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Customer loyalty & face concerns

Zhang, Sha

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Executive Summary

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INTRODUCTION

In cross-cultural marketing literature, Eastern and Western consumers behave differently in many ways, such as choosing brands (Reykowski, 1994; Wong & Ahuvia, 1998; Belk, 1988), evaluating services (De Mooij, 1998; Mattila, 1999), expressing advertising preferences (Alden, Steenkamp, & Batra, 1999), and developing attitudes toward service failures (Liu & McClure, 2011). However, as the literature review that constitutes the first study of this thesis reveals, up-to-date knowledge about whether Eastern consumers' loyalty is higher or lower than that of Western consumers (Selnes, 1993), as well as their potentially different drivers, is lacking. Most previous cross-cultural research has applied Hofstede's (2001) five-dimensional cultural framework to distinguish Eastern and Western consumers, yet researchers (e.g., Zhang, Beatty, & Walsh, 2008) question whether Hofstede's dimensions effectively capture the essence of Eastern culture. In turn, calls for research (e.g., Zhou & Nakamoto, 2001; Bolton et al., 2010) increasingly cite the need to include traditional Asian cultural values related to face (i.e., self-image and/or status earned in a social network). To address such gaps in cross-cultural literature, this thesis specifically focuses on customer loyalty and face concerns, from a cross-cultural perspective (China vs. the Netherlands). 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 vertical, collectivistic culture, whereas the Netherlands offers a credible representative of a horizontal, individualistic culture. As exemplars of these opposite poles, China and the Netherlands are likely to stand for one of the most and one of least face-concerned cultures, respectively.

CROSS-CULTURAL DIFFERENCES IN CUSTOMER LOYALTY DRIVERS

The second study of this thesis examines the moderating effect of culture on loyalty drivers, in 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). Data collected from consumers reflect two industries, banking (relationship-based) and supermarkets (transaction-based), in two countries, China and the Netherlands. With samples of 1553 Chinese and 1085 Dutch consumers, a multivariate regression analysis and hierarchical linear model reveal that Eastern (Chinese) consumers in general express higher loyalty intentions than Western (Dutch) consumers. Three customer equity drivers also appear to exert greater impacts on loyalty in the Netherlands than in China. Thus the much-cited importance of brands in the Chinese culture (Henderson et al., 2003) does according to our study not hold for the retail (supermarket and

banking) sector in which the impact of brands may be less salient. This thesis further argues that the Chinese market, as an emerging economy, is not as efficient (e.g., less fair pricing system, low level of brand trust, weak CRM) as the Dutch market, which is why value, brand, and relationship equity appear more important in the Netherlands than in China. In this market environment, Chinese consumers' loyalty intentions are not driven by value, brand, or relationship equity but instead reflect culture, habit, or inertia. After choosing a brand, Chinese consumers tend to stick with it, because of the risk and uncertainty associated with switching to another brand in an immature market environment. Therefore, Chinese consumers in general have higher loyalty intentions.

This study in turn offers important implications for managers. In Eastern cultures such as China, it is more efficient for managers to focus their marketing efforts on customer acquisition, rather than customer retention. This is in line with Sheth (2011) who finds that converting nonusers to first-time users results in better financial performance than satisfying existing users. After they have successfully attracted a Chinese customer, she or he already expresses relatively higher loyalty intentions than a comparable Western consumer and is less likely to end the relationship. In Western cultures though, managers and firms should be customer focused and implement active relationship marketing strategies. Western consumers are more difficult to satisfy (Zhang et al., 2008), have lower loyalty intentions, and are more responsive to marketing efforts.

CROSS-CULTURAL DIFFERENCES IN FACE CONCERNS

A third study focuses on face. In a consumption context, face is manifested by consumers' purchases of products that can construct and display their self-image and thus induce positive comments or recognition from others (Wang & Zhang, 2011). Previous literature identifies the face concept, often signaled with a high price, as particularly salient for people from Eastern, collectivistic cultures (Chan et al., 2009; Hwang et al., 2003; Li & Su, 2007; Liao & Wang, 2009); low face concerns instead tend to mark Western, individualist consumers. Therefore, the third study of this thesis investigates the moderators of price (as well as other marketing mix)–face relations by considering 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, and shopping at specialty stores). We thus answer calls for research, such as “the predictive power of face concerns could be investigated within a model which links face consideration to price perceptions, and price perceptions to shopping behaviors in an international context” (Zhou & Nakamoto, 2001, p. 166).

We classify high versus low face concerns with two measures: nationality (Chinese vs. Dutch) and individual's scores on concern for face (CFF) scale. We use multiple dependent measures (purchase likelihood, purchase proportion, purchase choice) and multiple methods (ANOVA, linear regression, logistic regression, moderated mediation analysis) to test our hypotheses.

Using nationality as a proxy for face concerns, we find significant main effects but no interaction effects. That is, on average, Chinese consumers are more likely to buy a high-priced product than Dutch consumers, but they do not differ with regard to high (versus low) product visibility or tangibility. Chinese consumers also are more likely on average to choose high-priced, name brand options, regardless of social presence. Thus, we only find significant main effects but no support for any moderating effects. The underlying reason may reflect Chinese and Dutch consumers' different views about themselves: Western (Dutch) consumers are relatively more likely to have an independent self-view, whereas Eastern (Chinese) consumers are more likely to develop an interdependent self (Markus & Kitayama, 1991). With these interdependent selves, the interpersonal relationships of Chinese people should be closer in general, which reduces the distinction between a privately and publicly consumed products. Moreover, the other is more focal for interdependent cultures, hence with other's presence, no matter who, Chinese consumers are more likely to buy a high-priced option. The market environment might offer alternative explanations for the results. China, as an emerging market, mainly features market heterogeneity and unbranded competition (Sheth, 2011), which increases the risk to consumers of buying a low priced product. In contrast, the relatively low variance across products allows Dutch consumers to feel assured that they can buy a relatively good product at a low price. Therefore, Chinese consumers are more likely to choose a high-priced option, regardless of the situation. Our findings suggest Western companies seeking business opportunities in China might consider maintaining a steady price or even raise it to gain the Chinese consumers who have high tendency to link price to their faces (Zhou & Nakatamo, 2001). In Western cultural markets, raising the price may not work as well, because Western consumers are less likely to buy a high-priced option.

When using individual's CFF scores to classify high or low face concerns, in one of our studies, 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, such that consumers with high face concerns are more likely to purchase the high-priced option when considering material products (versus experiential products). Low face concerned consumers' purchase intentions for high-priced products do not differ as a function of product tangibility. We did not find support for any moderating effects of product visibility or social presence, in that there were no differences in the purchases of publicly versus privately consumed products between high or low face concerned consumers; nor did we find any differences in the purchases by high or low face concerned consumers (meals, toothpaste, ice

cream) when an acquaintance, rather than a stranger or close friend, was present. The stimuli used were of relatively low value, so they might not have been sufficient to elicit face. The distribution– and promotion–face links also were rather weak.

Our findings have some preliminary implications for marketers from different industries. For example, for material (e.g., watch) products, it is advisable to set a price higher than competitors', to enhance consumers' perceived face and thus their purchase intentions. For experiential (e.g., musical) products though, it is wiser to set a comparable price, because in this case, a higher price does not enhance consumers' perceived face. Our study also guides companies toward effective branding, distribution, and sales promotions strategies.

Customer loyalty and face concerns are two important issues in emerging markets as well as in cross-cultural marketing, and their importance is likely to increase in years to come. I hope this thesis represents a valuable contribution to research in this area.