Customer loyalty: A Relationship Dynamics Perspective

Abstract

Customer loyalty has been widely perceived as an outcome of business relationships (Alejandro *et al.*, 2011; Palmatier *et al.*, 2006; Čater & Čater, 2010). Previous business marketing studies have focused on the associations between relationship dimensions and customer loyalty. They also have specifically focused on either manufacturing or service industries. Additionally, the linkages between different types of customer loyalty and relationship dimensions may be different in different relationship periods. Therefore, the objective of this study is to compare the relationship dimensions leading to behavioural loyalty or affective loyalty in different relationship periods between the service industry and the manufacturing industry. A qualitative study was conducted with 11 in-depth interviews in the UK; 5 in the manufacturing industry and 6 in the service industry. Template analysis was used to analyse the data. Different types of trust, commitment and adaptation are included in this research to study their linkages with behavioural loyalty and affective loyalty in different relationship periods.

The research suggests that the linkages between relationship dimensions and different types of customer loyalty vary in different relationship periods and between industries. In the manufacturing industry, the emergence of trust in an organization, prior to relationship initiation, is very important in building behavioural loyalty. In the service industry, cognitive trust at a personal level, built through seller adaptation, was shown to lead to behavioural loyalty. However, there are also some similarities. Affective and cognitive trust in an organization is very important in building attitudinal loyalty. The nature of trust changes from cognitive to affective in both industries as a relationship continues. Based on a new definition of customer loyalty from a competitive perspective, an evolutionary model is put forward to illustrate the dynamics of customer loyalty. In the model, competing suppliers and experience are identified as elements, and the changes of network positions, technologies and market trends are identified as drivers.

Keywords: *Customer loyalty, relationship dynamics*

Customer loyalty: A Relationship Dynamics Perspective

Introduction

Palmatier *et al.* (2006) recognized the mediation effects of business relationship dimensions of service versus products on customer loyalty, but this was based on data from both business and consumer markets. Hence, the question still remains whether business relationship dimensions leading to high customer loyalty are different between the service industry and the manufacturing industry. In addition, different types of customer loyalty (i.e. attitudinal loyalty and behavioural loyalty) are likely to be the results of different business relationship dimensions. Scant attention has been given to the changes in linkages among dimensions in different relationship periods, whose existence has been implied by Palmatier *et al*. (2013). The research about these linkages is more about static variance based models rather than process based models. However, many researchers argue that the development of relationships is an ongoing process with many stages or periods (Dwyer *et al.*, 1987; Wilson, 1995; Huang and Wilkinson, 2013).This paper aims to fill these gaps by comparing the relationship dimensions leading to behavioural loyalty or affective loyalty in different relationship periods between the service industry and the manufacturing industry.

Business relationship dimensions

Palmatier *et al*. (2007a) examined different perspectives of business relationship dimensions (i.e. commitment-trust, dependence, transaction cost economics and relational norms) and demonstrated that trust, commitment and relationship specific investments were the key drivers of business relationship performance. These will form the basis for this study.

Trust

In business marketing studies, trust has been demonstrated to have positive impacts on business relationships (Palmatier *et al*., 2007a), and its level is perceived to be an attribute in assessing relationship quality (Naude & Buttle, 2000). Trust can be defined as "the willingness to rely on an exchange partner in whom one has confidence" (Moorman *et al.* 1992 p. 315). After Morgan and Hunt (1994) proposed that trust was one of the two essential dimensions in understanding interorganisational relationships, business marketing studies have further specified different kinds of trust. Doney and Cannon (1997) put forward five different trust building processes and proposed five different kinds of trust: calculative-based trust, prediction-based trust, capability-based trust, intentionality-based trust, and transference-based trust. Mcknight *et al.* (1998) classified trust into five types, namely, personality, institutional, calculative, cognitive and knowledge-based trust. Actually, according to their definitions of these types of trust, personality and cognitive trust can be grouped into interpersonal levels while institutional, calculative and knowledge-based trust can be categorised as interorganizational trust. Johnson and Grayson (2005) categorized trust into two types: cognitive/performance-related trust and affective/personality-related trust. According to their research in the service industry, cognitive trust refers to the confidence to be dependent on a service provider's competence while affective trust means the confidence based on the feeling which derives from the level of care and concern the partner shows. From another perspective, Fang *et al.* (2008) analysed trust at different organizational levels and proposed that interorganizational trust encouraged resource investments in relationships while intraentity trust, namely from interpersonal aspects, motivated coordination.

Commitment

Along with trust, commitment has been constantly perceived as one of the key factors of assessing relationship quality and performance (Naude & Buttle, 2000; Mohr & Spekman, 1994). Defined by Moorman *et al.* (1992, p. 316), commitment is "an enduring desire to maintain a valued relationship". The importance of commitment in business relationships has been considered as a result from its guaranteeing efforts to endure long-term interaction (Morgan & Hunt, 1994). Gundlach, Achrol and

Mentzer (1995) considered commitment as specific investments or inputs in a relationship and proposed three different concepts of commitment, attitudinal or affective commitment, instrumental commitment and temporal commitment. The first one is based on intentions while the second one is based on actual inputs. Temporal commitment indicates that the relationship may exist over time. With regard to the types of commitment mentioned above, the empirical research done by Kelly (2004) indicates that normative commitment and affective commitment are highly correlated. In addition, temporal commitment and instrumental commitment are related to the manifestations of relationship continuation and investment, which is similar to the definition of behavioural commitment put forward by Sharma *et al*. (2006).

According to Sharma *et al*. (2006, p. 65), affective commitment has been defined as "a desire to develop and strengthen a relationship with another person or group because of familiarity, friendship, and personal confidence built through interpersonal interaction over time". Two aspects of calculative commitment have been identified; locked-in commitment means that the reasons to stay in a relationship result from a lack of alternative suppliers or high perceived switching costs, while value-based commitment is based on the rational calculation of the benefit in the relationship (Sharma et al., 2006). Affective commitment, calculative commitment and normative commitment have been proposed to have strong effects on relationship quality and customer loyalty (Wetzels *et al.*, 1998; Sharma *et al*., 2006; Čater & Čater, 2010).

Relationship specific investment

Relationship-specific investment (RSI) has been defined as an investment in a relationship that is very difficult to be switched to other relationships (Ganesan, 1994). Wilson (1995) defined non-retrievable investment as "the relationship-specific commitment of resources that a partner invests in a relationship"(p. 339). Cannon and Perreault Jr (1999) defined relationship-specific adaptation as investments in adaptations of process or products for a particular partner and argued that relationship-specific adaptations are of little value outside the particular relationship and these adaptations can help create switching costs. This proposition links non-retrievable investment and adaptation together and echoes Ganesan's (1994) definition of RSI. Anderson and Weitz (1992) also argued that calculative commitment is reflected when relationship-specific adaptations take place, which implies the linkage between commitment and relationship-specific investment.

Palmatier *et al.*, (2007) summarised seller RSI and customer RSI as two types of RSI from business marketing literature and proposed that seller RSI could reduce seller's opportunist behaviours because of its less willing to undermine the switchable investments. However, customer RSI may not have the same effects.

Associations between relationship dimensions and customer loyalty

Customer loyalty has been widely perceived as an outcome of business relationships (Alejandro *et al.*, 2011; Palmatier *et al.*, 2006; Čater & Čater, 2010). In a business- to-business context, customer loyalty has been defined as customer's "intention to perform a diverse set of behaviours that signal a motivation to maintain a relationship with the focal firm" (Sirdeshmukh *et al.*, 2002, p. 20). The effects of customer loyalty are the selling-firm financial outcomes, including "customer willingness to pay a price premium, selling effectiveness, and sales growth to the customer" (Palmatier *et al*., 2007b, p.186). Much empirical research has been done to provide evidence of linkages between customer loyalty and other relationship constructs such as trust and commitment (Chow and Holden,1997; Gounaris, 2005). Wetzels *et al*. (1998) argued that affective commitment and calculative commitment had a strong association with customers' intention to stay, based on their research in service industry, but they didn't take word of mouth and relationship specific investment into consideration.

From the marketing literature, there are two main streams of customer loyalty: behavioural loyalty and attitudinal loyalty. Tucker (1964) proposed that only behaviour, namely, purchasing could be perceived as loyalty. To further study customer loyalty completely, Uncles and Laurent (1997) suggest that researchers need to include the attitudinal components of loyalty as the extension of the stochastic behavioural loyalty. Consistent with this viewpoint, Rauyruen and Miller (2007) proposed that customer loyalty is a composite concept including behavioural loyalty and attitudinal loyalty. However, it is possible that behavioural loyalty and attitudinal loyalty may not take place in the same relationship periods. In addition, different relationship dimensions are likely to lead to different kinds of loyalty as well.

The factors leading to behavioural loyalty or affective loyalty may be very different in the service industry and the manufacturing industry. This may result from the different characteristics between service and product. The relational proximity in the service industry is likely to lead the higher importance of interpersonal trust than that in manufacturing industry. "The dynamic and interactive nature of service quality" (Zolkiewski *et al.*,2007, p.320) may lead to more buyer RSIs in the service industry. Compared to product, service quality may be very hard to be evaluated so the benefits of trust are more important (Fang *et al*., 2006). On the other hand, in the manufacturing industry, knowledge transfer and product quality are demonstrated to have positive impacts on commitment (Čater & Čater, 2010). Therefore, the differences between service and product are likely to lead to different relationship dimensions that have positive effects on customer loyalty.

Relationship Dynamics

Many researchers have already studied how a relationship begins and ends. With regard to the initiation of a relationship, stage models lack some clear discussions about the dynamic issues or mechanisms before a relationship starts (Edvardsson et al., 2008). To analyse the initiation of a relationship in professional services, an empirical study done by Edvardsson et al. (2008) has identified three converters (time, trust and service offerings) and three inhibitors (bonds, risk and image) in the initiation process of a relationship. Edvardsson et al. (2008) also argued that a relationship may start or end in any status of a relationship initiation process. This research is consistent with the Batonda and Perry's (2001) proposition of an evolution of unpredictable states and inspires further studies about the mechanisms driving relationship development. Leek and Canning's (2011) research also found the importance of social capital and networking methods in the initiation process of a relationship in highly embedded networks. Network position and the nature of connection of relationships are crucial when a firm plans to end or reactivate a relationship. A firm may act differently after it has ended a relationship because of new network positions and former experiences in previous relationships (Chou & Zolkiewski, 2009, Huang and Wilkinson, 2013).

To further research the dynamics of relationship dimensions, some researchers have done research on the dynamics of trust and commitment. Palmatier *et al*. (2013) proposed the concept commitment velocity and suggested that the degree of commitment changed during the evolution of a relationship. Some drivers of commitment velocity have also been identified, such as customer trust, bilateral communication capabilities and bilateral investment capabilities. Based on this research, Palmatier *et al.* (2013) further proposed that the linkages among relationship dimensions and the importance of relationship dimensions would also change during the evolution of a relationship. However, the changes of different types of commitment have not been researched in these studies.

With regard to the dynamics of trust, Huang and Wilkinson (2013) put forward a process model of the dynamics of trust and proposed that the importance of affective trust will increase as a relationship lasts longer. The mechanisms in a relationship also help drive the development and fluctuation of a relationship and affect the degree and nature of trust (Huang and Wilkinson, 2013). In addition, the proposition of the importance of the learning mechanism in their study also echoes Jap and Anderson's (2007) finding that the relationships with regressive patterns do not enjoy fresh starts because firms doubt each other' commitment due to the historic conflicts. However, the study done by Huang and Wilkinson (2013) neglects the importance of network' effects on relationship dynamics.

With regard to customer loyalty, behavioural loyalty and affective loyalty may appear at different relationship periods. According to Christopher *et al*. (2002), the ladder of loyalty entailed six stages. The lower "client" stage was defined as "someone who has done business with you on a repeated basis but may be negative, or at best neutral, towards your organisation" (Christopher *et al*., 2002,p.48) while the higher stage "advocate" was defined as "someone who actively recommends you others, who does your marketing for you" (Christopher *et al.,* 2002,p.48). Therefore, according to these definitions, it is likely that behavioural loyalty appears before affective loyalty. In addition, limited research has been done to explore the different antecedents to these loyalties in different relationship stages, however, the antecedents to these loyalties may vary in different periods and the linkages among them may also be different. For example, in financial service industries, as customer's knowledge about the investment increase, increasing switching costs will lead to higher importance of technical service quality (Bell, et al., 2005). Therefore, as relationship-specific investment increases in a relationship, the importance of cognitive trust on customer loyalty may increase as well. In manufacturing industries, good product can increase customer behavioural loyalty while affective commitment and personal interaction can lead to customer attitudinal loyalty (Čater and Čater, 2009).

The connection between behavioural loyalty and attitudinal loyalty sometimes may not be the result of increasing satisfaction or other relationship constructs. Instead, this connection may lie in the strategizing efforts of actors in a network due to the purpose of strengthening network positions. The reason of advocacy, an element of attitudinal loyalty, is when an actor wants to use one of its relationships to solve the problem of another's (Chou and Zolkiewski, 2009). Therefore, the business network may have impacts on the motivation of advocacy. Finally, industrial differences may also affect the result of recommendation. In the service industry, for the service is delivered by people, when some key employees who maintain the relationship or have some key expertise leave, it may lead the advocacy to the new firms where the employee are now working. This is consistent with Palmatier et al's (2007) proposition that a seller may have some risks of losing business if a salesperson goes to work for the competitors. However, in manufacturing industry, this impact may be lessened due to the importance of technological competence of an entire organization.

In conclusion, there has been a stream of research on relationship dynamics in recent years, which focuses on the changing importance and the changing linkages of relationship dimensions. In this study, personal trust, organizational trust, affective trust and cognitive trust will be examined to find out their effects on customer loyalty. Affective commitment and calculative commitment will also be investigated, a distinction will be made between the two kinds of calculative commitment; Locked-in and value-based commitment. The study will also take seller RSI and customer RSI as two separate relationship dimensions. Behavioural loyalty and attitudinal loyalty will be perceived separately as this will allow for a better understanding of the linkages between customer loyalty and relationship dimensions.

Based on this theoretical foundation this study will examine the changing linkages among relationship constructs and customer loyalty in different relationship periods and explain these changes from an evolutionary perspective with network perspectives, technological changes and industrial differences taken into consideration.

Methodology.

In-depth interviews were undertaken with 11 interviewees, 6 from the service industry and 5 the manufacturing industry. These included middle level marketing managers, purchasing managers and experienced professionals.

Information was initially gathered on their positions in the company and their work, and some background information about the companies such as size and location. Questions were then asked about the definitions of different types of customer loyalty and the important relationship dimensions to increase customer loyalty before the initiation of a relationship. The third part of the interview was about the nature of customer loyalty, how it develops and the linkages among relational dimensions leading to customer loyalty. The fourth part of the interview includes how the nature of customer loyalty changes and how relational dimensions are related to it and related to each other. Finally, the interviewees were asked about whether what they do in a relationship will affect other relationships or affect the company itself in the future. Each interview lasted about 45 minutes and it was conducted either face-to-face or through Skype. During the whole process of an interview, interviews were asked to answer the questions with examples to better illustrate the meaning they want to express. Interviews were tape recorded and fully transcribed.

This study used template analysis, which is a form of thematic analysis where researchers use a template (a list of codes) as to refer to the themes identified in textual data (King, 1994).

Based on the literature review, the theoretical framework is applied to identify the themes in the data. To start analysis, the initial template was developed by reading the transcribed interviews. During this step, the template focused on the themes, which have the strongest relevance for the research questions. A hierarchical organization of the codes will be the key features of the template. The highest order codes will be affective loyalty or behavioural loyalty. The codes lower than them will be the selected relationship dimensions. The lowest order codes will be differences or the features of service industry and manufacturing industry. As the researcher became more familiar with the transcripts, the material was examined more closely and the template was modified due to repeated examinations of the data. After several examinations through data, the final template was generated (Appendix 1).

In the following section the results of the analysis in both industries will be compared.

Initial periods

Social bonds

Six of the respondents commented that they tended to build social bonds before a business relationship initiates, through social interactions. These are considered beneficial to trust building.

"The Business Relationship Management Department is responsible for enhancing good feelings among both parties when customer loyalty doesn't exist during the initial periods. Actually, it is similar between the west and the east. For example, we go out to have dinners (with customers) to build a relatively social relationship." Company B (service industry)

In addition, one of the interviewees mentioned how an existing personal social bond between a customer and a supplier can help develop a business relationship.

"This Wednesday we went to meet a director of a nuclear plant, a very important man. He was quite happy to see us, because he knew us because he knew my business partner from when he (my partner) worked at another company…. "My customer wants to see this guy still involved, maybe it's all about personal touch. In our industry it is very much about building those relationships with people. They want to know they can trust you." Company E (manufacturing industry)

Cognitive trust in an organization

Eight respondents mentioned the importance of organizational reputation before a business relationship starts. What they looked for was information about the suppliers' competence, other customers' feedback and references, they want to make sure they can trust the organization's competence to satisfy their needs.

"So the guy came in, I would do the supplier evaluation based on our template. We asked them whether they had this membership or met other standards…..we told them to provide me with more background information, such as customer feedbacks." Company D (manufacturing industry)

"(In the initial meeting), I am looking for him to give me confidence in his ability to carry out the service that he says that he can do." Company G (service industry)

To summarize, during the initial periods of a relationship, social bonds have great impacts on initiating a relationship and increasing trust. An existing social relationship can also accelerate the development of a relationship through the existing interpersonal trust between individuals. With the social bonds, trust may change to be more affective gradually; however, it is still more cognitive and at an organizational level initially.

Ongoing process of a relationship

Time is considered as a key component in analyzing these relationship dynamics, since more than half of the respondents consider relationship development as an ongoing process. As some respondents commented:

"You can only do that (assess a supplier) with time. It takes time and it takes a year because you have to see what they do. You give them something to do and you see their results and reports and something, and then say 'OK, I feel confident now'." Company G (service industry)

"(Relationship) it is not like a trapezoid, it is a straight line, as time goes on, and it will change from one period to another." Company A (service industry)

Additionally, six interviewees perceived that different relationship dimensions as well as different types of customer loyalty are not likely to take place at the same time. Hence, different relationship dimensions and their sequences are identified in the timeline in the following section. However, with regard to different types of customer loyalty, seven respondents perceive that behavioural customer loyalty takes place before affective customer loyalty and the situations are the same in both industries. Therefore, in the following analysis, attitudinal loyalty is set before behavioural loyalty in the time line, and the relationship dimensions related to them are identified.

A comparison of these developments between the industries is carried out in order to explore whether there are some differences because of being product-based or service-based. According to the comparison, the customer loyalty's development processes in these industries are not totally different, and they share some similarities.

5.2.1 Customer loyalty development in the service industry

Diagram 1 below presents the overall process of customer loyalty development in the service industry. The circle on affective commitment means that impacts of affective commitment is implied by the marketing literature but the interviewees in this study did not mention it directly.

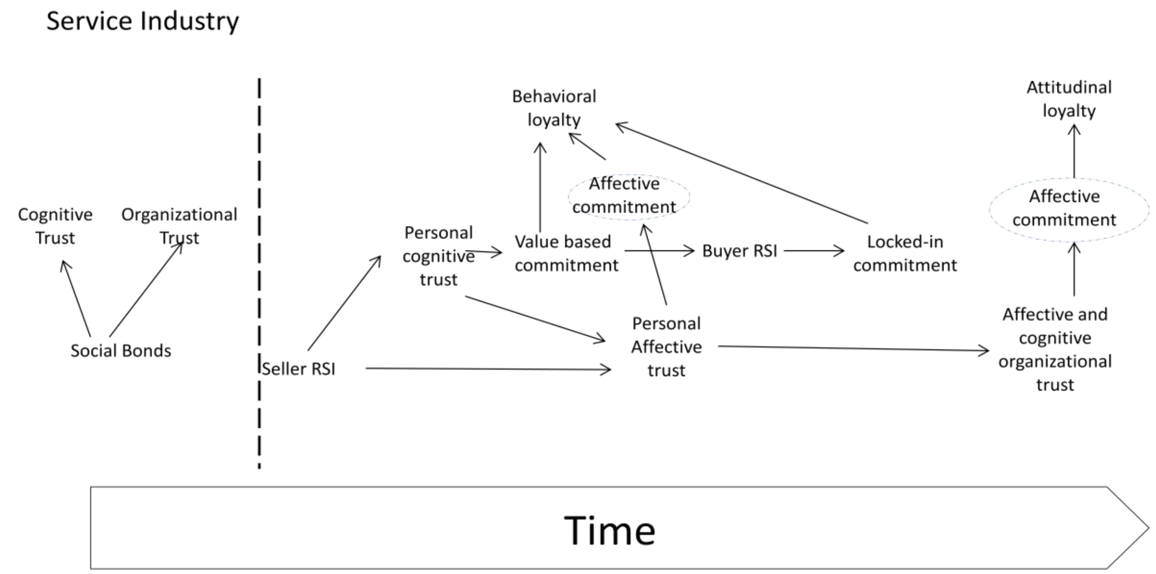

Diagram 1: Customer Loyalty Development in the Service Industry

Seller relationship specific investment to personal cognitive trust

In the service industry, after the initiation of a relationship, three interviewed suppliers commented that they tended to offer some extra services to their customers to build trust in the relationship.

"The key moment of building a relationship is when customers ask some extra questions about the tasks. ….This may be because customers don't know what they want when they sign the contracts. The first response to them is to tell them that these tasks are not covered by the contract. If you can offer this information very professionally, which is like offering a lecture to them, they may perceive your professional competence completely different. " Company B

This kind of extra services are identified as sellers' relationship specific investment because they cannot get back what they have done to help their customers. Three respondents considered that this investment can also help a provider to demonstrate its competence to serve its customer so that the customer trusts in its ability to provide the service it needs.

Many interviewed service providers considered their own expertise, impressive service quality and the ability to identify or solve customers' problems as the main factors to increase customers' trust in them.

"(When customer loyalty develops), I think they trust the team, like the main client contacts. So the trust is always with the team then, because they are the ones who deliver the work. But at the contact stage, that's the one you are paying money to, you are paying money to the organization. But when the work is actually delivered, the trust is at a deliverable level." Company F

However, all of the interviewed customers acknowledged that after a customer comes to them due to the provider's reputation, the perception of the provider may change due to interpersonal interactions. One interviewee noted that trust was then at an interpersonal level rather than organizational, because trust was based on the interactive experiences with the staff who offered the services and the staff's competences.

"Based on the trust in the company, they (customers) sign the contracts with our company. After they sign the contracts and begin to interact with our researchers, they trust in our researchers personally. After working with them for a period of time, you can feel which researcher they trust more." Company B

Personal cognitive trust to value based commitment

All of interviewed customers mentioned that they would continue the relationship with the provider and make repeated purchases if a provider can deliver the service professionally and the relationship is beneficial. One interviewed customer considered that customer loyalty also emerged from the benefits of a relationship, which derive from the providers' professionalism and ability to offer what they promise. When one interviewee was asked whether they had customer loyalty after they made the decision to continue the relationship, he stated:

"Most definitely, you would make a decision on customer loyalty at that time. If you have not had a service or professionalism from an accountant, at the end of the first year, you definitely change him." Company G

Repeated purchases, namely, behavioural customer loyalty comes from value based commitment which is also a result of customers' cognitive trust in staff that provides the services.

Value based commitment to buyer relationship specific investment

With regard to buyer's relationship specific investment, two interviewees stated that buyers would make some specific adaptations only after they were committed to sellers, and this took place normally during the second purchase. For example,

"If the degree of trust between each other is very high, and we are discussing the next contract, they (customers) may have some primary plans about what needs to be done next. We will tell them how to organize the projects. During this interaction, they may make some adaption; sometimes they even slightly change their organizational structure." Company B

Buyer relationship specific investment to lock-in commitment

However, many respondents consider that if a customer makes some relationship specific investment, it may be very hard to change to another supplier due to switching costs.

"If there is a very big project, it is required to know more about the customer before we start. To know the customer's situations from many aspects takes a very long time, however, once you get the knowledge about your customer, and this knowledge is not very easily replaced, customer loyalty will be built up very fast." Company C

Relationship specific investment will lead to lock-in commitment through higher switching costs. This lock-in commitment also affects behavioural customer loyalty.

Personal cognitive trust to personal affective trust

During the same time as the development of behavioural customer loyalty, providers' behaviours of showing their caring about what their customers' cared about were frequently mentioned by all the interviewees. The kind of behaviours mentioned includes understanding customers' needs, responding to customers' requests efficiently and providing the most appropriate services.

"We probably use K Company for tax advises more than D Company even if D company is our tax advisor. That is because when we go to K Company for advice they give us more tailored responses. So they would pay attention to the information, they would say 'for your circumstances, that is what it means'." Company H

According to the interviewees, the trust can be classified as cognitive at the beginning, but gradually becomes affective because suppliers begin to understand what customers want and is based on a supplier's ability. This affective trust can also lead to behavioural loyalty.

Affective personal trust to affective and cognitive organizational trust

All interviewed customers commented that they tended to recommend an organization rather than the person who serves them. Three interviewees stated that recommending an organization rather than a person was because an organization consisted of many staff and there is some variation of service quality as well.

"When a customer recommends us to other customers, she or he does not say "this person is very good", he would say "this company is very good because it has done so many things for us. This may because individuals in this relationship may change very frequently but they still belong to our company." Company A

However, one respondent expressed his concern about service variation and he tended to recommend a person assuming that the service quality can be maintained and it also depends on the nature of the service.

"I would not definitely say 'just use ABC' because they may get a less good advisor, they all have good or bad…..The quality will vary…It depends on the nature of the service….Assuming that they maintain the quality of the service, I would follow the person." Company H

With regard to recommendation, many of the reasons respondents gave can be classified as both affective trust and cognitive.

"They have to keep the same staff, keep the same attitudes. Not only in good days, when we have problems, they have to solve them out quickly and they are friendly, kind. So at the good time or bad time, they provide me with good service. I would feel that they were,..not as if they were my family, but I would feel that they were reliable friends." Company D

Therefore, cognitive trust and affective trust are both very important to affective loyalty.

Comparison between the manufacturing industry and the service industry

Diagram 2 below presents the process of customer loyalty development in the manufacturing industry. In the following parts, the findings are presented in two parts, namely, the similarities and the differences between both industries.

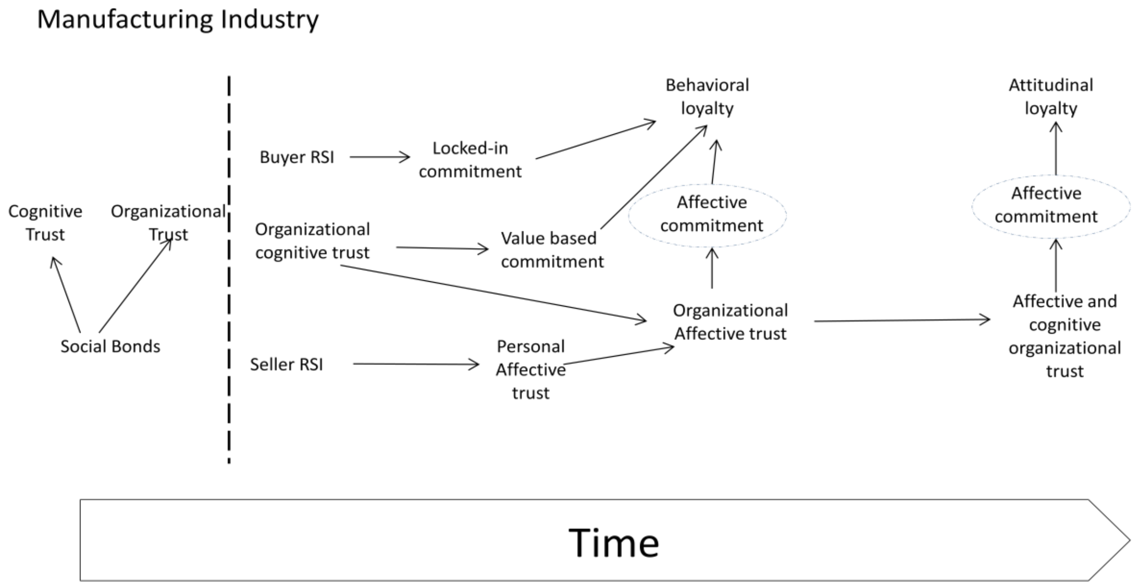

Diagram 2: Customer Loyalty Development in the Manufacturing Industry

Similarities between both industries

Seller RSI to affective personal trust

All of the respondents in the manufacturing industry commented that satisfactory customer service can show that the suppliers have mutual goals care.

"*It is very rare that we would ever have a product that we could use entirely in-house without any references from a supplier at all… I confirmed it whether you have a number of licenses and I want them. And you come back to me within an hour and tell me you are OK to offer me a license…I want that kind of service from them. If it takes a week, it would really affect how I work." Company F (manufacturing industry)*

As customer service is identified as a form of seller relationship specific investment, through this investment, customers can use the products they purchased more efficiently, thereby developing their affective trust in the person.

Cognitive trust to value-based commitment

All of the respondents in the manufacturing industry mentioned that product quality is a very important factor because good product quality at a lower price can provide benefits to a customer. For example, when a supplier was asked what it was important in increasing customer loyalty, he commented that

"What is important is his (agent) credibility in proving his contacts that we would deliver a German technology in a good price, and it would work and it would be supported….What they wanted is somebody that technically holds their hands and get the things to work" Company D *(manufacturing industry)*

Good quality of a product represents a supplier's competence, and the credibility about this competence is also needed to increase customer loyalty. Hence, cognitive trust can lead to value-based commitment.

Cognitive and affective trust in an organization to attitudinal loyalty

All of respondents stated that a company will be recommended to other customers only if they can provide good quality products with satisfactory customer services. The characteristics of customer services which are frequently mentioned are effective and efficient responses, and consistency.

"Generally I go with the products and service I am buying rather than the individual. ….If I recommended externally, probably more about the services and the products of an organization rather than an individual." Company F (manufacturing industry)

Trust in an organization's competence to provide good product with consistent and efficient services can increase recommendations, which is an element of attitudinal customer loyalty.

Differences between both industries

Buyer RSI to lock-in commitment

All of the respondents in manufacturing industry agreed that buyers made some adaptation for sellers at the very beginning of a relationship. This situation is different from that in service industry, where buyer RSI may be based on commitment. They also stated that the reason for these adaptations was to use the products more efficiently and effectively. These adaptations will lead to some switching costs, thereby increasing locked-in commitment.

"We did a big project last year which was about switching suppliers. One of the big factors to them is how long it will take for them to re-skill people or retool our entire processes. You see what I mean. We got 20 people who really know what they are doing. To get them up to the level of a competitive package might take a year. This is a lot of inertia to changing away from this supplier. " Company F (manufacturing industry)

When he was asked whether this would affect their customer loyalty, he stated that:

"It would always be a factor. Always. Some of that retraining… if we did that to a firm which is very core to what we do, it would be a massive job. You just can't do that kind of thing lightly. "Company F (manufacturing industry)

Cognitive trust in an organization

Another difference lies in whether they trust an organization or trust the person they work with. Although all of the respondents related to manufacturing industry did not directly mention that organizational trust was important, they stated that quality of the products and whether the products can satisfy their needs are essential in customer loyalty. This can be classified as cognitive organizational trust because only an organization as a whole can ensure this quality. Additionally, this type of trust may not require sellers' relationship specific investment because all of the respondents mentioned that they would test the products before they used them. So the cognitive organizational trust emerges prior to the start of the relationship.

Affective trust in an organization

Responsiveness was frequently mentioned by many interviewees. They considered that quick and effective responses were very important in developing customer loyalty.

"When you start a relationship, you just want to find out whether the products they are selling are suitable to your need. You really are just doing a product test. You know, very often we will test product internally before we buy them. The thing you go in mind during that period is usually whether you think they give your good enough quality service during that initial period that you feel comfortable using them. Because this is surprising how many people have bad customer services at

that point. I have certainly seen that software or pieces of kits that might really work and then being knocked down in exploratory phase because the service or the way they treat me wasn't good enough. It is some ways that's the start where the loyalty comes in." Company F (manufacturing industry)

Affective trust in an organization is based on cognitive trust in an organization because the organization needs to have the ability to offer the qualified products and have the kind of staff who have the competence to be supportive and response to the questions. Behavioural customer loyalty here requires a transition from affective trust in a person to affective trust in an organization, because the organization as a whole needs to show competence. This is unlike the service industry where affective trust in a person can lead to behavioural customer loyalty.

Definitions of customer loyalty

When asked about what customer loyalty is, nearly all of the interviewees' answers can be classified as behavioural customer loyalty.

"Customer loyalty is when a customer may repeat business and continue to come back to you for business. So they don't just buy a few ones, if they are in the positions to making more purchases, they would come back to you. And they would also recommend you to other people." Company E (manufacturing industry)

Besides the definition discussed above, five of the interviewees talked about customer loyalty from a competitive prospective.

"If one of my competitors approaches my loyal customer, he or she will come to me and tell me about this." Company A (service industry)

"They would be the first persons that comes to your mind when you are thinking of using a service or product." Company F (service industry)

A definition of customer loyalty from a competitive prospective is required to understand how customer loyalty develops in a dynamic and competitive environment.

Relationship evolution

Unlike some stage models, many interviewees in both industries explained the development of customer loyalty in a very dynamic process.

One interviewee mentioned that they would evaluate their suppliers and other alternative options very often even though they have a relationship with a supplier, if they get a better offer somewhere else, they would leave. Another interviewee stated that he would judge the supplier's performance based on his experiences with it in the last six months. Seven interviewees mentioned that they would keep comparing the value gained from the current supplier with that from the potential ones to make a decision to stay or leave.

Drivers of the changes of customer loyalty

According to the interviewees in both industries, three main drivers are identified: technologies, market trends and networks.

Technological changes

There are two main themes about the impact of technologies on customer loyalty. Firstly interviewees consider offering better technologies than competitors can increase customer loyalty due to better satisfying customers' needs, especially in the manufacturing industry.

"We send people out to install the laser, teach local staff, cope with any problems which come out, as well as other volunteer works that come out, and that is far exceeding what the German supplier can deliver. What they wanted is someone that technically holds their hands……What we've shown is a technology works, what we've shown is that we have a good source of expertise in that

technology. So we have given credibility to those who recommend us and actually show it." Company D (manufacturing industry)

Another theme is the innovation of technologies. Three interviewees mentioned that progressive technological changes of products could help customers do their, which would affect customer loyalty.

"Things that would make me leave would be things like a lack of progression in the service it's offering. It may be something being static for a long time, particular about software. Because every couple of years, we need some changes. If your software has been the same in three or four years, it is probably time to look around and think that we are not doing the best of our business if we are using you." Company F (service industry)

Market trends

Eight interviewees stated that if providers or suppliers did not keep up with the market trends, customers would end the relationships.

"Sometimes you might reappoint the current provider. You might get into the whole (evaluation) process and say: 'we have done the whole process and D accountancy is still the best.' That's fine but you still have done the whole process to test the market and make sure they are complying in all the areas and be the top you want them to be." Company H (service industry)

Network effects

Many things mentioned by the interviewees can be classified as the effects of the network. Other relationships in a network can affect customer loyalty (behavioural or affective) through affecting network positions indirectly. One respondent mentioned that the government plan would affect his customers' future purchases when he talked about exporting technologies to China.

"Through our contact, we were introduced to the second customer. In both cases, why we want to stay with and why we want to develop a range of patents and license is the investment pattern in China will end in our market around 2050. Behind us, behind our sales and customer activities is the government plan." Company D (manufacturing industry)

Therefore, the government can affect the sales of products and also lead to some actions taken by the seller to strengthen network position to maintain customer loyalty. Another respondent stated that customer loyalty sometimes may be due to shared values among companies in a network. If these shared values can be provided in order to strengthen a customer's network position, customer loyalty would increase.

"If the service you provide can affect its customer, they will think that you are the best option. So I think the most important factor here is shared value….If Plan A is beneficial for my current customer A, and it is also good for my new customer B, which is the current customers' customer, I will choose Plan A. Although the benefit for the current customer A may not be very high here, because there is customer loyalty between them as well, if you do a good job for the new customer B, customer B will consider it as very good referral from A , which can strengthen the relationship between A and B." Company A (service industry)

Discussion

Relationship initiation

At the initiation of the relationship most of the respondents rightly feel that customer loyalty does not exist. However, cognitive trust and organizational trust are perceived as very important in developing the relationship and customer loyalty. These results are consistent with the findings of Edvardsson et al. (2008), whose research identified trust as a converter and social bonds as an inhibitor in a business relationship. However, Edvardsson et al. (2008) did not specify the types of trust and bonds involved in the initiation.

The results suggest that existing social bonds can help initiate a business relationship due to the increasing trust between a customer and a supplier. Additionally, if social bonds do not exist, they will try to build these bonds in order to be familiar with the business partners involved. With regard to trust, the results also show that a customer tends to trust an organization's competence as a whole rather than a person at relationship initiation. The findings echo Huang and Wilkinson's (2013) proposition that trust will be more cognitive when a relationship is initiated. Huang and Wilkinson's (2013) also proposed the importance of social networks in communicating organizational reputation. Our findings also show that social bonds are important to build trust before a relationship is initiated, again in line with Huang and Wilkinson's (2013) proposition.

Ongoing process of a relationship

After a relationship is initiated, customer loyalty is developed gradually through different relationship dimensions. Most of the interviewees in both industries agreed that behavioural loyalty appears before affective loyalty. This finding is in line with Christopher *et al.'s* (2002) customer loyalty ladder. Time was also found to be a crucial element, which in aligns with the propositions of many researchers (e.g. Chou and Zolkiewski, 2012; Huang and Wilkinson, 2013). There are also some differences about how customer loyalty develops in a relationship between the service industry and the manufacturing industry.

Customer loyalty development in the service industry

After a relationship initiates, sellers' relationship specific investment (RSI) is considered very important by many interviewees. However, many studies focus on customer's relationship specific investment rather than on the seller's side (e.g. Alejandro et al., 2011). The findings show that a seller's RSI could help develop a customer' cognitive trust in the staff of a supplier. This is because a member of staff can demonstrate his or her competence through RSI. Based on this personal cognitive trust, a seller is willing to continue the relationship and purchase the service repeatedly because of the value it gains from this relationship. This kind of willingness is defined as value-based commitment (Sharma *et al*., 2006), and it also leads to behavioural customer loyalty. According to Čater & Čater (2010), trust has positive effects on positive calculative commitment, which is value based commitment here. This finding echoes Čater & Čater's (2010) proposition and demonstrates that the trust at this time is more cognitive and at a personal level. However, the linkage between behavioural customer loyalty and value based commitment contradicts Čater & Čater's (2010) research, where this relationship is not supported. In this study, good quality service at lower cost is frequently mentioned and perceived as an important factor to repeat purchases by interviewees, which supports this linkage.

After customers make some specific investment in a relationship, this will increase the difficulties to end this relationship because of increased switching costs. A customer will be locked in the relationship. The importance of switching costs and inertia has been frequently mentioned in marketing literature (e.g. Yanamandram and White, 2006). According to the interviewees, these switching costs may be the time to retrain staff or the change of organizational structure. Similar factors were also indentified by Kim et al (2003) and, Yanamandram and White (2006). Hence, buyers' relationship specific investment can lead to locked-in commitment, which results in behavioural loyalty.

With regard to affective trust, a seller's relationship specific investment can result in affective trust through effective responsiveness; however, trust is still at personal level at this time. Most of the interviewees considered that continuously quick and effective responses show that a provider cares. Therefore, cognitive trust will change gradually to affective trust when a relationship develops. This echoes Huang and Wilkinson's (2013) proposition that affective trust will play an increasing role in a relationship as a relationship lasts longer. For the relationship between behavioural loyalty and affective trust, respondents considered that these two variables have a strong coorelation and they did not imply that affective trust led to affective commitment which resulted in customer loyalty. However, according to Čater & Čater (2010), trust has a positive influence on affective commitment, which influences behavioural loyalty positively. However, the nature of trust involved was not identified by Čater & Čater (2010). Therefore, it is possible that affective commitment plays an important role in the relationship between affective trust and behavioural loyalty.

Although affective personal trust has some positive impacts on behavioural loyalty, to increase affective loyalty, a change of trust is needed from a personal level to an organizational level. Consistent delivery plays a very important role in this change. For example, one respondent mentioned:

"For example, if I want that consultant to work for me, however, he is not available. Then the provider assigns another consultant to me. I may find this consultant also very good. The third one assigned to me is also very good. Then I will develop the trust in the company…..For some reasons, I will find the staff in this company is very stable and consistent." Company C

According to Edvardsson et al. (2008), consistency over time plays an influential role in trust, which supports the findings in this study. Additionally, although the positive relationship between customer loyalty and affective trust has been found by Čater & Čater(2010), the results further imply that trust needs to be at an organizational level through consistent delivery. According to Palmatier at el. (2007b), relationship-enhancing activities to build customer loyalty to a staff is also moderated by selling firm's consistency. If an organization is perceived as consistent, customers attribute consistent behaviours to a firm and attribute those inconsistent behaviours to an individual (O'Laughlin and Malle, 2002 An organization's competence is still considered as an important factor relating to affective loyalty because some interviewees would also take the firm's competence to satisfy customers' needs into consideration. So the trust here also has a cognitive nature. Hence, the trust in this relationship period has a both cognitive and affective nature at an organizational level. It is possible that affective and cognitive trust in an organization may lead to affective commitment, which can result in customer loyalty.

Differences in manufacturing industry

The results show that the relationship development processes in the manufacturing industry and the service industry shares many similarities. So in this section, the differences between processes in these industries will be pointed out and explained.

The first difference between these industries is that organizational trust starts before a relationship is initiated in the service industry. The reason for this difference is that services are less tangible than manufacturing products (Zeithaml *et al.* 1985). "The dynamic and interactive nature" (Zolkiewski *et al.*,2007, p.320) requires seller's investment to demonstrate personal expertise, for a salesperson's expertise is demonstrated to have great impacts on interpersonal trust (Guenzi & Georges, 2010) and interpersonal trust can lead to commitment in the service industry. However, in the manufacturing industry, the findings show that product quality plays an important role for commitment, which is in line with the findings of Čater & Čater (2010). For product quality is dependent on an organization's competence as a whole, organizational trust is of utmost important when a relationship starts in the manufacturing industry.

Buyer's relationship specific investment takes place when a relationship is initiated in the manufacturing industry. This investment may appear as forms of adaptations such as training staff or restructuring working processes. This investment may result from the cognitive trust in an organization before initiation of a relationship. The sequences of trust and investment found in this study are consistent with Wilson's (1995) argument that trust takes place in a relationship before non-retrievable investment and adaptations.

The change from personal affective trust to organizational affective trust is needed to lead to behavioural customer loyalty in the manufacturing industry. In addition, the nature of trust also changes from cognitive to affective. According to the respondents, it is very rare that a customer does not need customer services when buying a product. Additionally to distinguish a service from a product in business market depends on the interaction between producers and users and institutional structure of production (Araujo & Spring, 2006) and many manufacturing offerings entail some service elements. According to the respondents in manufacturing industry, a product's quality has been primarily checked in a testing period and many manufacturing offerings include industrial services, so consistency of services from all the staff to avoid service variation plays an important role in building this affective trust in a supplier's firm as a whole in the manufacturing industry. According to Alejandroa et al. (2011), consistency means that customers emphasize an organization as a whole instead of an individual. Therefore, during the process of consideration of making more purchases, affective trust in an organization has a great impact on behavioural loyalty in the manufacturing industry.

Definitions of customer loyalty

Most of the definitions of customer loyalty by respondents in both industries echo the marketing literature about behaviour loyalty and affective loyalty (Čater & Čater, 2010). However, one interesting finding is that many interviewees mentioned customer loyalty from a competitive perspective in both industries.

With regard to customer loyalty, the first thing is that it is not just focusing on repeated purchases or recommendations; it is also focusing on a customer's perception of a supplier with the comparison to other suppliers. This is consistent with the concept of comparison level of alternatives (Cl(alt)), which is defined as the quality of offerings gained from the best available supplier (Anderson and Narus, 1990). Wilson (1995) also argued the low degree of Cl(alt) may indicate the less possibility of a customer's leaving a relationship. It also includes a view of the competitive environment in business market meaning the process of development of customer loyalty can also explained from a relationship dynamic perspective.

Relationship dynamics

The results in both industries show that the development of customer loyalty is considered as an ongoing process. Time and event are perceived as an important components in relationships and networks by many researchers (Chou and Zolkiewski, 2012; Huang and Wilkinson, 2013). The findings also imply that the development of customer loyalty is a process of variation-selection-retention, which echoes evolutionary theories (Van de Ven and Poole, 1995; Huang and Wilkinson, 2013). What was also found is that this evolutionary process takes place repeatedly in a relationship unlike the predetermined stage models (eg. Dwyer *et al.*, 1987). According to the results, the competing actors and the experience involved in interactions are found as two key elements in this process. Moreover, the changes in a competitive environment are indentified as drivers in this process, which entails technological changes, market trends and network positions. The following diagram shows the model of this process:

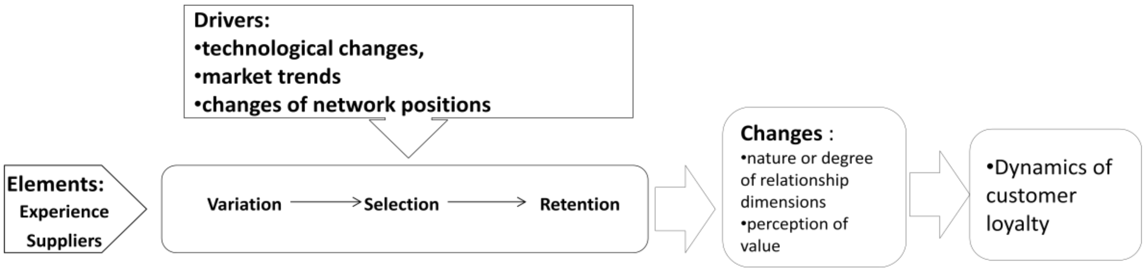

Diagram 3: the evolutionary model of customer loyalty development

Variation of experiences and outcomes is a result of changes in external environment (Huang and Wilkinson, 2013). "Change is always underway in behaviour settings. They are continually constructed and reconstructed by participants on a moment-to-moment, hour-to-hour, day-to-day basis" (Wicker, 2002). This argument supports the finding that the process of variation-selection-retention is an ongoing process over time. Because changes take place frequently in external environment, through experiential learning, firms in a relationship evaluate the interactions and events combined with their prior knowledge (Huang and Wilkinson, 2013). Consistent with Čater & Čater's

(2010) finding, the results in show that calculative commitment (value based and locked-in) and affective commitment contribute to customer loyalty. The former one is related to the perception of value gained from a relationship, while the latter one is related to the nature or degree of trust. For the nature or degree of trust and perception of value changes in the process due to drivers in the external environment, the degree of commitment will change as well due the linkage between commitment and trust. Hence, customer loyalty will be very dynamic, whether from a behavioural or an affective perspective.

The drivers of this process are indentified as technological changes, market trends and network positions. Progression in technologies is perceived important by many interviewees. Technological change is considered a driver of network dynamics due to its effects on the changes of network positions (Chou and Zolkiewski, 2012). Therefore, network positions and technological changes have an interactive impact on customer loyalty. With regard to network positions only, according to the results by affecting the customer's offerings or influences to its customers, a seller can gain repeated orders and even recommendations. Moreover, sales in an industry are also influenced by other parties such as governments. Therefore, actors other than competitors in a network also affect a customer's loyalty, thereby making customer loyalty more dynamic. For market trends, the results show that customers would also test the market frequently by evaluations or they are often approached by other alternative suppliers, thereby having a good understanding of the market trends. According to Huang and Wilkinson (2013), changing market conditions are the sources of variation of experiences of interactions because market transactions involved in connected relationships determine a customer's perception of value received in a relationship. Palmatier et al. (2013) also demonstrated the industrial turbulence's moderating effects on the relationship between communication ability and commitment velocity. This implies that industrial trends may also affect cognitive trust and commitment, thereby affecting customer loyalty. To conclude, market trends, changes of network positions and technological changes are three kinds of drivers to the development process of customer loyalty.

Conclusion and managerial implications

Relationship dimensions leading customer loyalty are different in different relationship periods, whether in the service industry or in the manufacturing industry. The service industry and the manufacturing industry share some similarities and have some differences in each period of the customer loyalty development process. They are not totally different. One of the similarities between these industries are that valued-based commitment, affective commitment and locked-in commitment are important in building behavioural loyalty, while affective and cognitive trust in an organization which possibly leads to affective commitment to an organization is very important in building attitudinal loyalty. Another similarity is that during the development process of customer loyalty, the nature of trust changes from cognitive to affective. The third thing is that before a relationship starts, social bonds and cognitive trust in an organization are found very important to initiate a relationship, and social bonds also have great impacts on this trust.

On the other hand, there are also some differences in the processes between these industries. Firstly, in the manufacturing industry, trust in an organization is very important in building behavioural loyalty after a relationship starts and it emerges from that before the initiation of a relationship. Buyer RSI takes place soon after a relationship starts. While in the service industry, after a relationship starts, cognitive trust is at a personal level and needs to be built through seller RSI.

Relationship dynamics

This research studies customer loyalty from a relationship dynamics prospective. Taking time as a key component, the linkages among different relationship dimensions and different types of customer loyalty are identified. It is found that relationship dimensions are related to each other, however, unlike the variance based models, where time is absent and the dynamics of relationship dimensions are ignored, this study explains the linkages among relationship dimensions and the changes in the nature of them in a process model including time and events.

A process of variation-selection-retention is applied to explain how customer loyalty develops or changes in a relationship from a competitive perceptive. Experience and competing suppliers are identified as two key elements in this process, and changes of network positions, technological changes and market trends are perceived as drivers of this process. These drivers are the primary sources of variation of experiences and competing suppliers in relationships. They also affect the nature and degree of relationship dimensions, thereby making customer loyalty more dynamic.

Managerial implications

For both industries, the reputation of the products and organizations as a whole is very important to initiate a business relationship. Building personal relationships or using the existing ones can also help initiate a business relationship. Motivating buyers to invest in a relationship is very helpful to continue a relationship due to inertia and switching cost. Providing efficient and effective supports as well as good quality offering are very effective in motivating customers' repeated purchases. However, for recommendations or some positive word-of-mouth, the consistency of services and good quality of offerings are both essential to increase recommendations. Managers also need to pay attention to the changes of network positions, market trends and technologies continuously, and they also need to keep in mind that customer loyalty is dynamic due to these changes.

For managers in the manufacturing industry, they need to demonstrate the competence of an organization rather than a person during the business relationship to increase repeated purchases. Besides, consistent and effective services or supports from the organization as a whole are also very important to increase repeated purchases. Customers' recommendations are based on the good quality of products and consistent services from an organization, while many organizations ignore the importance of consistent services in recommendations.

For managers in the service industry, providing extra services can help demonstrate the employees' competence, which may lead to more purchases of offerings and increasing interpersonal trust. However, mangers need to pay attention to the loss of key employees, for key employees alone can motivate customers' repeated purchases. The loss of them may lead to the potential loss of a customer's business. With regard to recommendations, consistent and effective services, and efficient responsiveness are required to be at an organizational level because they can lead to attitudinal loyalty, namely, recommendations.

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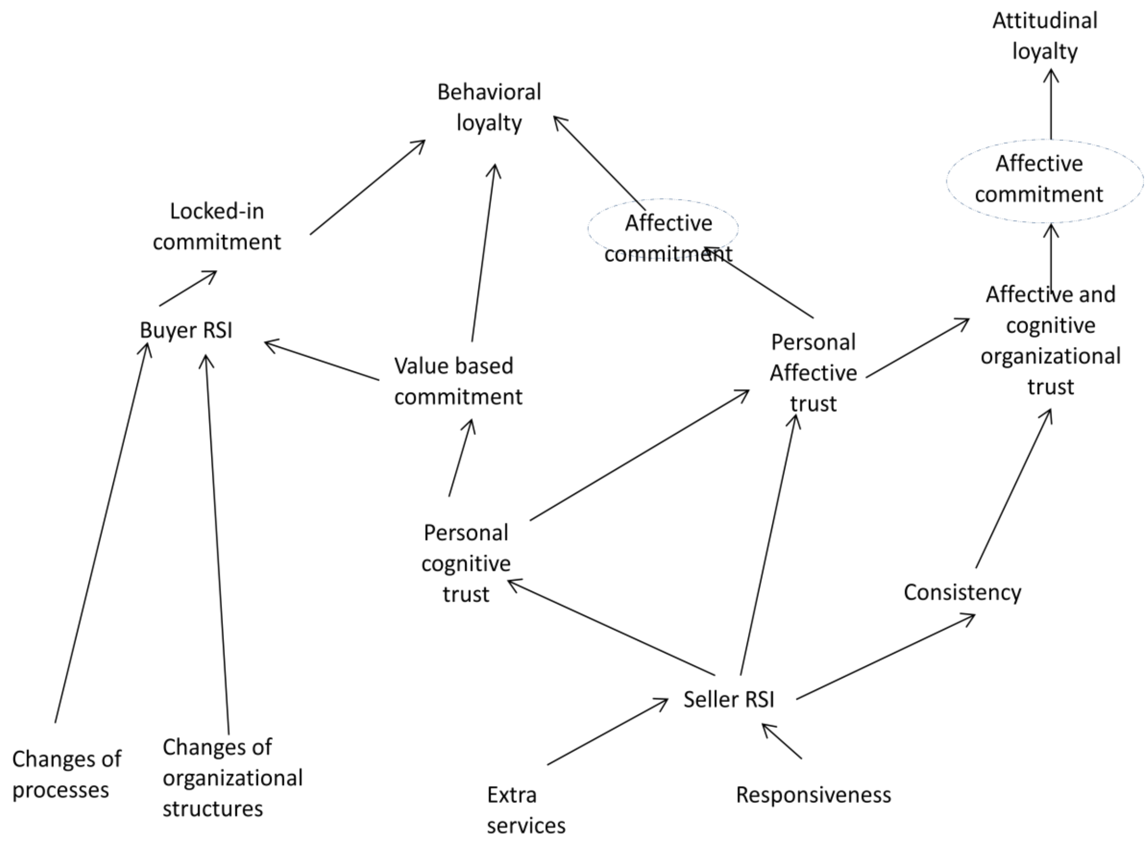
Appendix 1 Templates

The Service industry



The Manufacturing industry