Building Customer Relationships: a Comparison Across Multiple Service Encounters

Hung-Chang Chiu, National Chung Hsing University, Taiwan
Monle Lee, Indiana University South Bend
Yi-Ching Hsieh, National Central University, Taiwan
Li-Ya Chen, Ming Chuan University, Taiwan

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ABSTRACT
The purpose of this study is to investigate the impacts of relational bonds on customer loyalty in various service encounters. Data were obtained from a sample of 621 Taiwanese customers in the securities industry. The findings are threefold. First, financial bonds have little impact on customer loyalty, social bonds create an intermediate impact on customer loyalty, and structural bonds have the greatest impact on customer loyalty. Second, social bonds influence customer loyalty more in person-to-person encounters than in interactive voice response systems or Internet encounters. Third, structural bonds affect customer loyalty more on the Internet than in person-to-person or interactive voice response system situations.

INTRODUCTION
Relationship marketing has emerged as a critical tool in the current marketing climate, where managers must seek new ways to create sustainable competitive advantage (Dibb and Meadows 2001). By emphasizing a focus on the ways that companies can build, develop, and maintain successful relational exchanges, relationship marketing represents an important means to build customer loyalty to an organization (Morris et al. 1999). Recently, a body of research surfaced that attempts to discern the types of bonds that enhance relationship marketing (e.g., Berry 1995; Peltier and Westfall 2000; Williams et al. 1998). These bonds have been categorized as financial (e.g., price incentives), social (e.g., interpersonal relationships), and structural (e.g., services that are designed into the system). However, despite the increasing importance of relationship marketing, the effects of these three relational bonds on customer loyalty have not been sufficiently studied empirically. Service encounters, defined as the moment of interaction between a customer and a firm, are increasingly critical in all industries and may take place in an actual service setting, over the telephone, through the mail, or over the Internet (Bitner et al. 2000). Prior studies have recognized the importance of service encounters in creating and maintaining good relationships between service firms and their customers (e.g., Haring and Mattsson 1999). As customers and businesses interact over time, the opportunity rises for this aggregation of encounters to transform into an exchange relationship (Morgan and Chada 1993).

Although it is increasingly evident that technological advances will continue to be critical components of customer–firm interactions, little is known about how interactions with such technological options affect customer evaluations and behavior (Meuter et al. 2000). In different service encounters, the ways that customers interact with a business may also differ. For example, customers must personally visit some service facilities and engage in interactions with employees for person-to-person encounters. Therefore, developing buyer–seller relationships through interpersonal interactions or friendships between customers and employees may be more useful for these customers. However, for Internet encounters, customers can easily access high-quality information from the Web site (Detlor 2003). Using a service-delivery system, rather than relying on the relationship-building skills of individual service providers, allows firms to customize their offerings and may also give customers greater satisfaction. Accordingly, to produce results that can be interpreted at a theoretical level, investigations must encompass a range of interfaces and consider the effectiveness of customer relationships in different encounters. In this study, we attempt to determine whether the impacts of relational bonds on customer loyalty differ for customers in person-to-person, interactive voice response system, and Internet encounters.

THEORETICAL ISSUES
Customer Loyalty
In Oliver’s (1999, p. 34) study, loyalty is defined as “a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future.” Customer loyalty is considered one of the several means by which a firm can build a sustainable competitive advantage. Loyalty plays an important role in influencing consumers’ repeat purchases (Jacoby and Kyner 1973) and creating substantial income for companies (Jones and Farquhar 2003). From a business perspective, structuring consumer retention mechanisms to enhance profits has become more important than ever.

Relational Bonds
Previous literature has indicated that a customer retention strategy can focus on three types of bonds: financial, social, and structural (Berry 1995). Subsequent studies, including Berry (1995), Peltier and Westfall (2000), and Williams et al. (1998), have adopted this typology to discuss the effects of such bonds.

Researchers have argued that one motivation for customers to engage in relational exchanges is money savings (e.g., Berry 1995; Gwinner et al. 1998). However, although financial bonds seem useful in securing customer loyalty, some researchers have suggested that these bonds belong at the lowest level of the relationship hierarchy because price is the most easily imitated element (e.g., Peltier and Westfall 2000; Zeithaml and Bitner 2003).

Social bonds are defined as personal ties pertaining to service dimensions that include interpersonal interaction, relationship building (Wilson 1995), and identifications (Turner 1970). From the customer perspective, a social bonding strategy benefits them significantly through strong service relationships (Gwinner et al. 1998). These social bonds positively influence customers’ emotions or feelings associated with the service experience and contribute to the formation of the affective component of attitude, all of which are salient aspects of intimate, high-quality relationships (Thorbjørnsen et al. 2002). Therefore, though social bonds alone may not bind a customer permanently to a company, they will ultimately prove more difficult for competitors to imitate (Zeithaml and Bitner 2003). Some researchers (e.g., Berry 1995; Peltier and Westfall 2000) in turn suggest that social bonds sit at the intermediate level in the relationship hierarchy and help companies protect against competitive pricing pressures.

Finally, Berry (1995, p. 241) suggests that marketers practice relationship marketing, which depends on structural bonds when “the solution to the customer’s problem is designed into the service-delivery system.” The structural bonds “offer target customers value-adding benefits that are difficult or expensive for customers to provide and that are not readily available elsewhere” (Berry...
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1995, p. 240). From the industrial marketing perspective, Turnbull and Wilson (1989, p. 233) argue that effective structural bonds “create value to the customer and either require investment by the buyer that cannot be salvaged if the relationship ends or may be expensive if the buyer must supply this service themselves if they change sources.” Accordingly, structural bonds refer to the value-adding services that are contained in the service-delivery system, including knowledge and information about the industry and product customization; that are not readily available elsewhere; and that are expensive for customers to supply if they terminate the relationship.

In addition, because customers regard the provision of information, knowledge, and goods/services by the business and their participation in this provision as a mutual relationship investment and adaptation, these valuable services forge customer loyalty by creating a psychological barrier to terminating the relationship (Wilson 1995). In turn, some studies suggest that structural bonds belong in the highest level of the hierarchy of relational bonds (Peltier and Westfall 2000). Accordingly, we propose that:

\( H1 \): The impacts of financial, social, and structural bonds on customer loyalty differ.
\( H1_a \): The positive impact of social bonds on customer loyalty will be greater than that of financial bonds.
\( H1_b \): The positive impact of structural bonds on customer loyalty will be greater than that of social bonds.

The Role of the Type of Service Encounter

Prior studies have demonstrated the importance of service encounters to businesses. For example, encounters affect critical outcomes such as customers’ intention to repurchase, relationship quality, and loyalty (Bittner et al. 2000). A service encounter, defined as a period of time during which customers interact directly with a service (Loveland 2001), may take place in an actual service setting, over the telephone, through the mail, or even over the Internet (Bittner et al. 2000).

Prior research about service encounters focused on person-to-person encounters or interpersonal interactions (Morgan and Chaudha 1993). However, to reduce costs and improve customers’ convenience, many companies have redesigned their customer flows. Instead of encouraging situations where customers deal with the company representative in a person-to-person setting, these companies encourage lower contact levels where customers have remote contact with company representatives (Loveland 2001). Accordingly, recent research has investigated person-to-machine encounters (e.g., Bittner et al. 2000; Meuter et al. 2000).

In all of these settings, the same three types of bonds may apply to the company’s attempts to retain its long-term customer relationships. Because financial bonds are easily imitated and do not offer any differences with competitors in the long run (Peltier and Westfall 2000), we omit any discussion of their effects on customer loyalty across service encounters.

Social bonds, however, may affect customers in these types of encounters (i.e., person-to-person, interactive voice response system, and Internet) differently. In person-to-machine encounters, customers obtain services primarily through self-service technologies, which, according to Sauer and Burton (1999), are hard-to-reproduce social elements. In Donthu and García’s (1999) study, they reveal that Internet shoppers’ socioeconomic, motivational, and attitudinal characteristics differ from those of non-Internet shoppers; furthermore, decreased pressure from salespeople contributes to why consumers make online purchases (GVU 1997). In this context, interactive voice response systems are easily accessible and provide timely information, but they seldom offer interpersonal interaction or friendship elements to customers. Similarly, in a virtual environment, though the interactivity of the Internet can initiate a two-way conversation, online shoppers are hampered by the lack of personal contact inherent in remote transactions (Croft 1998). In summary, though e-retailers may build social bonds with individual customers through personalized e-mails or customer-to-customer interactions and friendships (Zeithaml and Bitner 2003), many consumers may still prefer the social component of a service encounter.

Because repeated interactions between customers and service suppliers help customers assess the service firm’s credibility and benevolence (Donney and Cannon 1997), more interactions may lead to an emotional attachment through the customer’s developing a sense of mutual trustworthiness. Therefore, social bonds that stress interpersonal interactions may be more useful for customers in person-to-person encounters than in person-to-machine encounters. In turn, we posit that

\( H2 \): The effect of social bonds on customer loyalty is moderated by the types of customers in the service encounter, such that the effect is greater for customers of person-to-person encounters than for those of Internet and interactive voice response encounters.

Finally, structural bonds also may affect customers of the three types of encounters differently. The development of electronic technologies has dramatically reduced the time and cost of information exchange, effectively linked processes, and enabled close integration of different parties in the value chain (Tang et al. 2001). Through the Internet, customers may receive personalized services (Wilson 1995). By building fast, well-structured hyperlinks with Web sites of strategic partners, businesses can also provide more integrated services to their customers, which may lead to improved customer loyalty.

In addition, online customers generally want to access product specifications, usage instructions, warranty information, and lists of products on sale (Burke 2002). They also want to be able to receive an e-mail message confirming that the order was received and shipped, and then track their shipment on the Web.

Compared to an Internet encounter, salespeople offer some similar benefits as they visit customers regularly to provide product information and resolve customer concerns, particularly in industries like financial services. From the customer’s perspective, however, structural bonds developed through salespeople are probably less timely and less convenient than Internet encounters. Similarly, though interactive voice response systems are easily accessible and provide timely information, they are not customized for each customer and are therefore likely to offer a weaker structural bond. Accordingly, we propose that the impact of structural bonds on customer loyalty is lower for customers in person-to-person encounters and interactive voice response systems than for those in Internet encounters. In turn, we posit that

\( H3 \): The effect of structural bonds on customer loyalty is moderated by the type of customers in service encounter, such that the effect is greater for customers of the Internet encounter than those of person-to-person and interactive voice response encounters.

**METHODOLOGY**

**Sample**

To examine H1–H3, we conducted a field study in the securities industry in Taiwan. Questionnaires were distributed to one
thousand securities customers who experienced person-to-person, interactive voice response systems, and Internet encounters. To recruit respondents we used customer lists obtained from sponsor securities companies and employees of high-tech or service industries with experience in stock exchanges. A total of 621 responses were gathered, which represents a response rate of 62.1%. T-test results reveal there are no significant differences across these demographics between these two samples.

Each respondent was asked to select one of the three encounters he or she confronted most frequently. Then the respondent selected one securities company in the context of this type of encounter that he or she had patronized previously to purchase the good/service. Finally, the respondent indicated his or her perceptions of the company.

According to the received questionnaires, the sample of respondents consists of approximately the same percentage of women and men (50.1% and 49.9%, respectively), who range in age from 15 to 60 years. The sample sizes for the three types of encounters were as follows: 387 person-to-person encounters, 116 interactive voice response system encounters, and 118 Internet encounters.

Measures

We conducted three separate in-depth interviews with two entry-level managers in the securities industry to determine how they implemented their relationship strategies. From these investigations, we identified 20 measurement items that we categorized as financial (4 items such as “The company provides cumulative points programs” and “The company offers more rebates if I trade beyond a certain amount.”), social (7 items such as “The company is concerned with my needs,” “Service providers help resolve my problem even if it is not related to the business,” and “The company sends me greeting cards or gifts on special days.”), or structural (9 items such as “The company suggests suitable investment options according to my records and assets,” “The company integrates services from other sources to solve my problem,” and “The company provides professional knowledge in the financial area.”). Each item was scored on a seven-point Likert scale (1=strongly disagree; 7=strongly agree).

We refined the instrument through a pilot test. We applied an item-to-total correlation analysis to find any items that needed to be dropped at this stage, but because we could not improve any alpha coefficients in the financial, social, or structural dimensions by deleting any items, we did not remove any.

The loyalty construct often is gauged by the relative attitude that a consumer has toward a company and his or her intention to delete any items, we did not remove any.

The loyalty construct often is gauged by the relative attitude that a consumer has toward a company and his or her intention to purchase again from the same company (e.g., Jones and Farquhar 2003; Peltier and Westfall 2000). To measure the dependent variable of customer loyalty, we adopted three indicators in accordance with the literature: “I am willing to repurchase” (Peltier and Westfall 2000), “I am willing to purchase other products or services from this firm” (Sirohi et al. 1998), and “I am willing to recommend this firm to others” (Peltier and Westfall 2000). Again, respondents used a seven-point scale to respond to these items.

DATA ANALYSIS

Reliability and Construct Validity

To investigate the reliability of the scale, we computed the Cronbach’s alphas for the financial, social, and structural bonds as .85, .93, and .94, respectively. For the dependent variable of customer loyalty, the coefficient alpha was .83. These values suggest reasonable internal consistency.

To test the construct validity of the three relational bonds, we conducted a confirmatory factor analysis (CFA) using LISREL.

85. Although the $\chi^2$ values of the CFA models of the three relational bonds were 408 (d.f.=167, $p<.05$), the $\chi^2$/d.f., CFI, GFI, SRMR, and RMSEA were 2.48, .87, .86, .05, and .06, respectively. These latter values suggest an adequate fit of the model to the data.

Furthermore, convergent and discriminant validity should be examined for construct validity, which is supported when the average variance extracted (AVE) between the constructs and their measures is greater than .50 (Fornell and Larcker 1981) and the loading on the hypothesized construct is significant. Here, the AVEs for the financial, social, and structural factors were .59, .64, and .68, respectively, and the factor loadings were all significant at $p<.05$. Thus, convergent validity is supported. The AVE value also can be used to assess discriminant validity (Fornell and Larcker 1981); discriminant validity is supported if the AVE for each factor and its measures is greater than the square of the estimated correlation between factors. Discrimination was evident in this study because the largest shared variance among the three factors (.46) was less than the lowest AVE value for each factor and its measures (.59).

Relationship between Relational Bonds and Customer Loyalty

To investigate the impacts of the three relational bonds on customer loyalty, we calculated composite scores for each bond by summing its measurement items. These composite (or simple factor) scores often are highly correlated with factor scores obtained by the more complex least squares and regression methods (Johnson and Wichern 1992). In addition, the variance inflation factors (VIF) values were much below the threshold of 10. Therefore, the effects of multicollinearity can be ignored in this study. We then conducted a regression using customer loyalty as a dependent variable and the three relational bonds as predictors. The results indicate that the structural bond and the social bond significantly influence customer loyalty ($\beta=.50$ and .18, $p<.05$), whereas the financial bond has an insignificant impact on customer loyalty ($\beta=.05$, $p>.05$). Therefore, $H_1$ is supported.

To further investigate whether the unstandardized regression coefficients of structural bonds and social bonds (which were significantly greater than 0) can be treated as equal, we conducted a t-test. The results indicate that the coefficient of the structural bonds is significantly larger than that of the social bonds ($t=3.81$, $p<.05$), in support of $H_{1b}$. As we have already discussed, the insignificant financial bond effect may reflect the ease with which competitors can imitate a financial bond strategy (Berry 1995). Virtually every securities company provides financial bonds to its customers, which decreases their effectiveness. In addition, we find that structural bonds are the most effective in enhancing customer loyalty, in line with Berry’s (1995) suggestion that structural bonds create strong foundations for customer relationships.

Furthermore, to examine the moderating effects of the service encounters, we tested $H_1$ through hierarchical regression analyses, with customer loyalty as the dependent variable and a specific relational bond as the predictor. We employed hierarchical regression analyses in which we mean centered all the variables to reduce the risk of multicollinearity. If there is a significant change in $R^2$ when the interaction between a relational bond and the encounter is added, moderation is supported (Arnold 1982). In this study, because our service encounter variable has three levels (i.e., person-to-person, interactive voice response system, and Internet), we code two dummy variables that provide qualitative information.

In table 1, we report a series of hierarchical models for $H_2$–$H_3$. Moderation is supported for social ($\Delta R^2=.012$, $p<.05$) and structural ($\Delta R^2=.01$, $p<.05$) bonds; moderation is not supported for financial bonds ($\Delta R^2=.002$, $p>.05$).

To further investigate whether a specific relational bond has a differential impact on loyalty for a specific encounter, we tested
three separate regression models with customer loyalty as the dependent variable and each type of relational bond as the predictor for three different encounters. To avoid the issues related to high levels of multicollinearity among independent variables, which make it difficult to draw inferences about regression estimates, we determined whether the data fit the condition of multicollinearity prior to the regression. The variance inflation factors values ranged from 1.52 to 2.29 and thus are below the suggested threshold of 10. Therefore, the effects of multicollinearity can be ignored in this study.

Table 2 also indicates the relationships between the three relational bonds and customer loyalty during different encounters. The social bond has a significantly positive impact on customer loyalty only in person-to-person encounters ($\beta=.26, p<.05$), in support of H2. The structural bond has the greatest impact on customer loyalty in Internet encounters ($\beta=.63, p<.05$). To investigate the significance of H3, we also compare the unstandardized regression coefficients between structural bonds and customer loyalty across service encounters (Arnold 1982). The results indicate that the impact of structural bonds on loyalty is significantly higher in Internet than in person-to-person ($p<.05$) or interactive voice response system ($p<.05$) encounters in one-tailed tests. H3 is therefore supported. Because the Internet provides an inexpensive means to search, organize, and disseminate complete, relevant, timely, up-to-date, and accessible information, it may be more effective for companies to deliver structural bonds to customers through Internet encounters.

**DISCUSSION**

Service encounters constitute critical moments of truth where a firm leaves an indelible impression on the customer (Bitner et al. 2000). Recently, because growing numbers of customers are interacting with self-service technologies rather than employees to create service outcomes, Meuter et al. (2000) suggested that research should compare the underlying differences in how customers respond to telephone- versus Internet-based self-service technologies. We responded to this suggestion by investigating the impacts of the three relational bonds on loyalty for customers in different types of encounters.

The empirical results indicate that financial bonds have no significant impact on loyalty for customers in any type of encounter. Social bonds, however, have a significantly positive impact on customer loyalty, but only in person-to-person encounters. Finally, structural bonds are effective in gaining customer loyalty in every type of encounter, though they are more useful in Internet situations than in other types of encounters. This finding suggests that e-tailers should leverage structural bonds to strengthen their customers’ loyalty.

**Managerial Implications**

Loyal customers buy more, are willing to spend more, are easier to reach, and act as enthusiastic advocates for firms (Harris and Goode 2004). The results of this study therefore provide some key strategic implications for managers, especially those in the securities industry, who seek to build customer loyalty.

Identify the nature of the bonds between consumers and businesses. When there is effectively none or little difference between suppliers, customer switching is very possible because one service or supplier is essentially equivalent to another (Turnbull and Wilson 1989). If, as recent research argued, the main purpose of managing customers is to improve long-term profitability, businesses must identify their most profitable customers and strengthen those relationships through relational bonds. Therefore, understanding the key factors that bond customers to firms is important for

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**TABLE 1**

RESULTS OF HIERARCHICAL REGRESSION ANALYSES

<table>
<thead>
<tr>
<th>Step</th>
<th>Independent Variable</th>
<th>Total R²</th>
<th>ΔR²</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Financial bond and service encounters</td>
<td>.106</td>
<td>.109*</td>
</tr>
<tr>
<td>2</td>
<td>With financial bond x service encounters</td>
<td>.111</td>
<td>.002</td>
</tr>
<tr>
<td>1</td>
<td>Social bond and service encounters</td>
<td>.287</td>
<td>.287*</td>
</tr>
<tr>
<td>2</td>
<td>With social bond x service encounters</td>
<td>.299</td>
<td>.012*</td>
</tr>
<tr>
<td>1</td>
<td>Structural bond and service encounters</td>
<td>.380</td>
<td>.380*</td>
</tr>
<tr>
<td>2</td>
<td>With structural bond x service encounters</td>
<td>.390</td>
<td>.010*</td>
</tr>
</tbody>
</table>

*p<.05.

**TABLE 2**

RESULTS OF STANDARDIZED REGRESSION COEFFICIENTS

<table>
<thead>
<tr>
<th>Types of Encounters Variables</th>
<th>Overall Sample</th>
<th>Person-to-Person Encounter</th>
<th>Interactive Voice Response System</th>
<th>Internet Encounter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independent variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial bonds</td>
<td>-.05</td>
<td>-.06</td>
<td>-.12</td>
<td>-.02</td>
</tr>
<tr>
<td>Social bonds</td>
<td>.18**</td>
<td>.26**</td>
<td>.14</td>
<td>.04</td>
</tr>
<tr>
<td>Structural bonds</td>
<td>.50**</td>
<td>.47**</td>
<td>.44**</td>
<td>.63**</td>
</tr>
<tr>
<td>R²</td>
<td>.40</td>
<td>.45</td>
<td>.24</td>
<td>.46</td>
</tr>
<tr>
<td>F value</td>
<td>82.34**</td>
<td>61.65**</td>
<td>7.01**</td>
<td>19.42**</td>
</tr>
</tbody>
</table>

**p<.05."
customer loyalty efforts and, in turn, for businesses’ profit. Managers and employees must be aware of the three types of relationship strategies to enhance customer loyalty. According to the results of this study, structural bonds are the most effective and financial bonds are the least effective ways to enhance customer loyalty overall.

Differentiate relational bonds in service encounters. Traditionally, research about service encounters has focused on person-to-person encounters. However, to reduce costs and achieve greater customer convenience, many companies have turned to person-to-machine encounters. The results of our study indicate that customers in person-to-person encounters find both social and structural bonds useful; however, the structural bond is the most effective for those in the Internet encounters. According to Garvin (1987), managers tend to employ only a few strategies in their drive to compete with other companies, so these findings should help companies identify attributes that they should prioritize in their encounters with their customers.

Develop marketing investment and training programs that lead to customer loyalty in different encounters. The careful development of a relationship investment strategy makes a company more venerable to attack from competitors (Turnbull and Wilson 1989), but careful allocation of the marketing budget can be planned according to the results of this study. For example, a business might use the measurement items developed in this research to benchmark its relationship activities with those of competitors and identify comparative strengths and weaknesses from a customer standpoint. The company then could develop a bonding strategy based on the customers that appear in each type of encounter. For example, customers in person-to-person encounters place a great deal of importance on personal ties, so the company should invest more to develop personal ties with this group. However, for customers in an Internet situation, value-added services should constitute the primary investments the company uses to manage its customer relationships. The business might focus on building technologies that record customer preferences and then provide detailed information and customized services to them.

Future Research Directions
Additional research might take some of the following directions. First, further research might study the problems of cross-channels in different buying stages. To enhance customer loyalty, firms likely use a combination of relational bonds at different customer decision stages. For example, customers may use the Internet to search for information but eventually make the purchase from local brick-and-mortar stores. Alternatively, a salesperson might send an e-mail to a customer to provide relevant information before his or her visit to the store, or Web sites might offer contact information for service/sales personnel, which interested customers can use. Therefore, research should investigate the effects of a combination of relational bonds and service encounters at different buying stages.

Second, some studies have suggested that organizations should analyze the position of their customers according to a continuum of transactional to collaborative exchanges and then apply transactional or relational marketing to those customers on the basis of their orientation (e.g., Garbarino and Johnson 1999). Therefore, further research might examine the relationship between the three relational bonds and customer loyalty for low versus high relational customers. For example, might social bonds be more effective in developing customer loyalty than using structural bonds for newer customers?

Third and finally, Hofstede (1980) proposes four dimensions of culture: power distance, uncertainty avoidance, individualism—collectivism, and masculinity—femininity. The primary characteristic of Chinese culture appears to be a more collectivistic orientation, whereas North American culture is typically characterized as individualistic (Hofstede, 1980; Williams et al. 1998). According to Williams et al. (1998), structural bonds have a greater influence on customer commitment in individualistic countries than in collectivistic countries, whereas social bonds are more significant for collectivistic countries than for individualistic countries. Although this article sheds light on how different types of relational bonds affect customer loyalty in the Taiwan securities industry, additional research should also examine the generalizability of our results to other countries—possibly those considered more individualistic—and compare the results with this study.

REFERENCES


