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The effects of brand credibility on customer loyalty

Jill Sweeney[a,*], Joffre Swait[b]

[a]School of Economics and Commerce, University of Western Australia, Crawley, WA 6009, Australia
[b]Advanis Inc. & Faculty of Business, University of Alberta, 103 Lennox Rd., Landrum, SC 29356, USA

Abstract

Customer churn is an ever-growing issue in the relational services sector (e.g., retail banking, telecommunications), where business models ultimately depend upon long-term relationships with customers as the basis for profitability. Businesses in this sector have tended to view satisfaction and service quality as the key tools for increasing customer retention. The present study investigates the important additional role of the brand in managing the churn of current customers of relational services. Based on information economics, we propose specifically that the credibility of the brand underlies the role that the brand can play in this process. This research leads to the enhanced understanding that the brand has a significant role to play in managing long-term customer relationships, and details how the usual tools of customer relationship management, satisfaction and service quality, relate to brand credibility. Results from samples of retail bank and long distance telephone company customers indicate that brand credibility serves in a defensive role: it significantly enhances word-of-mouth and reduces switching behaviors among customers; these relationships are mediated by customer satisfaction and commitment. Implications of the study for theory and practice are discussed.

Keywords: Customer relationship management; Brand credibility; Satisfaction; Commitment; Customer loyalty; Customer behavior

1. Introduction

The management of customer churn, or turnover, is a top priority of executives in service industries such as retail banking and telecommunications. It is accepted wisdom in marketing that new customer acquisition is a far more costly undertaking than establishing a broader and deeper relationship with existing customers (see, e.g., Heskett et al., 1994; Reicheld and Sasser, 1990; Rust et al., 1995). Hence, in general the loss of a customer should be viewed with concern by banks and telecommunications firms, both being examples of longer-term relational services requiring the establishment of a formal relationship between customer and firm.

Evidence for the rising recognition of the importance of customer churn to firm profitability is easily found in these industries. For example, recent research by Teradata (2004) demonstrates that US bankers are quite aware of this problem: 79% of survey respondents (out of a total of 101 bank executives from financial institutions with assets of $25 billion or more) indicated that "preventing customer churn is the key competitive issue for American bankers in 2004." Similarly, the telecommunications industry, and wireless carriers in particular, have had to concentrate significant efforts on customer retention: Carroll (2002) quotes a Yankee Group report stating that from about 20–80% of annualized wireless subscribers churned in 2001, depending upon the carrier; more recent numbers for the US telecommunications industry show that only about a quarter of customers want to continue their current telecom relationship (Myron, 2004). Indeed, the difficulty in predicting customer churn is well known (Carroll, 2002; Teradata, 2004; Dropping, 2005).

Examination of the academic literature also supports the significance of examining churn or retention in these industries (e.g., Bell et al., 2005; Evans, 2002; Gustafsson et al., 2005; Lee and Cunningham, 2001). While extant studies recognize a degree of inertia in the telecommunications and retail finance sectors, due to switching costs (e.g., Bell et al., 2005), there is also significant interest in

*Corresponding author. Tel.: +61 8 6488 1438; fax: +61 8 6488 1055.
E-mail addresses: jsweeney@biz.uwa.edu.au (J. Sweeney), Joffre_Swait@Advanis.ca (J. Swait).

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examining factors that enhance customer retention or reduce customer churn in these industries (e.g., Gustafsson et al., 2005).

In this paper we take a broader, more strategic look at customer franchise management in a retail service context. Specifically, we wish to examine the role that the brand can play in customer retention, as well as in promoting certain behaviors by customers that lead to long-term benefits for the firm. The reason we believe that such a view is inherently strategic lies in the observation that brands embody the long-term experience that a customer has with a service provider; in effect, the brand is a ''summary statistic'' characterizing the cumulative temporal relationship between two parties, the customer and the service provider (Erdem and Swait, 1998). In this perspective, the brand comes to embody the credibility of the firm (Erdem and Swait, 1998, 2004), which can only be built and solidified over time through repeated customer/firm interactions, but can quickly be lost if trust is violated by the firm; this makes brand credibility a firm-wide responsibility that must concern all functions at all times. Building the credibility of a brand is recognized by consumers to be a long-term and continuing investment by the firm; hence, they behave towards the firm as if it were posting a bond that is forfeited when its promises are not kept (Erdem and Swait, 1998; Wernerfelt, 1988).

No studies to our knowledge have examined the role of brand credibility (rather than brand reputation or brand image) on retention of current customers.[1] Earlier studies (e.g., Selnes, 1993) have related brand reputation (defined as a perception of quality associated with the brand) to satisfaction and loyalty. This very specific definition of reputation (contrasted, e.g., with Ganesan, 1994) is quite different from the brand credibility construct at the heart of this research. Furthermore, none have studied the effect of brand credibility on commitment and satisfaction, which play an important role in customer retention (Gustafsson et al., 2005).

Credibility has been noted as playing a key role in customer perceptions of the retailing environment, particularly in the context of pricing tactics, advertising, salesperson interactions and online catalogs (e.g., Bobinski et al., 1996; O'Shaughnessy, 1971–1972; The Wall Street Journal, 2000; Yang et al., 2003). In the present study we examine the role of brand credibility among current customers of the retail service brand.

[1]We view brand credibility as different to reputation and brand image. Reputation is more concerned with perceptions of fairness, honesty and perceptions of the other party's behavior (Ganesan, 1994), while the latter concerns the strength, favorability and uniqueness of various brand associations held in memory (Keller, 1993). An alternative view of reputation is presented in Selnes, who views reputation as ''a perception of quality associated with the name'' (Selnes, 1993, p. 20). Not only is this different from more common views about that construct (e.g., Ganesan, 1994), it is fundamentally different from the brand credibility construct on which we base the present work.

2. Literature review and formulation of hypotheses

2.1. The role of brand in services

As explained above, in the information economics perspective, the brand constitutes a strategic, long-term asset for the retail firm, which may be called upon to help with customer relationship issues like customer retention and customer beneficial behaviors (e.g., recommendations). Within the scope of our research we include long-term, formalized service relationships that are entered into by customers, as exemplified by those with retail banking and telecommunications. Such relationships tend to last years (though less often today than in the past), but are interestingly characterized by relatively low interaction levels between firm and customer.

We propose that the brand is an important relational tool in the firm's customer relationship management (CRM) arsenal, as suggested by research from Erdem and Swait (1998). That stream of research builds on the information economics paradigm (Stigler, 1961; Stiglitz, 1987) applied to the product case, to propose that brands are valuable to consumers because (1) they reduce perceived risk of consumption and (2) they economize decision-making costs. The basis for these assertions is that the brand is an efficient market signal that the firm deploys to address market information asymmetries (i.e. consumers know less about a firm's product or service than does the firm, hence they are at a disadvantage, in the end leading to consumer uncertainty about the product).

While the same reasoning is not directly applicable to the case of services, it is nonetheless the case that information asymmetries are likely to also exist among customers of services. Consider that customers have a limited number of interactions with their bank or telecom company, and these often occur following service problems (long queues, slow tellers, confusion concerning procedures) or even failures (broken ATMs, dropped calls, billing errors). Such events may serve to remind customers that their current impressions about the firm might be incorrect; essentially, they introduce a degree of uncertainty about (1) the promises the firm has made, and its willingness and ability to keep them; and (2) the benefit to the consumer of maintaining a long-term relationship with the provider. Alternatively put, this uncertainty concerns the perceived stability of the brand, and arises, just as in the product case, from the information asymmetry under which the customer operates.

This asymmetry places the customer at a disadvantage in the relationship with the firm. The firm thus has an incentive to compensate for the resulting uncertainty by signaling their willingness to deliver on the service promises they have made to the customer. Brands are good signaling devices because existing customers recognize that acts compromising the brand (e.g., repeated and persistent service failures, a history of billing errors) can be punished by cashing in the ''bond'' implicitly posted by the firm (Wernerfelt, 1988). What ''bond'' is this? It is made up of all the brand investments the firm has made over the years (advertising, sponsorships, and social responsibility actions are all examples of such investments), as well as the revenue stream that these investments enable. These investments will be partly or fully compromised if consumers become disenchanted with the brand and leave the franchise; and clearly, corresponding future profits will be compromised. Essentially, brands give consumers leverage over firms, encouraging firms to behave appropriately, to wit, by forcing firms to keep promises they make to consumers.

Because of the implicit bond posted by the firm via the brand, signaling theory postulates that brands are *credible* (i.e. believable and trustworthy) signals: they motivate firms to be truthful about their products/services and to deliver on claims made about them. This concept of brand credibility is based on Hovland et al.'s (1953) early research on the credibility of the communicator, and was adapted to the context of the brand by Erdem and Swait (1998, 2004), Erdem et al. (2002) and Swait and Erdem (2006). Based on this definition, brand credibility comprises two key facets: trustworthiness (i.e. the belief that the firm is *willing* to deliver on its promises) and expertise (i.e. the belief that the firm is *capable* of delivering on its promises). Note that trustworthiness is distinct from trust and can be described as a characteristic of an entity (e.g., person or brand). A fundamental theme in this conceptualization concerns the motivation of the communicator, i.e. whose interests the communicator has at heart, or the sincerity and trustworthiness of the communicator (Hovland et al., 1953). Brand credibility is a key element in Keller's (2001) customer-based brand equity pyramid, representing one aspect of the consumer's response to the brand. This is consistent with our conceptualization of brand credibility as representing the relationship over time of a customer with a brand. This perspective of a relationship between the brand and customer has also been developed by Fournier (1998), Blackston (2000) and Sweeney and Chew (2002) among others.

Consider that the brand adds value to the firm in two ways: it first attracts new customers by developing and focusing awareness and recognition, but then also serves as a reminder to current customers to think about the firm, and to do so favorably (Rust et al., 2000). It is in this latter case that the concept of *furthering* the relationship with the brand becomes meaningful. The brand can be described as a mechanism to engage both buyer and seller in a long-term relationship and play a key role in building this relationship (Dall'Olmo Riley and de Chernatony, 2000; Davis et al., 2000).

Thus, the brand can act as a defensive marketing tool to maintain current customers as well as an offensive marketing tool to gain new customers. The importance of defensive marketing in the retail service context has been recognized through the knowledge that the cost of attracting a new customer far exceeds that of retaining the same customer (e.g., Heskett et al., 1994; Reicheld and Sasser, 1990; Rust et al., 1995). It is important to understand that in the context of services, the primary service brand and the organization are often synonymous (Berry, 2000). As a result the brand takes on a wider corporate meaning in the context of services.[2] In the context of relational services, the focus of the brand is on the customer's experience with the organization and how this establishes brand perceptions and meaning (Brodie et al., 2002). This is consistent with our view that the consumer's perceptions about a brand's credibility are (essentially) a summary statistic of the relationship with the brand to date.

2.2. The impact of brand credibility on customer behavior

We present in this section a comprehensive model involving six constructs of interest to our research objectives: brand credibility, customer satisfaction, loyalty commitment (LC), continuance commitment (CC), word-of-mouth (WOM) recommendations and switching propensity. The three hypotheses related to brand credibility comprise the main contribution of this paper. We develop six other hypotheses for two reasons: (1) to better communicate to the reader the reasoning behind our adoption of the entire structure to be presented and (2) to enhance the completeness of the proposed structural model and enable us to ultimately relate brand credibility to behavioral outcomes of direct importance to CRM. We note that two levels of outcomes are addressed; the broader brand perception variables as well as behavioral intentions. The model can be seen in Fig. 1.

For the purposes of the present study, we are interested in two forms of customer behavior with respect to relational services: (1) customer retention within the firm's franchise (conversely, propensity to switch from) and (2) customer engagement in unprompted and beneficial WOM behaviors, specifically, recommendation of the firm's services to others (especially those currently outside the firm's customer base).

Several related literatures (e.g., sociology, organizational behavior, consumer behavior, marketing and psychology) indicate that switching propensity and WOM have certain antecedents that originate from social exchange theory. The decision of whether or not to engage in these outcome behaviors—switching propensity and WOM—is theorized to be based on two motivations: (1) a past experience-based one that evaluates the benefits that the consumer receives from the relationship; (2) and a future-oriented one, that considers other sources for relationship maintenance. Few

[2] In the present study, the service retailer is the brand—McDonalds, American Airlines, National Bank, are examples of this services overlap (Berry, 2000; De Chernatony and Dall'Olmo Riley, 1999). Thus, brand credibility in the service context is almost identical to corporate credibility (e.g., Keller and Aaker, 1992; Lafferty et al., 2002). Research on the topic of company credibility, however, has focused largely on potential customers, typically of goods such as clothing and food (e.g., Keller and Aaker, 1992; Lafferty et al., 2002; Niedrich and Swain, 2003), in contrast to the present study which focuses on existing service customers.

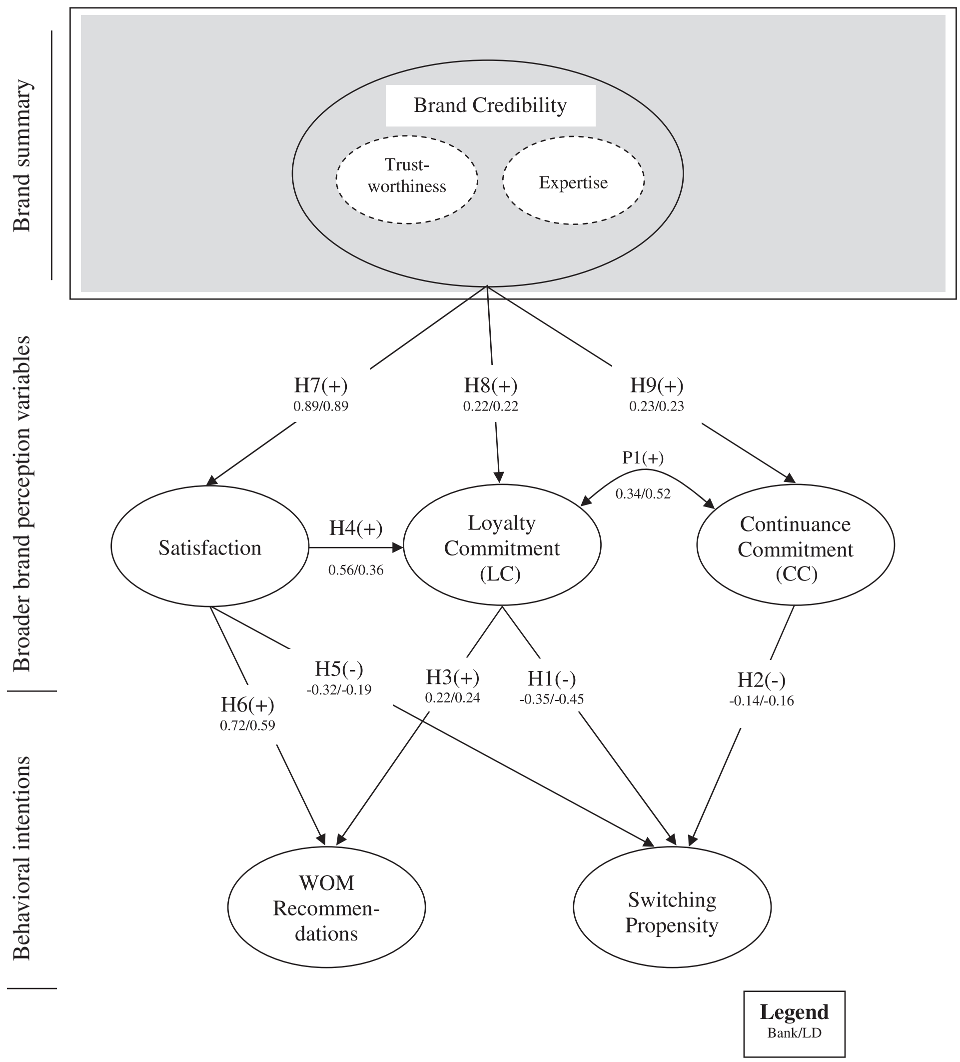

Fig. 1. Structural path diagram.

studies have examined the simultaneous impact of both past experience-based factors and future-oriented factors, such as the satisfaction and commitment components addressed in the present study, despite the discussion by Lemon et al. (2002) about how this dual consideration enhances modeling customer retention. This is elaborated upon in the following paragraphs.

Considering the more future-oriented motivation, social exchange theory has introduced the concept of *commitment*, which concerns the factors (e.g., social and psychological) that drive an individual to a consistent line of behaviors or cognitions (Gundlach et al., 1995; Pritchard et al., 1999). Commitment was first introduced into the business domain via the management literature, through the use of the organizational commitment construct, which has been shown to be highly influential in the context of organizational research: it has been found to be associated with decreased turnover (Allen and Meyer, 1990; Porter et al., 1974), higher motivation (Farrell and Rusbult, 1981) and organizational involvement (O'Reilly and Chatman, 1986). Customer relationship commitment has been found to be important in a marketing sense to reduce switching (Bansal et al., 2004; Morgan and Hunt, 1994); increase purchases (Verhoef et al., 2002) and enhance favorable future intentions, such as customer loyalty (Garbarino and Johnson, 1999; Pritchard et al., 1999).

Commitment has been recognized as a complex phenomenon comprising several dimensions. While several components have been proposed, we focus on two aspects—loyalty commitment (LC) and *continuance commitment* (CC)—as these two are most relevant for consumer-based contexts (e.g., Fullerton, 2003; Bansal et al., 2004). These two dimensions are united through their reflection of the underlying notion of the desire to maintain a relationship in the future; however, different motivations underlie this intention (Geyskens et al., 1996). Affective commitment, akin to our LC, is a positive emotional commitment reflecting the psychological attachment to the relationship partner (Geyskens et al., 1996; Gilliland and Bello, 2002; Gruen et al., 2000; Verhoef et al., 2002). Continuance commitment, in contrast, reflects a cognitive evaluation of the costs associated with leaving an organization and the associated recognition of the need to maintain the relationship considering the perceived switching costs or lack of viable alternatives (e.g., Geyskens et al., 1996; Gilliland and Bello, 2002; Gustafsson et al., 2005; Meyer and Allen, 1997; Verhoef et al., 2002). Also known as calculative commitment, it therefore comprises a more negative, psychologically based motivation that is appropriately distinct from affective or loyalty commitment.

These two types of commitments have been found to have differential effects on outcomes (Bansal et al., 2004; Gilliland and Bello, 2002; Gustafsson et al., 2005; Verhoef et al., 2002). Despite the clear conceptual link between loyalty and affective commitment, empirical research has produced mixed findings (e.g., Bansal et al., 2004; Fullerton, 2003; Garbarino and Johnson, 1999; Gruen et al., 2000; Morgan and Hunt, 1994). Similarly, recognition of the sunk investment costs associated with "membership" in a service is expected to generate a motivation to obtain output equivalent to their investment (Houston and Gassenheimer, 1987), hence we would expect that continuance commitment would reduce switching intentions. Again, however, research about the relationship between these constructs has yielded mixed results (Bansal et al., 2004; Fullerton, 2003; Gruen et al., 2000). Nonetheless, research in organizational behavior provides support for the relationship between these two types of commitment and important outcomes for the firm, including reduction of employee turnover (Allen and Meyer, 1990; Meyer and Allen, 1997). This leads us to our first pair of hypotheses:

H1. Increases in loyalty commitment lead to decreases in switching propensity.

H2. Increases in continuance commitment lead to decreases in switching propensity.

The other outcome of interest is beneficial WOM activities, specifically recommendation of the service provider to other people. We add this outcome as it extends the focus of interest to other benefits of retaining customers (Rust et al., 1995). We argue that customers who want to maintain a relationship with a service provider for affective reasons are likely to put considerable effort in this cause (Harrison-Walker, 2001). Brown et al. (2005) similarly support the effect of commitment on WOM. In general, it would seem that such cooperative behavior would be forthcoming as a function of customers' affective commitment sentiments. In contrast, customers who perceive that they will remain with a provider to avoid costs are more likely to exhibit passive behaviors. Given the active nature of WOM, and consistent with Harrison-Walker's (2001) discussion, we do not propose that continuance commitment will influence WOM behaviors. Thus,

H3. Increases in loyalty commitment lead to increases in WOM recommendation intentions.

We now consider the more summative, past experience-based motivation for continuing the relationship, that of customer satisfaction, which has been the strategic focus of many organizations over the last two decades (Anderson and Sullivan, 1993). Based on Heskett et al.'s (1994) service profit chain, cumulative satisfaction, representing the overall evaluation of consumption experiences over time, increases customer retention, which in turn increases profits. The proposition that satisfaction leads to loyalty and reduces switching is suggested by Oliver's (1999) model of loyalty development, as well as Bagozzi's (1992) framework of appraisal (service quality)→emotional response (satisfaction)→coping (behavioral intentions) and has been supported in many previous studies.

Further, given that satisfaction is largely an emotional response (Spake et al., 2003; Westbrook and Oliver, 1991), we propose that satisfaction also indirectly impacts switching propensity by reinforcing affective commitment levels. Thus, high levels of overall satisfaction reflect a positive response to fulfillment of customer needs over time, which leads to customer's LC.

Nonetheless, the relationship between satisfaction and LC has received mixed support. While Bettencourt (1997) found support for this relationship in the context of grocery retailing and Garbarino and Johnson (1999) find support in their low relational or transactional sample, Bansal et al. (2004) find no support at all in the context of auto-repair. Given the passive and more cognitive nature of continuance commitment, we do not propose a relationship between satisfaction and continuance commitment. Thus, two more hypotheses are specified below:

H4. Increased satisfaction increases loyalty commitment.

H5. Increased satisfaction decreases switching propensity.

Consistent with the role of satisfaction in reducing switching propensity, satisfied customers are also known to engage in WOM behaviors (Brown et al., 2005; Swan and Oliver, 1989; Westbrook, 1987). However, surprisingly little research has focused on this link. Positive WOM behaviors can be a key promotional tool, if appropriately harnessed by the firm (Silverman, 1997). Thus we propose that:

H6. Increased satisfaction leads to increased supportive WOM recommendation activities.

Loyalty commitment, as implemented in our research, reflects an emotional and positive sentiment of the customer towards staying in the firm's customer base. As noted above, we have suggested that it is anteceded by the customer's satisfaction with services provided by the firm. It is through this affective component of loyalty that we now build a bridge to the brand.

As argued in prior sections, the brand can serve an important role in defensive marketing actions because it functions as a signal to consumers. An important characteristic of this signal is its credibility (Erdem and

Swait, 1998). Brand credibility has itself two components, explained earlier: trustworthiness (believability) and expertise (capability). If customers believe that the firm is delivering on its promises of service quality, i.e. it is performing well, this should directly contribute to higher satisfaction. Gwinner et al. (1998), Hennig-Thurau et al. (2002) and Harris and Goode (2004) find support for the effect of trust in the service provider on satisfaction with the service provider. Similarly, business or service provider expertise, comprising aspects such as technical knowledge, ability to demonstrate knowledge and competence and proof of expertise in the field, has been found to increase customer satisfaction (Franco, 1990; Wray et al., 1994). Thus, we propose that the brand's credibility subcomponents, trustworthiness and expertise, are drivers of overall satisfaction, representing cumulative satisfaction with the service. In essence, brand credibility is a long-term summary of the customer's interaction with the provider in terms of service brand stability, which in turn explains the long-term, summative and more general concept of satisfaction.[3]

High trustworthiness should also lead to high sentiments of LC, since trust of a relational partner justifies customers' positive affect for and reliance on the firm (e.g., Geyskens et al., 1996; Gilliland and Bello, 2002; Morgan and Hunt, 1994; Wetzels et al., 1998). An important contribution to this effect is "shared experiences", if you will, between the firm and customer. This temporal reinforcement is an important contribution of brand credibility on LC, since the brand is essentially a summary statistic of past experiences between the two parties in the relationship (Erdem and Swait, 1998). We also expect that expertise will enhance LC, in the same way that the knowledge of the seller influences positive customer outcomes (e.g., Sweeney et al., 1999). However, we also believe that since brand credibility reflects not only trustworthiness, but also expertise, loyalty commitment should also be an antecedent of continuance commitment. Thus, whatever the objective reasons to have continuance commitment (e.g., contracts, lack of competitors, income constraints, high switching costs), these reasons are *reinforced* in consumers' minds in the context of relational services when (a) the firm has the capability to deliver on its promises, and (b) when the firm can be trusted to deliver on its promises. That is to say, Ceteris paribus, high credibility brands will have higher continuance commitment than lower credibility brands. Put a third way, heightened perceptions of trustworthiness and expertise of a brand are hypothesized to make the exogenous factors militating in favor of a customer's permanence within the franchise loom larger than if credibility were low.

The reasoning above leads, therefore, to the main hypotheses of our formulation:

H7. Increases in brand credibility lead to increases in satisfaction.

H8. Increases in brand credibility lead to increases in loyalty commitment.

H9. Increases in brand credibility lead to increases in continuance commitment.

We present in Fig. 1 the path diagram depicting these nine hypotheses graphically. The paths are labeled with the corresponding hypothesis number, as well as a $\pm$ sign to indicate expected sign of the parameter. It will be noted in the diagram that an explicit covariance between the errors of the two commitment constructs is included. This covariance recognizes that there may be a higher-order construct of commitment, which we do not model since our interest is on the different facets of commitment (MacCallum, 1995).[4]

Though somewhat out of the scope of this research, we would like to suggest that this model is continuously updated through customer–firm interactions, that is, satisfaction, commitment and associated outcomes update brand credibility in the next period. The construct sequence in our proposed model, i.e. that brand credibility is an antecedent to other constructs, is further discussed in the context of our alternative model in our results section.

We now proceed to present our test of the structural model in Fig. 1.

[3]In contrast to our argumentation that brand credibility *antecedes* customer satisfaction, Selnes (1993) proposed that the directionality of the relationship is from satisfaction to brand reputation. As discussed in footnote 1, Selnes' defined brand reputation as "a perception of quality associated with the name" (Selnes, 1993, p. 20). Thus, we can alternatively state that Selnes's study examines the impact of satisfaction on (brand) quality. Given that the brand is equivalent to the service name in a service context (Berry, 2000) and that Selnes was examining service industries, this conceptualization suggests that satisfaction leads to service quality. However, the generally accepted view among service researchers is the reverse, that is, that service quality leads to satisfaction (e.g., Cronin and Taylor, 1992). Furthermore, the path from satisfaction to brand reputation was only supported in one in four of the industries examined by Selnes (1993). Thus we disagree with Selnes's (1993) view. Moreover, our hypotheses concern a different construct, brand credibility, which deals with the perceived trustworthiness and capability that the provider can deliver on promises concerning their service.

[4]We have not developed this as a formal hypothesis (in fact, we label it as P1–Proposition 1 in Table 3) since this is not a central focus of this research, our interest being in the role of the two aspects of commitment, loyalty and continuance commitment. As noted by Bansal et al. (2004) and Meyer et al. (2002), Loyalty and Continuance Commitments are distinct and distinguishable, albeit *related*, concepts. The organizational behavior literature, which instigated much of the research with respect to these concepts, has acknowledged through meta-analyses and experience that these are separate, but correlated, dimensions of commitment (see, particularly, Meyer et al., 2002). To us, this strongly suggests that the inclusion of a covariance between the commitment constructs is reasonable and warranted.

3. Method

3.1. Sample selection and data collection

The services selected for the testing of this model were retail banking and long distance (ld) telephone services. Both require customers to be "members," that is, to sign up and be a customer of the service for some length of time. However, customers are also likely to have minimal contact with service personnel in such organizations. As we made clear in the introduction, it is a priority of firms in these sectors to minimize switching/churn, and it is obvious that it is also important to enhance WOM advertising for their services. Hence, these industries were considered appropriate for assessing the model that we put forward in this study.

A total of 460 respondents who had an active bank account and 266 who used a ld telephone company participated in the study. The data were gathered in a large North American metropolitan area. Self-completion questionnaires were distributed at various locations, with the request for an adult in the household, who was the key person in dealing with a bank account, to complete the questionnaire and mail it back to us. The same procedure was used for the ld sample. While the samples were convenience in nature, our two "real world" consumer samples are more appropriate for testing consumer theory than student samples (Wells, 1993). Participants were asked to respond to questions about the bank/ld company with which they have their primary relationship, defined to respondents as the bank/ld company "you regularly use." Questions covered perceptions of the bank/ld's promotion and service, as well as questions on respondents' feelings towards the service provider, perceptions of the relationship with the service provider and demographics. The sample comprised more men than women (a little over 70% in each sample), which, while not consistent with the population profile, is possibly due to our request for the key bank account holder to complete the questionnaire. The majority of the sample were 40 years or older, and close to a third, over 60 years of age. The sample income levels were well distributed, with the median category being $40,000–$59,999.

Non-response bias was assessed through the extrapolation method of Armstrong and Overton (1977), which assumes that late responders are comparable to non-respondents. A series of randomly selected items across the questionnaire revealed no significant differences beyond what might have occurred by chance (5% of cases). Hence it was concluded that there was no non-response bias.

3.2. Measures

Prior research was used as the source of measures for the constructs defined in the model tested in the present study. Brand credibility, representing the belief that the brand is capable and willing to act on its promises, and comprising aspects of expertise and trustworthiness, was measured based on scales used by Erdem and Swait (1998). Satisfaction measures were taken from Oliver (1997) and recognized a range of satisfaction aspects (e.g., anchor item, attribution, affect). Loyalty commitment in this study reflects the underlying affective notion of commitment, including the desire to maintain a relationship in the future. Continuance commitment reflects the need to maintain the relationship considering the perceived switching costs. Our LC items included affective, instrumental and temporal aspects of commitment identified by Garbarino and Johnson (1999), and were based on measures adapted from the organizational behavior literature on workplace commitment (Meyer and Allen, 1984, 1997), as well as Bettencourt's (1997) adaptation of this scale in measuring customer commitment.[5] Continuance commitment was similarly based on scales developed by Meyer and Allen (1984, 1997). Items for the outcomes, switching propensity and WOM recommendations, were taken from Zeithaml et al.'s (1996) scales of behavioral intentions. Note that WOM items are a subset of the items developed by Zeithaml et al. (1996) in the broader context of loyalty.

All items were measured on 7-point Likert scales. Details on the origin of the scales used in the study are shown in Table 1, while the specific items used following scale purification (see procedure below) can be seen in Appendix A.

3.3. Measure purification, reliability and validation

To investigate whether brand credibility could be considered as two dimensions, that of trustworthiness and expertise, an exploratory factor analysis was conducted. Results indicated that brand credibility was most appropriately viewed as unidimensional in both samples; this is consistent with general prior experience with the constructs (Erdem and Swait, 1998; Erdem et al., 2002; Swait and Erdem, 2006). Following this, the scale items for all six constructs were assessed using reliability analysis. Scales were improved by examining the item-to-total correlations and, where conceptually appropriate, deleting an item. Most reliabilities ranged from 0.81 to 0.94, which is generally acceptable given Nunnally's (1978) suggestion of 0.80 being more than adequate for basic research. Switching propensity was an exception, however, having a reliability of 0.61 and 0.68 for banks and LD, respectively (Table 2).[6] The average variance extracted achieved the minimum requirement of 0.50 (Fornell and Larcker, 1981) in all cases with the exception of switching propensity in the bank sample, with a value of 0.47 (Table 1). Discriminant validity was evaluated using the two approaches suggested by Anderson and Gerbing (1988)

[5] Morgan and Hunt's (1994) well known 3-item measure of commitment was derived from the same source.

[6] We recognize that the reliability of switching propensity is lower than desirable. Nonetheless, several authors investigating the types of constructs that we do, have operated with alpha coefficients of less than 0.70 (e.g., Garbarino and Johnson, 1999; Erdem and Swait, 2004). This measure should be improved in future studies.

Table 1
Details of scales used to represent constructs

Scale	No. of items following purification	Source of measure	Example item	Reliability		Average variance extracted	
				Banks	Long distance	Banks	Long distance
Brand credibility	6	Erdem and Swait (1998)	This (brand)'s claims about its service are believable	0.88	0.87	0.56	0.53
Satisfaction	5	Oliver (1997)	My choice to use this bank was a wise one	0.96	0.94	0.82	0.78
Loyalty commitment	6	Meyer and Allen (1984, 1997)	The relationship I have with my bank is something I really care about	0.92	0.93	0.66	0.67
Continuance commitment	3	Meyer and Allen (1984, 1997)	It would be stressful for me to leave my main bank now	0.81	0.89	0.66	0.63
Switching propensity	2	Adapted from Zeithaml et al. (1996)	I would take some of my business to another bank that charges lower rates than my bank	0.61	0.68	0.47	0.52
Word-of-mouth	3	Adapted from Zeithaml et al. (1996)	I would say positive things about my bank to other people	0.90	0.85	0.76	0.65

Table 2
Means, standard deviations and correlations of constructs

	Banks	Long distance	Correlation matrix (bank–upper right, ld–lower left, standard error in brackets)					
	Mean (SD)	Mean (SD)	1	2	3	4	5	6
1 Brand credibility	4.92 (1.10)	5.54 (1.01)		0.88 (0.01)	0.71 (0.03)	0.21 (0.05)	0.82 (0.02)	−0.56 (0.05)
2 Satisfaction	5.13 (1.41)	5.56 (1.18)	0.89 (0.02)		0.76 (0.02)	0.24 (0.05)	0.88 (0.01)	−0.61 (0.05)
3 Loyalty commitment	4.29 (1.41)	4.16 (1.53)	0.53 (0.05)	0.55 (0.05)		0.39 (0.04)	0.69 (0.03)	−0.64 (0.05)
4 Continuance commitment	3.55 (1.55)	3.12 (1.73)	0.23 (0.06)	0.23 (0.06)	0.54 (0.05)		0.25 (0.04)	−0.37 (0.06)
5 Word of mouth	4.74 (1.50)	5.26 (1.25)	0.64 (0.05)	0.73 (0.04)	0.53 (0.05)	0.13 (0.06)		−0.55 (0.05)
6 Switching propensity	4.36 (1.42)	4.08 (1.63)	−0.43 (0.07)	−0.49 (0.06)	−0.64(0.05)	−0.45 (0.07)	−0.40 (0.07)	

Means based on 7-point Likert scale, where the higher the number the greater the perceived brand credibility etc.

and Garver and Mentzer (1999). The first test examines the confidence interval for the correlation between a pair of constructs. If the 95% confidence interval of the absolute value of the estimated correlation excludes one, discriminant validity is supported. The second test compares the bivariate model between a pair of constructs in which the correlation between constructs is allowed to vary, to the same model in which the correlation is fixed to one. In this second test, the chi-square values are compared to identify whether constructs are the same or significantly different. Both tests of discriminant validity support the conceptual distinction between all pairs of constructs (including between brand credibility and satisfaction, which evidence a high level of correlation—see Table 2), even when measurement error is considered. The results for the first test involving correlations and standard errors are given in Table 2.[7]

Following the procedure of Verhoef et al. (2002), we then further assessed the measurement model, based on purified measures[8] through a confirmatory factor analysis for all constructs. The results revealed that the proposed model provided a good fit to the data despite the significant chi-square value which is common in structural equation modeling, especially in the case of large sample sizes (Bagozzi and Heatherton, 1994). Specifically, results for banking were $\chi^2 = 638.44$ df $= 260$, RMSEA $= 0.06$, NFI $= 0.94$, CFI $= 0.96$, and for ld providers, $\chi^2 = 510.40$ df $= 260$, RMSEA $= 0.06$, NFI $= 0.90$, CFI $= 0.95$. All factor loadings were significant, with a minimum absolute t-value of 10.46, supporting the convergent validity of the items (Anderson and Gerbing, 1988).

Having satisfactorily established the discriminant and convergent validities for the measurement model, we now proceed to present and discuss the structural equation model estimation results.

[7]When considering the second chi-square difference test, the minimum chi-square difference was 8.4 between credibility and satisfaction, and 5.5 between credibility and word of mouth. This compares to $\chi_{crit} = 3.84$.

[8]"Purified measures" refers to the scales following item deletion as discussed above.

4. Results

Table 2 provides descriptive statistics for the constructs and pairwise correlations for both samples. Note that the two types of commitment have a relatively low but significant correlation (0.39 and 0.54 for banks and ld phone companies, respectively), while switching propensity was negatively related to commitment, satisfaction, brand credibility and WOM. (Note that despite the high level of correlation between brand credibility and satisfaction, the discriminant validity tests support that these are distinct constructs.)

The structural model was tested using AMOS 5.0 (e.g., Gruen et al., 2000). The global goodness-of-fit statistics (see Table 3 and Fig. 1 for structural path coefficients) suggest that the structural model fits the data structure well (Banks: $\chi^2 = 648.59$ df $= 265$, RMSEA $= 0.06$, GFI $= 0.90$, AGFI $= 0.88$, NFI $= 0.93$, CFI $= 0.96$; ld: $\chi^2 = 522.33$ df $= 265$, RMSEA $= 0.06$, GFI $= 0.86$, AGFI $= 0.83$, NFI $= 0.90$, CFI $= 0.95$). Considering the explanatory power of the proposed model, 81% and 57% of the variance in the WOM construct for banks and ld, respectively, is explained, while 47% and 45% of the variance is accounted for in switching propensity.

Results indicated support for all hypotheses with the exception of H8 in the case of the ld sample, although the parameter was of similar size to the bank sample and in the expected direction. A key result of the analysis was that brand credibility has a dominant effect on satisfaction (total effect of 0.89 in both samples), supporting H7. While brand credibility also has a moderate positive impact on both LC (bank sample) (H8) and CC (both samples) (H9), the dominant influence of brand credibility on LC comes through satisfaction in both samples (0.50 indirect vs. 0.22 direct in the case of banks; 0.30 vs. 0.23 ld). Thus, satisfaction with the organization has a direct effect on LC,

Table 3
Path estimates for proposed model

Relationship	Retail banks		Long distance providers	
	Std. coeff.	*t*-value	Std. coeff.	*t*-value
H1: Loyalty commitment → switching propensity (−)	−0.35**	−3.62	−0.44**	−4.38
H2: Continuance commitment → switching propensity (−)	−0.14**	−2.30	−0.18**	−2.19
H3: Loyalty commitment → word of mouth (+)	0.22**	4.82	0.25**	3.88
H4: Satisfaction → loyalty commitment (+)	0.56**	6.04	0.34**	2.37
H5: Satisfaction → switching propensity (−)	−0.32**	−3.56	−0.20**	−2.47
H6: Satisfaction → word of mouth (+)	0.72**	13.78	0.59**	8.54
H7: Brand credibility → satisfaction (+)	0.89**	22.03	0.89**	15.20
H8: Brand credibility → loyalty commitment (+)	0.22**	2.34	0.23	1.56
H9: Brand credibility → continuance commitment (+)	0.23**	4.47	0.23**	3.52
P1: Loyalty and continuance commitment correlation (+)	0.34**	5.61	0.51**	6.33
Proposed model fit				
χ^2 (df)	648.59 (265)		522.33 (265)	
χ^2/df	2.44		1.97	
RMSEA	0.056		0.061	
NFI	0.932		0.900	
CFI	0.958		0.948	
GFI	0.899		0.860	
AGFI	0.876		0.828	
SMC (WOM)	0.805		0.568	
SMC (Switching propensity)	0.466		0.452	
AIC	818.59		692.33	
BCC	828.80		710.83	
Alternative model fit				
χ^2 (df)	786.24 (268)		619.46 (268)	
χ^2/df	2.93		2.31	
RMSEA	0.065		0.070	
NFI	0.917		0.882	
CFI	0.944		0.929	
GFI	0.877		0.843	
AGFI	0.851		0.810	
SMC (WOM)	0.801		0.511	
SMC (Switching propensity)	0.380		0.247	
AIC	900.24		733.46	
BCC	907.08		745.86	

*Coefficient significant at $p<0.10$.
**Coefficient significant at $p<0.05$.

supporting H4; as well, it is seen that LC has the direct role of channeling the positive benefit derived from a highly credible brand to enhance behaviors that benefit the firm.

Satisfaction and LC both serve to directly enhance WOM activity among customers, as well as to reduce switching propensity, thus supporting H1, H3, H5 and H6. It is clear in both samples that satisfaction is more likely to generate WOM activity compared to reducing switching propensity, while LC is more likely to reduce switching propensity than to generate WOM activity. Finally, continuance commitment reduces switching propensity, as expected (H2). An important finding is that brand credibility plays a key role in enhancing WOM activity (total effect of 0.80 in the banking sample and 0.66 in the ld sample, calculated from indirect effects) as well as in reducing switching propensity (total effect of −0.57 in the banking sample and −0.45 in the ld sample). These findings will be further addressed in the discussion section.

Consistent with recent approaches to acceptance of the proposed model, we also tested an alternative model (Bagozzi and Yi, 1988). This alternative model considers that brand credibility is an outcome of the evaluative constructs of satisfaction, affective and calculative commitment, This is consistent with our interest in this paper in whether brand credibility is a fruitful addition to explaining behavioral intentions beyond satisfaction, that is, whether brand credibility is 'closer' to behavioral intentions compared to satisfaction. It also in the spirit of Selnes's (1993) model which tests the effect of satisfaction on brand reputation, although as we have previously identified in Footnote 1, his brand reputation construct is different from our brand credibility. In this alternative model, satisfaction and commitment impact credibility rather than the reverse, which we proposed and examined above. Put otherwise, since our study is cross-sectional, we examine whether evaluations of commitment and satisfaction "color" perceptions of brand credibility. This conceptualization is shown in Fig. 2.

As can be seen in Table 3 (bottom), the proposed model was superior to the competing model based on all fit indices. The proposed model had a lower normed χ^2/df index and superior RMSEA, as well as other fit indices. Findings were consistent across the bank and LD data. As our models are non-nested, we further compare our proposed and alternate models using the Akaike Information Criterion (AIC) (Arbuckle, 1997; Bozdogan, 1987) and the Browne–Cudeck criterion (BCC) (Arbuckle, 1997; Browne and Cudeck, 1989). These indices penalize models

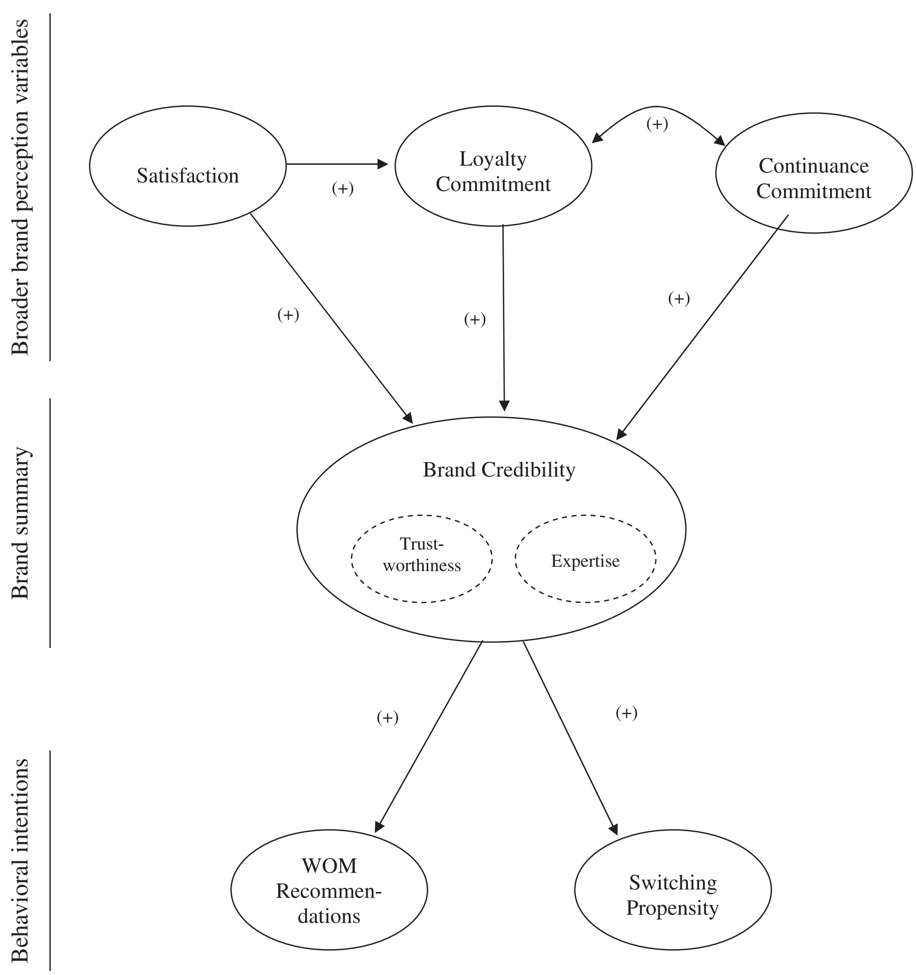

Fig. 2. Alternative model path diagram.

that have more parameters and have been established as useful when comparing non-nested models (e.g., Ben-Akiva and Swait, 1986; Swait and Sweeney, 2000). Findings indicated that the proposed model was also superior to the alternate model based on the lower AIC and BCC criterion values associated with this model. This outcome offers further support for the proposed model across both industries. We therefore conclude that the proposed model is superior on both measurement and conceptual grounds.

5. Discussion

In this study, we set out to address the role that the brand plays in promoting positive behavioral intentions among current customers of membership-based retail services. We argued that the brand embodies the credibility of the firm—essentially beliefs about the firm's trustworthiness and expertise concerning promises made about products or services—generated through customers' experience of the brand over time. Such experiences are created through traditional marketing mix activities as well as service-specific activities, e.g. customer contacts with the firm. We tested our hypotheses in two service industries, that of retail banks and ld telephone service providers, industries in which customers have a quasi-membership status, in that the services are continuous, can be used at any time without an upfront fee, and customers have relatively high switching costs. The effect of the brand on current customers has not been studied in such industries, yet represents a fruitful avenue for research given the customer disenfranchisement in such industries and associated customer churn (Carroll, 2002; Dropping, 2005; Myron, 2004; Teradata, 2004). Customers cannot be taken for granted, even in industries with high barriers to change.

Our findings suggest that brand credibility primarily impacts customer satisfaction, and secondarily, loyalty commitment. The effect of brand credibility on LC was primarily indirect through customer satisfaction. This indicates that the two experiential constructs, brand credibility (representing trustworthiness and expertise) and satisfaction (summarizing customer consumption experiences over time), influence LC (representing psychological attachment and a desire to continue the relationship in the future). Brand credibility also positively impacts continuance commitment as hypothesized. This latter finding is in contrast to propositions and findings of some previous authors based on trust concepts (e.g., Geyskens et al., 1996), but supports our notion that brand credibility enhances this passive and rational form of commitment.

Further, WOM intention was primarily generated through satisfaction rather than LC in both samples, while switching propensity was reduced through all three mediators (LC, satisfaction and CC, respectively, in terms of impact size). This differential effect of satisfaction and commitment on outcomes can be conceptually supported. Satisfaction represents a summative experience-based evaluation, as discussed, and thus can form the content of a WOM message (Harrison-Walker, 2001). In contrast, both LC and switching propensity reflect future intentions and future potential activity, respectively. The relatively greater effect of LC in reducing switching behavior, also observed by Fullerton (2003) and Wetzels et al. (1998), is likely due to the stronger and more active basis of LC compared to CC.

5.1. Managerial implications

This research offers implications for management of customer relationships. Our findings show that service brand managers, particularly those in relational services such as those studied, should recognize the key role of the credibility of the brand in managing current customers. The generation of customer satisfaction and LC are particularly important in developing WOM and reducing switching; brand credibility was shown, in this study, to be a key tool in enhancing both of these evaluations. Brand credibility concerns the trustworthiness (believability) and expertise (perceived ability) of the brand to deliver what is promised. This conceptualization recognizes that customers can have a relationship with the brand, and that the brand communicates with the customer. Brand credibility thus represents the summary of brand-to-customer and customer-to-brand communication over time.

Since our framework suggests the central importance of brand credibility in CFM, it behooves us to clarify how brand credibility can itself be managed. While these comments are not a direct consequence of our research, they are useful in establishing the practical relevance of our results. We note that our discussion below is based in large part on Erdem and Swait (1998), who explored the antecedents of credibility in the product case. First, credibility can be increased by ensuring clarity of the brand message (see also Erdem and Swait, 1998). The brand should be clear in its focus and what it stands for, as well as reveal the culture of the organization, thus capturing the link between organizational values and the brand's positioning. The brand should further be consistent in its marketing mix decisions (service quality, pricing, promotion, channel), including communication with the customer. This emphasizes in particular the role of human resources, databases and systems in firms in which customers have membership status, such as those that were the focus of this study. Brand credibility is also enhanced through brand investments, such as advertising, logos and sponsorships, and socially responsible corporate actions, showing that the firm believes in and is committed to the brand (Erdem and Swait, 1998).

An indirect result of this research is the observation that the pursuit of customer satisfaction should not per se be management's major CRM goal. Instead, an understanding that the brand plays a significant role in retaining and expanding a customer franchise should lead management to strongly concentrate on avoiding actions that diminish in any way the brand's credibility. Attempting to mitigate customer satisfaction decreases through tactical actions (e.g., discounts, apologies) may lead to some positive effect, which may nonetheless be offset by brand credibility losses due to perceived lack of trustworthiness of the firm. In principle, and Ceteris paribus, a conservative approach to change should be taken by management: do not make promises to consumers which are recognizedly difficult or even impossible to meet. The long-term negative effect of non-delivery on promises is likely to more than offset any momentary advantage the brand may reap in the market place in the short term.

5.2. Limitations and future research

Clearly, the increased focus on services and the paucity of work on brand credibility in this area suggests a fruitful area for further research. The context of the present study has been retail banking and ld telecoms, services with which the average consumer has a long-term relationship. Indeed, in our sample the average duration of a relationship with a bank is well over 3 years. The results may differ in a service context in which consumer use is more ad hoc, such as hotels or restaurants. Although our model was supported in two industries, the generalization of our results to a spectrum of goods and services should be a topic for future research.

The cross-sectional design is also a limitation of the research since all measures were collected at once; however, many other researchers have investigated directional relationships, such as the effect of trust on commitment (Morgan and Hunt, 1994) and commitment on satisfaction (Brown et al., 2005), using a cross-sectional design. Our alternative model goes partway in addressing this shortcoming. Nonetheless, we recognize that there is a need for longitudinal studies to aid in establishing the causal relationships between the constructs of interest in this study.

Another important area of future investigation is the level of branding on which to focus. When considering branding in the service context, the corporate brand is usually the brand the consumer buys. However, there are instances of service sub-brands. For example, Marriott Hotels have four chains: Courtyard, Fairfield Inn, Residence Inn and Marriott, offering different levels of quality. How does the concept of brand credibility change when considering sub-brands? Further, the vast majority of service firms employ less than five people, and most of these firms are known by the name of their owner or a simple brand name, such as "Casanova Hair Design." Indeed, service brand names that generally come to mind all represent large firms, often of national or international scope, such as British Airways, Hilton Hotels, Bank of America, British Telecom, AT&T, and UPS. What role does brand credibility play in the case of small firms?

The increase of e-business also raises the question of the importance of brand credibility in the online situation. What is the meaning of brand credibility in such an environment, both to existing customers and to potential customers? For instance, it has been argued that there is more information available in an online situation, that is, the aforementioned information asymmetry between consumer and firm might be smaller than in traditional markets; this may make brand credibility less important in online environments than in other markets. Such a premise depends crucially on the existence of credible information sources in the online environment that do not operate, or are difficult to access, in other markets. However, it has also been suggested that the brand may become more dominant in an online situation, serving to build trust and increase consumer comfort in online retailing services (Davis et al., 2000). Hence, another question for future research is whether brands and the role of brand credibility will become more or less important in an online situation.

Finally, our model focuses on customer loyalty and retention, and we were not able to identify the profitability of customers to their respective service providers through our survey. Future research should identify customer profitability, perhaps linking the database of a given service provider to a survey of such customers. Clearly testing such a model on customers who contribute more than they cost would further deepen understanding of the role of brand credibility in the context of CRM.

Appendix A

Measurement items are shown in Table A1.

Table A1
Measurement items (bank sample)

Construct	Items (* = reverse scored)[a,b]
Brand credibility	(Service brand) delivers what it promises XXX's claims about its service are believable XXX has a name you can trust XXX reminds me of someone who's competent and knows what he/she is doing XXX doesn't pretend to be something it isn't XXX is at the forefront of using technology to deliver a better service
Loyalty commitment	The relationship I have with this bank is: something I really care about very much like being a family very important to me something I will expend every effort to maintain something I am very committed to something I intend to maintain indefinitely
Satisfaction with the provider	I am satisfied with this bank My choice to use this bank was a wise one This is one of the best banks I could have chosen Using this bank has been a good experience I have truly enjoyed using this bank
Continuance commitment	It would be stressful for me to leave my bank now It would be very disruptive if I decided to leave my bank now

Table A1 (*continued*)

Construct	Items (* = reverse scored)[a,b]
	I am afraid of what might happen if I leave my bank
Switching propensity	I would continue to do business with my bank if its prices increase slightly* I would take some of my business to another bank that charges lower rates than my bank
Word of mouth	I would say positive things about my bank to other people I would recommend my bank to someone who seeks my advice I would encourage friends and relatives to do business with my bank

[a]All items measured on 7-point Likert scale.
[b]Listed items represent items following scale purification.

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