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Customer loyalty & face concerns

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Chapter 1

Introduction

1. INTRODUCTION

1.1 INTRODUCTION

If a person who had visited China in 1976 (the year Mao Zedong died) were to visit China today, he or she would probably ask in wonder, “Is this even the same country?”

In 1980s, when China had just opened its domestic market to the outside world, few products and brands were available there, and Chinese consumers could satisfy only their most basic needs (Schmitt, 1997)—mostly in the same ways (Zhang, van Doorn, & Leeflang, 2012). Thriftiness was a prized traditional cultural value (Chinese Cultural Connection, 1987), and many people continued to use products as long as they were in functional condition. Everyone wore the same blue cotton pants and jackets, inspiring the French journalist Robert Guillain to remark that China was the land of “blue ants.”¹ A few vehicles moved along the streets; tens of thousands of bicyclists dressed in those blue cotton outfits silently peddled to and from their destinations (Chao & Myers, 1998). Almost every household owned the same “Youngjiu” (*forever*) bicycle and “Hudie” (*butterfly*) sewing machine. Marketing literature from 1980s thus portrayed Chinese consumers as thrifty, utilitarian (Wang & Lin, 2009), and interested in satisfying basic physiological needs (Gong, 2003). Western consumers in contrast were presented as sophisticated and conscious of brand names (e.g., Tan & McCullough, 1985).

In 1990s, with the transitional surge toward a market economy, department stores and shops proliferated and international marketers entered the Chinese market. In response Chinese consumers started to express genuine enthusiasm for and loyalty toward foreign brands. They came to enjoy their consumption, dressing colorfully, having a quick snack at KFC or McDonald’s, and singing at karaoke clubs (Chao & Myers, 1998). However, older Chinese consumers still remained faithful to the brands popular in the 1930s—Bayer, Kodak, and Camay, for example (Baiyi, 1992)—leading to an early observation that the Chinese “are the world’s most loyal customers” (Crow, 1937, p.17). Relevant marketing literature in the 1990s focused on consumer loyalty (see Hu, Shanker, & Hung, 1999; Leung, Li, & Au, 1998; Zhang, 1996), noting that Chinese consumers tended to purchase the same brands (Palumbo & Herbig, 2000), whereas Western consumers represented the lifestyle innovators and early adopters of new products, who exhibited less brand loyalty (Townsend, 1991) and placed more emphasis on their personal tastes and hedonic experience (Liao & Wang, 1998).

In 2000s, the rapidly emerging middle class² and increasing disposable income have led to the disappearance of some time-honored consumer behaviors, such as thriftiness (Wang & Lin, 2009). Modern Chinese consumers seek instead to improve their self-image and social status

¹ See Robert Guillain, *600 Million Chinese* (New York: Criterion Books, 1957), ch. 8.

² The middle class implies annual household incomes exceeding RMB 250,000 (He, Zou, & Jin, 2010).

through consumption, which can enhance their “face” (i.e., self-image and/or status earned in a social network). It is no longer rare to find young Chinese girls who have saved their salaries for three months to buy a Louis Vuitton handbag, to give the impression that they come from a wealthy family or have a rich boyfriend (Windle, 2005). Louis Vuitton bags, Cartier watches, Dior perfume, Armani suits, and other luxury items have found fans among China’s thirty-something crowd (Wang & Lin, 2009). The German luxury carmaker BMW saw sales in China jump by 44 percent in June 2009, even as U.S. sales were falling more than 20 percent (Knowledge@Wharton, 2009). In response to these new developments, marketing literature in the 2000s featured a growing body of studies of face concerns (e.g., Bao, Zhou, & Su, 2003; Bolton, Keh, & Alba, 2010; Chan, Wan, & Sin, 2009; Li & Su, 2007), highlighting how Chinese consumers emphasize the social functions of consumption more than their Western counterparts.

In general, in 1980s, due to a shortage of resources, Chinese consumers’ loyalty was constrained to national brands, and back at that time owning these brands was considered to provide face. In 1990s and 2000s, a growing number of foreign brands entered the Chinese market, and foreign brands were perceived as more fashionable and more advanced in technology than national brands. As a consequence, Chinese consumers’ loyalty switched from national to foreign brands, Chinese consumers being keen to purchase foreign brands to show or enhance their face. Hence, Chinese consumers’ loyalty and face have changed dramatically over time, along with consumption situations and the environment. In 2010s, some noticeable changes in Chinese consumer behaviors include a growing tendency toward materialism (Swanson, 1995), hedonic consumption (Wang et al., 2000), and individualism (McEwen et al., 2006). These new circumstances prompt some interesting questions too: Are Chinese consumers still more loyal than their Western counterparts? Is their loyalty driven by different factors? When and how do face concerns affect Chinese consumers’ purchase intentions? To address these questions, this dissertation considers two highly relevant issues for marketing in China: customer loyalty and face concerns. We return to this issue in more detail below.

In a cross-cultural comparison, this study collected new data from China and the Netherlands, across multiple industries, with the goal of shedding more light on changing Chinese consumer behaviors in relation to customer loyalty and face concerns. From an economic perspective, China and the Netherlands represent two typical examples of distinct economies (emerging market vs. developed market). From a cultural perspective, China represents a typical example of an Eastern, collectivistic culture, whereas the Netherlands offers a credible representative of a Western, individualistic culture (Hofstede, 1980). According to Triandis and Gelfand (1998), China is a vertical (emphasis on hierarchy), collectivist society, whereas the Netherlands is a horizontal (emphasis on equality), individualist society. People from vertical cultures tend to focus on enhancing the status of their collectives (Shavitt et al., 2006) and view people with higher status as superior to those with low status (Liao & Bond, 2010),

which encourages attention to social comparison information (Goldsmith, Flynn, & Kim, 1999) and thus should increase face concerns. In a horizontal culture, people tend not to stand out and view themselves as equal to others (Triandis & Gelfand, 1998), which may reduce their face concerns, because of the relatively minimal attention they pay to social comparisons. As exemplars of these opposite poles, China and the Netherlands³ represent one of the most and one of the least face-concerned cultures, respectively. The remainder of this chapter introduces the relevant concepts that underlie this thesis, viz, customer loyalty and face concerns, before offering an outline of the overall dissertation.

1.2 CUSTOMER LOYALTY

Customer loyalty is a central strategic objective and focus for marketing (Selnes, 1993). It can be defined as “a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior” (Oliver, 1999, p. 34). Because loyal customers are less expensive to serve (Shugan, 2005), tend to buy and pay more (Seiders et al., 2005), and spread positive word of mouth (Reichheld & Sasser, 1990), the primary marketing activities of a firm tend to be viewed in terms of developing, maintaining, or enhancing customers’ loyalty toward its products and services (Dick & Basu, 1994).

Previous literature offers diverging evidence and views regarding Chinese customer loyalty. Some researchers (e.g., Kale & Barnes, 1992; Lowe & Corkindale, 1998) claim that compared with Western consumers, Chinese consumers tend to exhibit more loyalty, because their high uncertainty avoidance and long-term orientation (i.e., emphasis on continuity) leads them to resist change and reduces the likelihood that they will terminate valued relationships. A recent survey (Customer Loyalty Study, 2013) confirms the strong brand loyalty among Chinese consumers; more than half the respondents (58%) believed it paid off to be loyal to their favorite brands. However, other researchers (Sun, Horn, & Merritt, 2004) note that compared with Western consumers, Eastern consumers such as Chinese and Japanese consumers express greater eagerness to switch to other brands. Uncles, Wang, and Kwok (2010) also posit that the exclusive brand loyalty of Chinese consumers is eroding; just because Chinese consumers are brand conscious, it does not mean they are brand loyal (Annual Chinese Consumer Study, 2010). An early study across four major Chinese cities indicated that loyalty levels for products such as instant noodles, chewing gum, and skincare products could be quite low (Bates, 1998). Still lacking are clear insights into Chinese consumers’ loyalty intentions toward services.

Limited evidence suggests that consumers do not become loyal the same way across different cultures (Lai, Griffin, & Babin, 2009). For example, empirical studies show that brand equity is the strongest driver of loyalty for U.S. chain restaurants (Hyun, 2009). A study among

³ Apart from economic and cultural perspectives, I compare China and the Netherlands also for practical reasons.

Korean consumers instead reveals that brand image, perceived service quality, and perceptions of switching costs better determine loyalty (Kim et al., 2004). In European retailing, value equity and brand equity have relatively greater impacts on loyalty intentions than relationship equity (Vogel et al., 2008). Research examining Turkish mobile communications consumers suggests that service quality is a necessary but insufficient condition to create loyalty (Aydin & Ozer, 2005). Generally, Asian cultures regard less tangible characteristics (e.g., salesperson relationships) as more important (Mattila, 2001).

Using new data, Chapter 3 investigates whether Eastern (Chinese) consumers are more loyal than Western (Dutch) consumers for service providers. We also investigate how Chinese consumers' loyalty intentions are effected differently by value equity, brand equity, and relationship equity than the corresponding loyalty intentions of Dutch consumers.

1.3 FACE CONCERNS

Now, I am going to turn to the other central concept within this dissertation: Face.

1.3.1 Face and Culture

Face refers to “the public image created, which enables a person to receive praise from others” (Goffman, 1955, p. 213). It is referred to by various names, such as *mianzi*, *mentsu*, *gesicht*, *gezicht*, and face in Chinese, Japanese, German, Dutch, and English, respectively. Face has strong conceptual links with the notion of a “looking-glass self” (Qi, 2011). Regardless of their cultural background, people cannot simply disregard the opinions or appraisals of others in developing their own self-understanding (Qi, 2011). Thus, concern for face exists across cultures (Goffman, 1955; Oetzel et al., 2001; Liao & Bond, 2010). Face concerns can be divided into two types: self-face and other-face (Ting-Toomey & Kurogi, 1998). Self-face is the concern for one's own image, and other-face is the concerns for another's image. Across this universal feature though, people from collectivistic cultures have greater sensitivity or concerns for face than people from individualistic cultures. In collectivistic (vs. individualistic) cultures, people are more likely to see themselves as part (vs. independent) of one or more collectives (e.g., family, coworkers, tribe, nation) (Triandis, 1995) and are more likely to develop an interdependent (vs. independent) self-view (Shavitt et al., 2006). In turn, collectivists tend to express greater concerns for face than individualists do, because they are more likely to relate their own face to their collectives' face and assign more weight to others' comments (please also see Section 4.2.2). Indeed, many studies (Chan et al., 2009; Hwang et al., 2003; Li & Su, 2007; Liao & Wang, 2009) affirm that collectivists are more concerned with face and score higher on measures of face concerns than individualists do. Japanese consumers are reported having higher levels of social anxiety (i.e., about their public appearance) than do Americans (Abe, Bagozzi, & Sadarangani, 1996). In China, people confront face-related issues nearly every day, involved with greetings, shopping, invitations, and so forth (Li & Su, 2007). Chinese people always greet one another with an acknowledgement of their

official positions, such as “Head Li” or “President Wang.” A survey of Chinese businesspeople in Hong Kong thus consistently cited face as an important consideration in professional interactions (Redding & Ng, 1982).

1.3.2 Face and Price

In a consumption context, face can be reflected by consumers who buy and consume products in their effort to construct and display their own self-image, which in turn can induce positive comments or recognition from others (Wang & Zhang, 2011). The rapid economic development of China has transformed consumption into one of the easiest way to show face. Wang and Lin (2009) call it “cultural renaissance” in China wherein Chinese people have increasingly demand their traditional culture components such as face to be part of their consumption experience. For example, if an administrator takes his or her subordinates to dinner, it offers the subordinates face; the administrator also gains face by paying the bill (Li & Su, 2007). Rado watches (priced US\$270–2400) appear on the wrists of not just high officials but also, and perhaps even mostly, taxi drivers and farmers. Even as they complain about the waste of time, money, and energy, Chinese families spend huge sums of money on weddings. Face motivations also explain why consumers will pay more for gifts with fancy packaging, even if the product offers quality equivalent to that of a less expensive item, and why some Chinese men consume both high and low priced cigarettes: they smoke low-priced cigarettes when smoking alone, but they use high-priced ones when smoking with others, to give an impression of generosity or wealth and thus enhance face.

Some researchers (e.g., Bao et al., 2003; Li & Su, 2007; Song, 2012; Wong & Ahuvia, 1998) suggest that high face concerned consumers purchase more high-priced options (i.e., price–face link). By advertising their wealth, people who engage in high-priced consumption can achieve greater face, since financial wealth and a willingness to share it is related to an individual’s desirability (Kenrick et al., 2001). Imagine a cheap, sweet wine that the consumer likes and an expensive, dry wine with a taste that the consumer does not particularly like. High face-concerned consumers choose the latter, at least when consuming in public (Liao & Wang, 1998). A survey of young China urban residents shows that more than 60% were willing to spend more to save face (McEwen et al., 2006).

Having noted Chinese consumers’ strong emphasis on face, some MNCs already have incorporated this concept into their marketing strategies. Luxury car manufacturers such as Audi, BMW, and Volvo offer extended car models specifically for the Chinese market, where consumers believe that the bigger the car, the more face it provides (Liu & Bai, 2008). Larger car models grant Chinese consumers more psychological satisfaction (i.e., face), beyond any of their requirements for comfort (Liu & Bai, 2008).

1.3.3 Face and Cross-Cultural Marketing

Although face exerts a powerful influence on consumption, especially in collectivistic cultures, the concept overall has not been used widely to distinguish people from different cultural backgrounds in cross-cultural literature. Individualism and collectivism (Hofstede, 1980) or independent and interdependent self (Markus & Kitayama, 1991) constructs are more common in cultural classifications (Shavitt et al., 2006). As discussed in Section 1.3.1, face relates to and, in some ways, constitutes these constructs. Compared with individualist–collectivist and self-construal theories, face theory can establish a clearer understanding of certain cultural and consumer phenomena, as noted previously in Section 1.3.2.

In fact, face has become a frequent concept in cross-cultural communication/psychology research. Ting-Toomey and Kurogi (1998) propose face-negotiation theory, which has served to help researchers examine the influence of face during personal conflict (e.g., Oetzel & Ting-Toomey, 2003; Oetzel et al., 2001). However, face remains insufficiently studied in cross-cultural marketing literature, prompting more calls for relevant research in marketing and consumer behavior fields (e.g., Bolton et al., 2010; Zhou & Nakamoto, 2001). Indeed, in the marketing discipline, only a few studies address face and luxury consumption (e.g., Liao & Wang, 2009), face and service failure (e.g., Chan et al., 2009), face and price fairness (e.g., Bolton et al., 2010), and how face influences consumption (e.g., Li & Su, 2007). However, these studies about face are rather brief, and our perusal of the literature that has made reference to this topic suggests that face is not thoroughly understood. Moreover, research into when face affects consumers' purchase intentions and insights in terms of how face should influence marketing mix strategies is limited. Finally, though current face theory serves to explain Asian consumers' strong demands for luxury products, despite their relatively low income level (Ram, 1989), it is unclear whether ordinary products with relatively higher prices, instead of absolutely high prices, might elicit face concerns too.

This study therefore proposes face as a key variable that can explain much of the complexity of Chinese consumer behavior. Could different consumers make completely different judgments of the same product, according to their own perceptions of its contribution to their face? Why might the same consumer choose a cheap restaurant when eating with close friends but an expensive one with colleagues? It is also unclear whether the price–face link extends naturally to significant brand–, distribution–, or promotion–face links. We address these questions in Chapter 4; despite their importance for success in the Chinese market, they have not been addressed by face theory yet. The results of this dissertation thus offer insights for MNCs that seek to adjust their marketing mixes to appeal to Chinese consumers.

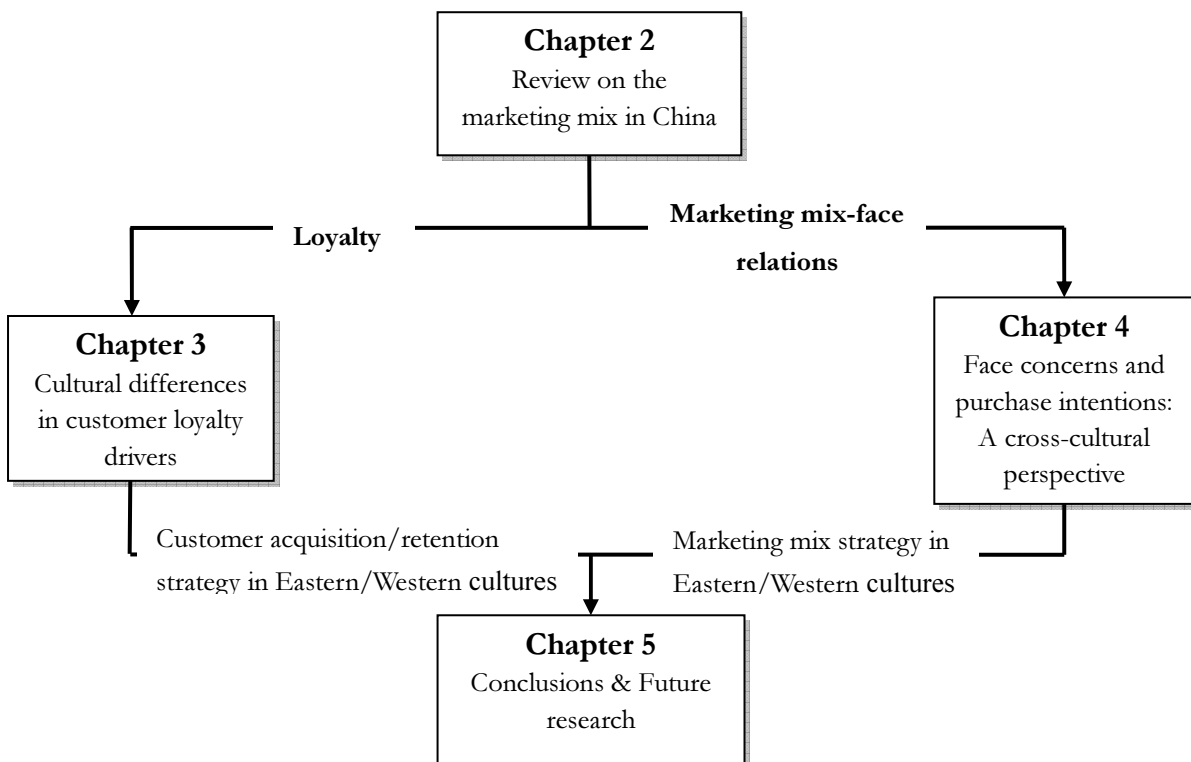
1.4 STRUCTURE OF THE DISSERTATION

This dissertation aims to provide insights in two important elements of marketing in China: customer loyalty and marketing mix–face relations, from a cross-cultural perspective. The following sections contain previews of the chapters; Figure 1.1 provides a visual display of the relationships among the different chapters, and Table 1.1 summarizes the main classifications and descriptions of the studies.

Table 1.1: Classification and description of the three studies

	Chapter 2	Chapter 3	Chapter 4
Research aim	Literature survey of marketing in China	Culture, customer equity drivers, and loyalty intentions	Face concerns and purchase intentions
Data	Secondary data	Attitudinal survey data of banking and supermarket customers	Experimental studies
Sample size	Studies about China's marketing mix: 1980 to present	1553 Chinese and 1085 Dutch consumers	Study 1a: 45 Chinese and 45 Dutch students; Study 1b: 45 Chinese and 45 Dutch students; Study 2a to 2d: 72 Chinese and 72 Dutch students
Methodology	Literature survey	Multivariate regression analysis and hierarchical linear model	ANOVA, linear regression, logistic regression analysis, and moderated mediation analysis

Figure 1.1: Overview of studies



1.4.1 Chapter 2: Review of China's Marketing Mix

As emerging markets evolve from the periphery to the core of marketing practice (Sheth, 2011), many papers and books about Chinese consumer behavior and Chinese markets have emerged, however, with divergent views and results. Zhou and Nakamoto (2001) find that young Chinese consumers are less price conscious than their U.S. counterparts, and other studies indicate that Chinese consumers have lower price consciousness and value-for-money orientations than U.S. consumers (e.g., Bao et al., 2003; Lupton, Rawlinson, & Braunstein, 2010). Other studies instead show that Chinese consumers are highly price sensitive (e.g., Ackerman & Tellis, 2001; Dickson et al., 2004). Furthermore, previous overviews on China's market have either targeted practitioners or focused on only one marketing mix element (Gao, 2008; King & McDaniel, 1989; Roby, 1980). Sheth (2011) published a view on emerging markets as a whole, where China is only part of the story. It thus seems necessary to collect and review available academic research on all marketing mix variables and separate what is known from what has only been conjectured. The first study of this thesis (Chapter 2) aims to provide a comprehensive review of current knowledge about the changing Chinese market, identify existing gaps in knowledge, and outline future trends and research directions. The main research questions of Chapter 2 are as follows:

- *What are the main developments in Chinese consumer behavior, including in their responses to marketing efforts?*
- *What trends and research gaps pertain to China's marketing mix?*

In an attempt to answer these research questions, Chapter 2 first provides a summary of the developments and outcomes of publications in consumer and marketing journals over the past 30 years. The framework focuses on the marketing mix variables: product/brands, price, advertisement, distribution, and sales promotions. Then we highlight several future research directions, derived from a thorough review of prior literature. Chapter 2 thus provides an overall picture of China's marketing mix and Chinese consumers' responses to marketing efforts.

1.4.2 Chapter 3: Cross-Cultural Differences in Customer Loyalty Drivers

The study in Chapter 3 offers a further examination of the future direction on brand loyalty, as well as a direct response to calls for research that “empirically validates in what kind of cultures various (loyalty) drivers are more important or less important and why” (Rust et al., 2004, p. 123). The main research question for Chapter 3 thus is:

- *Does the importance of value, brand, and relationship equity for customer loyalty (in service industry) differ between Eastern and Western cultures?*

Value equity refers to customers' objective assessments of the utility of a good/service, based on their perceptions of what they must give up compared with what they receive (Rust et al., 2004). Brand equity involves customers' subjective assessments of the perceived value of the brand (Lemon, Rust, & Zeithaml, 2001). Relationship equity can be defined as the tendency of the customer to stick with the company/brand (Lemon et al., 2001). We hypothesize and expect that the positive effect of value equity on loyalty intentions is stronger in Western societies than in China (H1), but the positive effect of brand equity (H2) and relationship equity (H3) on loyalty intentions should be stronger in China.

Data were collected from consumers in two industries: banking (relationship-based) and supermarkets (transaction-based), across two countries: China and the Netherlands. To this end, we used two samples of 1553 Chinese and 1085 Dutch consumers, respectively. Using multivariate regression analysis and a hierarchical linear model, we find that Eastern (Chinese) consumers in general have higher loyalty intentions than Western (Dutch) consumers. All three customer equity drivers also appear to exert a greater impact on loyalty in Western than in Eastern cultures.

1.4.3 Chapter 4: Marketing Mix–Face Relations

Chapter 2 concludes that Chinese consumers, probably due to their face concerns, are less price sensitive than Western consumers, emphasize prestige in their channel choices more, and are less responsive to sales promotions. In Chapter 4, using Internet-based experiments, we study the moderators of marketing mix–face relations. Specifically, our research focus is on the impact of product visibility (cell phone vs. mattress), product tangibility (watch vs. musical), and social presence (stranger vs. acquaintance vs. close friend) on the relationship between face concerns and purchase intentions for high-priced options (as well as for name-branded products, products

without price discounts, or shopping at specialty stores). The main research questions are as follows:

- *Does product visibility, product tangibility, or social presence moderate the relationship between face concerns and purchase intentions for a high-priced option (i.e., the price–face link)?*
- *Do distribution–, brand–, or promotion–face links exist? Does social presence moderate the relationship between face concerns and purchase intentions for name brand products, products without price discounts, or products available in specialty stores?*

We predict that compared with consumers with less face concern, the purchase intentions of consumers with more face concern for a high-priced option should be higher for publicly consumed products (Study 1a), material products (Study 1b), or when an acquaintance is present (Study 2a). This investigation also tests the relationship of face with other marketing mix variables by considering whether consumers with more face concerns tend to shop at specialty stores (Study 2b), buy brand name products (Study 2c), or buy products with no price discounts (Study 2d), especially if an acquaintance is present.

To test the hypotheses, we classify high versus low face concern, using two means: nationality (Chinese vs. Dutch) as a proxy for face concerns⁴, and directly using individual's concern for face (hereafter, CFF) score. We use three dependent measures for purchase intentions: (1) purchase likelihood (seven-point Likert scale), (2) purchase probability (points), and (3) purchase choice between high- and low-priced options. Accordingly, we use multiple methods (ANOVA, linear regression, logistic regression, and moderated mediation model). We also test different purchase scenarios, such as buying a cell phone, mattress, watch, or tickets to a musical, and different consumption contexts, such as when a stranger, acquaintance, or close friend is present. The sample size for each experiment can be found in Table 1.1.

In general, we find that Chinese consumers are more likely to choose a high-priced or name brand option than Dutch consumers, regardless of product visibility, product tangibility, and social presence. Also, we find marginally significant support for the indirect effect of face concerns on choosing a high-priced option, through the price–face link, which is an increasing function of product tangibility. That is, when purchasing tangible products (e.g., watch), consumers with high (vs.) low face concerns are more likely to choose a high-priced option; for low tangibility products (e.g., musical), there is no significant difference in the choices of high and low face consumers for high-priced options. We did not find support for any of the moderating effects of product visibility or social presence. The discussion focuses on the reasons for these insignificant effects.

⁴ In accordance with previous research (e.g., Chan et al., 2009), we operationalized high and low face concerns using nationality as a proxy in this study. Nationality is a reasonable proxy for face concerns, because as substantial research has demonstrated (e.g., Hwang et al., 2003; Liao & Wang, 2009; Oetzel & Ting-Toomey 2003; Zane & Yeh 2002), high face concern is more characteristics of collectivist cultures, whereas low face concern tends to pertain to individual cultures. Nationality is frequently used to represent culture (Schaffer & Riordan, 2003).

