>
<td>.36</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Note: all correlations significant at p < .002
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Figure 1: Standardised Path Model Results for the Current Study (Grace Bros.) (ML estimation)

Note: standardised path coefficients are shown without italics, variance explained is shown in italics, significance levels are: * = $p < .10$, ** = $p < .05$, *** = $p < .01$

Table 2: The Effect of the Exogenous Variable (Corporate Image): Comparison of Standardised Path Coefficients for the Current Study and Andreassen and Lindestad’s Study

<table>
<thead>
<tr>
<th>Corporate Image</th>
<th>Grace Bros.</th>
<th>Newspaper Industry</th>
<th>Insurance Industry</th>
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<tbody>
<tr>
<td>Core Service</td>
<td>.62</td>
<td>.86</td>
<td>.78</td>
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<tr>
<td>Disconfirmation</td>
<td>.42</td>
<td>n/s</td>
<td>.74</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>.78</td>
<td>.36</td>
<td>.92</td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>.25 (marginal sig.)</td>
<td>n/s</td>
<td>n/s</td>
</tr>
</tbody>
</table>

Table 3: The Effect of Endogenous Variables (Core Service, Disconfirmation and Customer Satisfaction): Comparison of Standardised Path Coefficients for the Current Study and Andreassen and Lindestad’s Study

<table>
<thead>
<tr>
<th></th>
<th>Grace Bros.</th>
<th>Newspaper Industry</th>
<th>Insurance Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Service</td>
<td></td>
<td>Core Service</td>
<td>Core Service</td>
</tr>
<tr>
<td>Disconfirmation</td>
<td>n/s</td>
<td>.62</td>
<td>n/s</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>n/s</td>
<td>.15</td>
<td>.49</td>
</tr>
<tr>
<td>Customer Loyalty</td>
<td>.36</td>
<td>.73</td>
<td>.84</td>
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</tbody>
</table>
Bros. and A&L's insurance industry. The core service of the newspaper industry directly influenced disconfirmation and customer satisfaction, whereas there were no significant relationships between the variables in the Grace Bros. and insurance industry studies. Disconfirmation in the newspaper industry directly influenced customer satisfaction, but no significant influence was identified for either the insurance industry or Grace Bros. The one distinct similarity among the three industries was the fact that customer satisfaction had a direct influence on customer loyalty. Table 4 presents the path model's overall standardised total effects (the combined direct and indirect effects).

4. Conclusion

This study has found initial support for the Andreassen and Lindestad (1998) model as tested in the Australian department store context (for Grace Bros.). The results support A&L's views on the direct influence of image in the model, as well as the strong indirect influence of image on loyalty. The Grace Bros results also provide further support for A&L's tangible-intangible product difference, reflecting the differing service-merchandise mix of the three retail categories. Grace Bros. tended to follow a similar (though not exactly the same) pattern as the insurance industry, likely reflecting the greater personal-service component in up-market department stores like Grace Bros. Overall, the results suggest that a certain degree of 'sameness' exists across the two studies, acting as an initial step in travelling down the road to establishing A&L's model as an empirical generalisation.

Potentially, this model is of managerial interest because of the importance of understanding the drivers of customer loyalty – customer satisfaction and corporate image in this case. Though corporate image was found to have only a marginally significant direct influence on customer loyalty, as seen in Table 4, the total effects of corporate image (both direct and indirect) on customer loyalty are much more substantial, as well the influence that corporate image has on core service and customer satisfaction perceptions. Thus, as with A&L's study, these findings show the importance of building a good corporate image in the retail context, something that should be given due consideration at Myer as they go about re-branding Grace Bros. stores and opening new outlets.

As with all research, this study has limitations and identifies areas that can be explored in future research (and in future replications). A cross-sectional sample was used in this study (and by A&L), and though it does not diminish the general 'sameness' in results that was found across the studies and their contribution to the establishment of empirical generalisation, the reader should keep in mind the usual caveats about inferring and suggesting causality rather than establishing it when using SEM techniques (e.g., Rigdon, 2002; Cliff, 1983). Due to the two different analysis techniques used, the absolute differences in the size of the path coefficients for path analysis versus SEM approaches (Grapentine, 2000) should also be kept in mind for those seeking to make direct path-coefficient comparisons across the studies.

The sample was drawn exclusively from women, these being the core Grace Bros. customer group, however this limits the generalisability of the findings to other customer groups (i.e., men). Future research thus warrants replication in a mixed-gender context with other customer groups. A similar limitation arises from the focus on only one department store in one location. Having established initial support for A&Ls model in the Grace Bros context, future research should broaden the focus to include other up-market department stores (e.g., David Jones) as well as other competing retailers and categories, such as general-merchandise retailers identified in department-store price-matching policies.

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Table 4: Path Model Standardised Total Effects (Grace Bros.)

<table>
<thead>
<tr>
<th></th>
<th>Image</th>
<th>Core Service</th>
<th>Disconfirmation</th>
<th>Satisfaction</th>
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</thead>
<tbody>
<tr>
<td>Core Service</td>
<td>.62</td>
<td>.00</td>
<td>.00</td>
<td>.00</td>
</tr>
<tr>
<td>Disconfirmation</td>
<td>.49</td>
<td>.10</td>
<td>.00</td>
<td>.00</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>.83</td>
<td>-.02</td>
<td>.15</td>
<td>.00</td>
</tr>
<tr>
<td>Loyalty</td>
<td>.55</td>
<td>-.01</td>
<td>.06</td>
<td>.36</td>
</tr>
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</table>
(e.g. Big W, K-Mart, Target). Further, though Newcastle’s use as a product test market for Australia suggests that it is a suitably representative single location, further research should investigate different locations with different shopper (socio-economic) profiles. Finally, drawing on Baker et al.’s (2002) findings, future research could extend the A&L model to include the effects of store-environment factors (i.e. social, design and ambient factors) in an antecedent role to core service and image. This could be tested using a nested-model approach to compare A&L’s model both with and without the store-environment factors in the model to see which produces the better fit and explanatory power.

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Biographies

Allison E. Hart, holds an Honours in Marketing, Newcastle Business School, University of Newcastle. This is her first publication.

Philip J. Rosenberger III, holds an M. Science (Marketing), Georgia State University and an M.B.A., Rotterdam School of Management, Erasmus University, and is a Lecturer in Marketing in the Marketing & International Business Group, Newcastle Business School. His research interests include retail innovation, new product development, brand management and green marketing. His research has appeared in journals such as the International Journal of New Product Development & Innovation Management, Sport Marketing Quarterly, Journal of Sustainable Product Development and Business Horizons, as well as in various books and numerous international conferences.

Correspondence Addresses

Allison E. Hart, Marketing & International Business Group, Newcastle Business School, University of Newcastle, Callaghan NSW 2308, Australia. Telephone: +61 403 197 736. Email: Jason78@tpg.com.au. Philip J. Rosenberger III, Marketing & International Business Group, Newcastle Business School, University of Newcastle, Callaghan NSW 2308, Australia. Telephone: +61 (2) 4921 8996. Facsimile: +61 (2) 4921 6911. Email: mgpjr@mail.newcastle.edu.au

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