

**STUDYING THE MEDIATING ROLE OF CUSTOMER COMMITMENT
IN THE EFFECT OF TRUST, CUSTOMER SATISFACTION
AND SOCIAL BOUNDS ON CUSTOMER LOYALTY
A CASE OF NOVIN INSURANCE CORPORATION, IRAN**

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Abstract

Nowadays customer loyalty is one of the determinants of the success of organizations over their competitors. Therefore, the identification of the factors influencing customer loyalty can pave the way for this loyalty. This research aims to study the antecedents and consequences of customer commitment. In other word, the intermediating role of customer commitment in the effect of the degree of trust, customer satisfaction and social bounds on customer loyalty is studied in this research. For this purpose, 250 customers of Novin Insurance Corporation in Tehran, Iran were selected from the statistical population using stratified random sampling method. The data collected by the questionnaires were analyzed by structural equation model. The results were used to provide practical recommendations in order to enhance customer loyalty.

Keywords: *Customer Loyalty, Customer Commitment, Trust, Customer Satisfaction, Social Bounds*

INTRODUCTION

Customer loyalty is described as a customer's repeat visitation or repeat purchase behavior while including the emotional commitment or expression of a favorable attitude toward the service provider (McAlexander et al., 2003, Petrick, 2004 and Shoemaker and Lewis, 1999). Numerous studies emphasize the value of customer loyalty to be significant. It is known that loyal customers' visit frequency is higher and make more purchase than non-loyal customers do. They are also less likely to switch to a competitor brand just because of price and other special promotions and bring in new customers through positive word-of-mouth which can sometimes save a huge amount of the expenses for advertising (Petrick, 2004 and Shoemaker and Lewis, 1999).

One of the most essential theories of loyalty marketing is that a small increase in loyal customers can bring a significant increase in profitability to a business (Reichheld, 1993 and Reichheld and Sasser, 1990). Reichheld and Sasser (1990) found that a 5% increase in customer retention resulted up to a 125% increase in profits in their study in the service industry. Moreover, it has been known that it is six times more expensive to plan marketing strategies to attract new customers than it is to retain existing customers (Petrick, 2004). On the whole, loyalty marketing emerged as being necessary and ideal as customer loyalty has been recognized as a major source of competitive advantage for firms by having a powerful impact on performance (Yoo and Bai, 2013). Thus considering and developing customer loyalty is considered a major strategy in market in relationship strategy by organizations.

In developing this relationship between the organization and its customers, it would be important for the business to pay close attention to the customer's level of trust and commitment towards the organization. Before customers will conduct business with an organization, they must be able to trust the provider (Du Plessis 2010: 4). Trust is based on recurring, dependable exchanges and adherence to expected behaviors (Chou 2009: 996–997). Avoiding or resolving conflict with customers before problems develop could have a positive impact on customer loyalty (Ndubisi & Wah 2005: 553). In return, customers who have committed themselves to the organization will warrant maximum efforts to maintain the relationship with the service provider (Ibrahim & Najjar 2008: 14).

Taking into account the preceding discussion and the subsequent benefits that can be obtained from customer loyalty; there very little researches had been conducted to obtain a better understanding of customer loyalty within the insurance industry in Iran. To decreasing this deficiency the research will study the antecedents and consequences of customer commitment in Iranaiian insurance industry. Insight into these variables, however, could help businesses within the insurance services environment to retain their customers and become more profitable

over the long term. Consequently, the purpose of the research conducted for this article was to develop an understanding of the influence of the independent variables of trust, customer satisfaction and social bounds on customer loyalty with considering the intermediating role of customer commitment.

This study commences with a literature review of customer loyalty, customer commitment and the three independent variables that were further examined. The conceptual model, hypotheses and methodology are then discussed. Based on an analysis of the research findings, the article concludes with a number of managerial implications.

THEORETICAL BACKGROUND

Customer Loyalty

Organizations need to identify relationships that are worth pursuing and will contribute to the overall business objectives (Iyer, Sharma and Bejou (2006: 3–10). The concept of customer loyalty has been defined in a number of different ways (Boohene & Agyapong 2011: 230; Kuo & Ye 2009: 753). According to Alwi (2009: 4), however, in general the definition of customer loyalty outlines two key characteristics:

Firstly, loyalty encompasses attitude and behavior or behavioral intention, and secondly, loyalty is assessed and created over time. Consequently, for the purpose of the survey conducted for this article, customer loyalty refers to customers who had visited the optometric practice twice or more over the previous six years (2005–2011). An understanding of commitment is required to build this long-term relationship (Vuuren, et al., 2012).

Customer Commitment

Businesses need to show customers that they are committed while offering customers the core service benefit. If these issues are addressed correctly, it could lead to the customer developing long-term relations with the business, which will then create loyalty (Thompson & Thompson 2003: 23–34). Moorman Zaltman and Deshpandé (1992, p. 316) defined it as an enduring desire to maintain a valued relationship'. It implies a willingness on the part of both partners to make short-term sacrifices to realize long-term benefits in the relationship (Anderson & Weitz, 1992). Common to the different definitions of commitment is that commitment is characterized by a disincentive to replace relationship partners (Young & Denize, 1995).

Most researchers in marketing have conceptualized and operationalized commitment as a global construct. However, researchers observing relationships in organizational psychology have pointed out three distinct motivations underlying the desire for continuity (Allen & Meyer, 1990) and during the last decade there have been some attempts to transfer these findings to

marketing relationships (e.g., Bansal et al., 2004; Geyskens et al., 1996). The three components of commitment that are (to some extent or completely) included in these models are: affective (attachment due to liking and identification), calculative or continuance (attachment due to instrumental reasons) and moral or normative (attachment due to felt obligations).

All these components of commitment pertain to psychological states, yet they originate from different motivations for maintaining a relationship (Geyskens et al., 1996). Affective commitment means that firms want to stay in the relationship because they like their partner, enjoy the partnership and feel a sense of loyalty and belongingness. On the other hand, calculative commitment is the extent to which partners perceive the need to maintain a relationship due to the significant anticipated switching costs or lack of alternatives. Normative commitment means that partners stay in the relationships because they feel they ought to (Geyskens et al., 1996).

Antecedents of Customer Commitment

Trust, social bounds and customer satisfaction have been regarded as the antecedents of customer commitment in this research. These variables will be reviewed as followed.

Trust

The development of trust is further considered an important result of investing in a dyadic and affective relationship between the parties in the relationship. Increased trust is cited as critical for relationship success between the customer and the business (Huang & Chiu 2006: 157). A customer will desire a relationship with a specific business if he finds the benefits received to exceed the effort in obtaining benefits. From this it is evident that both parties in the relationship have certain costs or effort, but also expect benefits (Rootman 2006: 32).

Thomas (2009: 346) further defines trust as “an expectancy of positive outcomes, outcomes that one can receive based on the expected action of another party”. A key aspect that is reflected in this definition of trust is credibility. Credibility affects the long-term orientation of a customer by reducing the perception of risk associated with opportunistic behavior by the firm. Specifically, trust reduces uncertainty in an environment where customers feel vulnerable because they know they can rely on the trusted organization (Aydin & Ozer 2005: 146).

Customer Satisfaction

Roberts-Lombard (2009: 73) defines customer satisfaction as “the degree to which a business’s product or service performance matches up to the expectation of the customer. If the performance matches or exceeds the expectations, then the customer is satisfied, if

performance is below par then the customer is dissatisfied". Customer satisfaction is influenced by expectations, perceived service and perceived quality (Hu, Kandampully & Juwaheer 2009: 115–116). Expectations influence total satisfaction when the customer evaluates a product or service. Satisfaction is a customer's emotional response when evaluating the discrepancy between expectations regarding the service and the perception of actual performance. This perception of performance is gained through the physical interaction with the business and the product and services of the business (Salami 2005: 239).

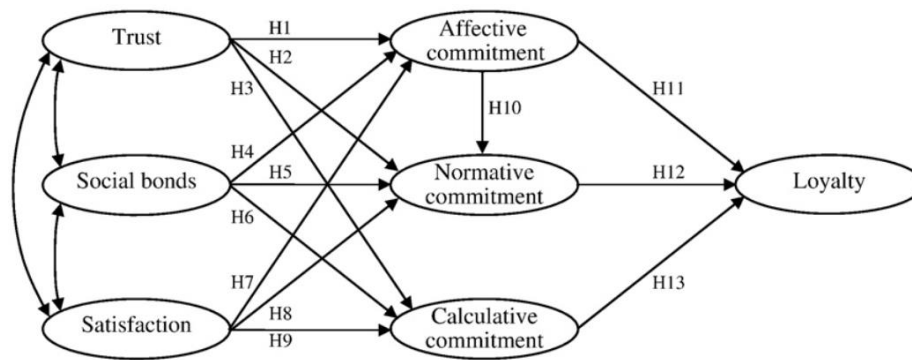
Social Bounds

Social bonds are defined as the degree of mutual personal friendship and liking shared by the buyer and seller' seller' (Wilson, 1995, p. 339). In the context of business services, social bonds refer to the human side of the business service, including personal contacts, liking and trust (Thunman, 1992). Social bonds include familiarity, friendship and personal confidence that are built through the exchange process (Rodriguez & Wilson, 2002). They are developed through social interaction and individuals can develop strong personal relationships that can bond the relationship between two firms (Wilson, 1995). Some authors (Perry et al., 2002) include attachment, commitment, trustworthiness, conflict, benevolence and equity as social bonds. This study follows Wilson's (1995) definition and limits the concept of social bonds to friendship and liking between boundary personnel at the buyer's and seller's firms.

Conceptual Model

The main purpose of the research is to study the antecedents and consequences of customer commitment. Cater and Zabkar (2009) studied the topic in professional service relationships in the business-to-business market. The research has been adopted and re-tested their conceptual model in insurance industry of Iran. Accordingly, based on mentioned literature, customer loyalty is considered as dependent variable. In addition, trust, customer satisfaction and social bounds are considered as the independent variables. Finally, the customer commitment with three components (affective, normative and calculative commitment) is considered as the intermediating factor in the relationship among these independent and dependent variables. So the conceptual model of this study is as follows:

Figure 1: Conceptual Model of the Research



Source: Adopted from Cater and Zabkar (2009)

Hypotheses

With regard to the issues stated and conceptual model of research, 13 hypotheses of research are as follow:

H1.The degree of trust has a meaningful positive influence on the degree of affective commitment.

H2.The degree of trust has a meaningful positive influence on the degree of normative commitment.

H3.The degree of trust has a meaningful positive influence on the degree of calculative commitment.

H4. The degree of social bonds has a meaningful positive influence on the degree of affective commitment.

H5.The degree of social bonds has a meaningful positive influence on the degree of normative commitment.

H6. The degree of social bonds has a meaningful positive influence on the degree of calculative commitment.

H7. The degree of satisfaction has a meaningful positive influence on the degree of affective commitment.

H8. The degree of satisfaction has a meaningful positive influence on the degree of normative commitment.

H9. The degree of satisfaction has a meaningful positive influence on the degree of calculative commitment.

H10. The degree of affective commitment has a meaningful positive influence on the degree of normative commitment.

H11. The degree of affective commitment has a meaningful positive influence on the degree of loyalty.

H12. The degree of normative commitment has a meaningful positive influence on the degree of loyalty.

H13. The degree of calculative commitment has a meaningful positive influence on the degree of loyalty.

METHODOLOGY

The present study was an applied research in terms of its objectives; because its findings are used to solve problems within the organization. From data collection view it is descriptive survey; because it tries to obtain required information of status quo of Statistical sample using questionnaire. Also it is considered cross-sectional in terms of time, and quantitative in terms of data type.

Population and Statistical Sample

The population of this research consists of customers of Novin Insurance Corporation in Islamic Republic of Iran in Tehran. For the sampling, simple random sampling is used. The sample consisted of 250 persons. To ensure of collecting the appropriate number of questionnaires, the number of 300 questionnaires were distributed among the customers and at last, 255 questionnaires were collected (5 questionnaires were excluded due to being altered).

Data Collection Tools

Data collection tools of preliminary field data was the questionnaire utilized by Cater and Zabkar (2009). It contained 22 questions and was used as the 5-level Likert scale. To test the reliability of the questionnaire, data consists of 30 questionnaires were pre-tested and then using the data obtained and using the SPSS statistical software, confidence level was obtained as %87 using Cronbach's alpha coefficient.

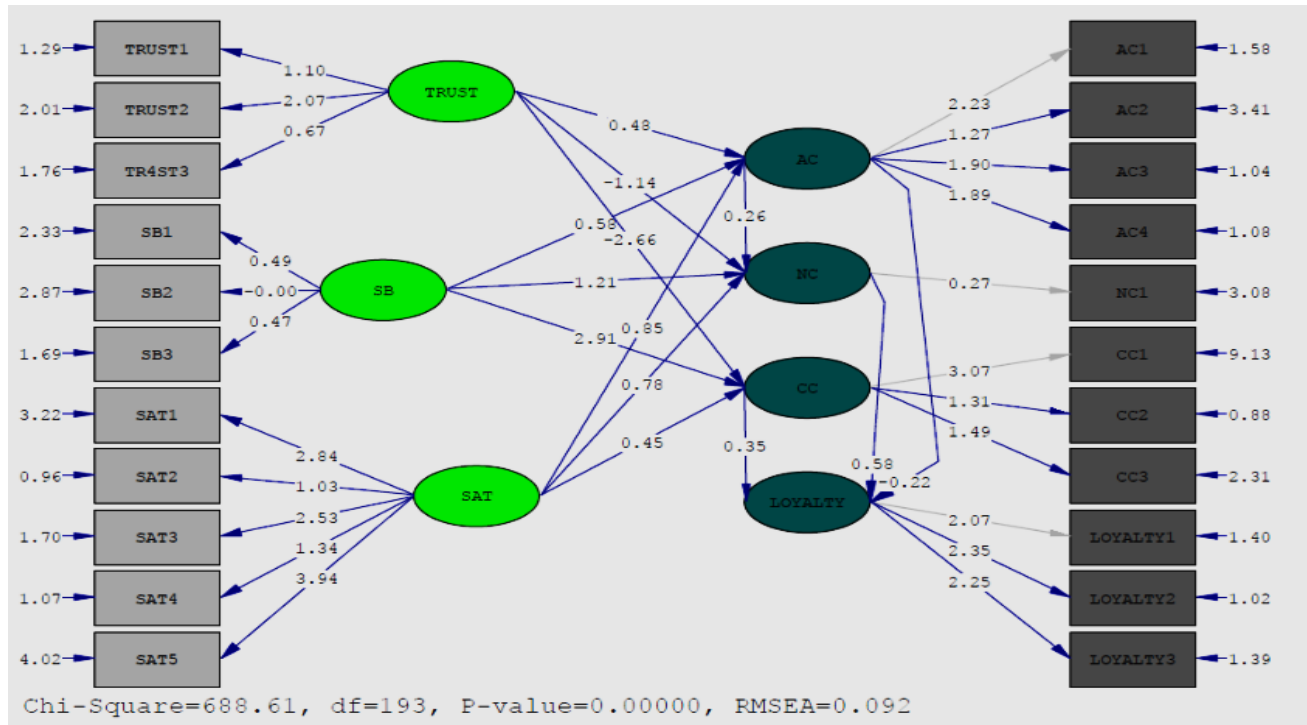
ANALYSIS AND FINDINGS

In this study, to analyze obtained data and analysis of the samples and the presence or absence of concurrent correlation between variables, confirmatory factor analysis and structural equation modeling was used. LISREL was used for data analysis: Confirmatory factor analysis for examining and confirming variables for concepts.

In order to investigate mentioned relationship first significance of effect of each relationship was examined using significance model and then using standard model, extent and

quality of this effect were assessed. Figure 2 shows standard mode of mentioned effect. The significance model is not illustrated because of limiting space of the article.

Figure 2: Proposed Relationship in Standard Mode



In the standard mode, model suggests that whether the proposed effects among the variables are verifiable or not. In this way, based on the results obtained from the standard model and significance model can summarize results of the hypothesis of the study in Table 1.

Table 1: Results of the Hypotheses

Hypothesis	Path: the meaningful positive effect of	Standard rate	Significant numbers	Result
1	Trust on affective commitment.	0.49	2.57	Confirmed
2	Trust on the normative commitment.	-1.14	-0.71	Not confirmed
3	Trust on calculative commitment.	-2.66	-0.67	Not confirmed
4	Social bonds on affective commitment.	0.56	1.99	Confirmed
5	Social bonds on normative commitment.	1.21	0.70	Not confirmed
6	Social bonds on calculative commitment.	2.91	0.73	Not confirmed

Table 1...

7	Satisfaction on affective commitment.	0.85	8.07	Confirmed
8	Satisfaction on normative commitment.	0.78	0.67	Not confirmed
9	Satisfaction on calculative commitment.	0.45	0.72	Not confirmed
10	Affective commitment on normative commitment	0.26	0.19	Not confirmed
11	Affective commitment on loyalty.	0.27	-0.24	Not confirmed
12	Normative commitment on loyalty.	0.59	0.55	Not confirmed
13	Calculative commitment on loyalty.	0.35	0.43	Not confirmed

The overall pattern of relationships between variables in structural equation models was consistent with the stated hypotheses in three hypotheses (number 1, 4 and 7). Other hypotheses are not verified because Significance numbers are greater than 1.96.

CONCLUSION

The purpose of this study was to examine the influence of antecedents and consequences of commitment. Accordingly, the purpose of the research conducted for this article was to develop an understanding of the influence of the independent variables of trust, customer satisfaction and social bounds on customer loyalty with the intermediating role of customer commitment. In addition the study examined the influence of different components of commitment (affective, normative and calculative commitment) on customer loyalty in the context of insurance service sector. The main contribution of this study lies in re-testing of a pre-developed model of customer commitment (Cater and Zabkar, 2009) in insurance services.

Insurance corporations need to adapt their strategies to enhance loyalty, as customer satisfaction alone is not enough to ensure loyalty. To achieve the goal, it was suggested that they should also focus on building good relationships with their customers. Strong, mutually beneficial relationships between service providers and their customers build loyalty through repeat purchases, with financial rewards for the business. Before any customers will conduct business with an organization, however, they must be able to trust the provider. In return, customers who have committed themselves to the organization will warrant maximum efforts to maintain the relationship with the service provider, which could further assist in fostering customer loyalty.

The results of this study thus confirm the dominant role of trust on affective commitment, social bonds on affective commitment and satisfaction on affective commitment. But other hypothesized relationships were not confirmed.

MANAGERIAL IMPLICATIONS

According to the research findings, a number of managerial implications for improving customer loyalty in insurance corporations are proposed as follow:

Firstly, customer satisfaction seems to have the largest influence on customer loyalty. As a result, the manager would predominantly need to adopt practices to ensure the degree to which the service offered by the corporation matches or exceeds the expectations of the customer. The manager should also consider reducing the administrative workload placed on the insurance affairs to allow for more productive time with customers.

In addition to customer satisfaction, the manager would need to pay attention to the other two variables investigated (trust and social bounds), consistent with the literature review, they could have an impact on the loyalty of customers. So insurance corporations would need to develop and improve trust and social bounds among their customers. Reducing perceived risk could enable the customer to make consciousness decisions about the future dealings of the practice.

Finally, the insurance corporations would also need to ensure that meaningful and timely information is shared with their customers to enhance the level of relationship commitment.

RESEARCH LIMITATIONS

There might be unwanted factors in any research that make limitations to the research; hence, some of the unwanted variables are not under researcher's control. These factors must be determined and the researcher must show his knowledge about the influence of these factors on the research results. In the present study, there were some limitations such as:

- 1) To study the variables the survey (questionnaire tools) has been used; while it was better to use observation and/or interview for some factors. The questionnaire is a tool by which the understandings and attitude of any person is investigated; whereas, the reality might be different with respondent's answers.
- 2) There are two issues must be considered regarding the nature and generalization of the research: firstly, there might be some practical behaviors like other survey researches that are mostly dependent on environmental conditions. Furthermore, intervening variables might affect the supposed relations among variables that are considered in this study.
- 3) Some other important limitations to this research include: reluctance of some of the respondents to answer the questionnaires, not enough carefulness of some of the respondents in answering the questions, the possibility of bias in answering the questions by some of the respondents.

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