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MEASURING CONSUMER LOYALTY: THE LOYALTY ORIENTATION SCALE

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Reflecting its importance to the financial success of organisations, interest in consumer loyalty continues unabated. However, there are still many unanswered questions about its conceptualisation and measurement. These questions must be resolved before academics and practitioners can usefully apply the concept. We argue that consumer loyalty is best conceptualised as a multi-dimensional phenomenon. Based on this multi-dimensional view, we develop and test a new measure of consumer loyalty. We hypothesise a three-dimensional structure containing affective, temporal and instrumental dimensions. Results from a preliminary test are reported. The results indicate that the construct can be represented with two dimensions: affective and temporal loyalty. As an additional check on the reliability of our results, we find significant correlations between these two dimensions and a measure of behavioural loyalty.

Key words: Consumer loyalty.

Introduction

There is growing interest in consumer loyalty from management consultants, managers and academics. This interest is due in part to its importance to the success of firms competing in dynamic markets (Anderson, Fornell and Lehmann 1994). Indeed, the links between consumer loyalty and financial measures of success are well established (Reichheld and Kenny 1990). Despite this growing interest, some important gaps in our knowledge remain. This paper attempts to address some of these issues and make three contributions to the marketing literature: (1) to rethink the notion of consumer loyalty, (2) to develop a measure of consumer loyalty orientation, and (3) to test this measure in an appropriate context. The structure of the paper is as follows. The next section presents our conceptual framework. We argue that consumer loyalty orientation can be conceptualised as a higher-order construct with three separate but related dimensions. Drawn from the marketing and management literatures, these dimensions include affective loyalty, temporal loyalty and instrumental loyalty. The methodology of data collection and analysis is described next. Following this, we present the results of an initial test of our framework. The paper concludes with a discussion of our results and implications for marketing theory and practice.

Conceptual Framework

Loyalty is fast becoming a focal point of explanation in the consumer marketing literature (Sheth and Parvatiyar 1995; Singh and Sirdeshmukh 2000). A review of the literature, however, reveals much confusion about the conceptualisation and measurement of this construct. The management literature suggests that loyalty or "commitment" is composed of several cognitive processes (Allen and Meyer 1990). However, there have been few attempts in the marketing literature to develop a multi-dimensional view of consumer loyalty (cf. Pritchard, Havitz and Howard 1999). Instead, there is a tendency to conceptualise loyalty as a simple expression of attachment. In contrast, we argue that

consumer loyalty consists of three separate but related dimensions: affective loyalty, temporal loyalty and instrumental loyalty. This view is an attempt to integrate diverse literatures and understand the psychological processes behind consumer loyalty.

Affective loyalty is defined as a consumer's desire to maintain their relationship with an organisation because of a liking or a positive attitude toward the firm (Garbarino and Johnson 1999). A key dimension of loyalty, it is often referred to as an emotional or psychological attachment. Affective loyalty parallels the notion of commitment: a belief by one party that a relationship is so important that it warrants maximum effort to maintain (Morgan and Hunt 1994). This dimension of loyalty is one that is most often studied in marketing and related fields. A focus on this dimension only, however, provides too narrow a view of the loyalty construct.

Temporal loyalty refers to the consumer's expectation that their relationship with the firm will continue for some time (Garbarino and Johnson 1999). It is analogous to the concept of relationship continuity, seen in the industrial marketing literature (e.g., Heide and John 1990). Though it has been the subject of much less research attention than affective loyalty, temporal loyalty is a prerequisite for successful relational exchange. Temporal loyalty has been linked to consumer repurchase decisions (Kim and Frazier 1997). Furthermore, it is expectations of future interaction that in part provide the basis for additional investments in the relationship.

Instrumental loyalty is the third dimension of loyalty in our conceptual framework. It exists when switching costs make it difficult for the consumer to terminate the relationship (Morgan and Hunt 1994). The costs of terminating the relationship may be real or perceived. Furthermore, relationship termination costs can be economic or psychological (Gundlach, Achrol and Mentzer 1995). A firm may deliberately attempt to build switching costs (i.e., account closing fees, frequent flyer programs, premium customer clubs). Or they may accumulate slowly and unconsciously over time. A lack of suitable alternatives is often the basis for high switching costs (Ganesan 1994).

In summary, we hypothesise the existence of a higher-order construct: consumer loyalty orientation. We further argue that this construct has three separate but related dimensions. The affective, temporal and instrumental dimensions are an attempt to capture the complex nature of consumer loyalty. It also represents an attempt to integrate diverse literatures that have explored aspects of loyalty in isolation. We now sketch out the methodology for testing our framework.

Research Methodology

The research setting for the study was premium hotels in a regional area. Respondents for the study included leisure and business travellers. Three premium hotels participated in the fieldwork by distributing survey packets to guests over a two-month period. The survey packets included a cover letter from the researcher explaining the study, a self-completed questionnaire and a reply-paid envelope. Approximately 1,000 survey packets were distributed and a total of 241 usable surveys were returned. The effective response

rate was approximately 25%. Demographically, 50% of respondents were men. The average age of respondents was 41 years (std. dev. = 15 years). The majority of respondents had completed at least senior high school. The respondents' average income was $71,000 per annum (std. dev. = $110,000). Thus, it appears that the sampling strategy was successful in generating responses that differed greatly.

Each of the three dimensions were measured using six-item Likert scales anchored "Strongly disagree = 1" and "Strongly agree = 5." Where possible, the measures were adapted from past studies in marketing and management. The affective loyalty dimension was based on items used by Allen and Meyer (1990) and Morgan and Hunt (1994). Example items include: I feel a sense of belonging to this hotel; I feel a strong attachment to this hotel. The temporal loyalty measures were based on research by Ganesan (1994) and Kim and Frazier (1997). Example items for this construct include: I expect to return to this hotel for many years; I expect to visit this hotel again in the future. The instrument loyalty dimension was based on Barnes (1997), Gundlach, Achrol and Mentzer (1995) and Morgan and Hunt (1994). Example items include: It would be difficult for me to find another hotel; The costs for me to find another hotel are high.

Results

Initially, the set of items for each dimension was analysed separately. Three congeneric models were estimated using the LISREL program (Joreskog and Sorbom 1996). The purpose this analysis was to ensure that a model for each first-order factor fit the data well. The final number of items in each scale, goodness-of-fit statistics and the reliability estimates are reported in Table 1.

Next, we estimated a higher-order factor analysis model. The three separate dimensions were modelled as first-order factors. Loyalty orientation was the hypothesised higher-order factor. The chi-square statistic for this model was significant ($\chi^2(71) = 233.00, p <$ .05), as might be expected given this statistic's sensitivity to sample size. A sample of other fit statistics provide mixed evidence about the adequacy of the model's fit to the data (goodness-of-fit index [GFI] = .98, comparative fit index [CFI] = .99, root mean square residual [RMR] = .17). The standardised loadings and explained variance for each item is shown in Table 2. All of the loadings are significantly different from zero ($p <$ .05). However, some of the instrumental loyalty items have more error variance than explained variance. The gamma coefficients are .99, .95 and .65, respectively, for affective, temporal and instrumental loyalty. All of these coefficients are significantly different from zero ($p < .05$). The explained variance in the three first-order constructs is

Table 1. Purified dimensions

Dimension	No. items	χ^2	Reliability
Affective loyalty	5	9.62; 5 d.f.; p = .08	.95
Temporal loyalty	5	4.52; 5 d.f.; p = .37	.95
Instrumental loyalty	4	.85; 2 d.f.; p = .65	.85

Table 2.Hypothesised higher-order factor model for loyalty orientation

Variable	Affective loyalty	Temporal loyalty	Instrumental loyalty	Explained variance
x_1	.89			0.80
x_2	.89			0.78
x_3	.93			0.87
x_4	.91			0.82
x_5	.91			0.82
x_6		.89		0.79
x_7		.88		0.77
x_8		.92		0.85
x_9		.87		0.75
x_{10}		.90		0.81
x_{11}			.86	0.78
x_{12}			.66	0.43
x_{13}			.77	0.59
x_{14}			.91	0.83

99%, 91% and 42%, respectively, for affective, temporal and instrumental loyalty. Note that there is greater prediction error in instrumental loyalty than explained variance.

Based on this evidence, we took the decision to model consumer loyalty orientation as a higher-order factor with two-dimension. That is, we retained the affective and temporal loyalty dimensions and "trimmed" the instrumental loyalty dimension from our model. The chi-square statistic for the two-dimensional loyalty model was significant ($\chi^2(34) = 97.3, p < .05$). However, the change in chi-square represents a significant improvement in fit over the three-dimensional model ($\chi^2\Delta(37) = 135.7, p < .05$). The values of other fit indices suggest a minor improvement in model fit (GFI = .98, CFI = .99, and RMR = .12). Table 3 illustrates the standardised loadings and explained variance for each item. All of the loadings are significantly different from zero ($p < .05$). The gamma coefficients are .96 and .98, respectively, for affective and temporal loyalty. Both of these coefficients differ significantly from zero ($p < .05$). The higher-order factor explains 92% and 99% of the variance in affective and temporal loyalty, respectively.

As an additional check on the reliability and validity of our results, we correlated a measure of behavioural loyalty with composite measures of the three first-order factors. The behavioural measure was the simple ratio of the traveller's number of visits to their

Table 3. Revised higher-order factor model for loyalty orientation

Variable	Affective loyalty	Temporal loyalty	Explained variance
x_1	0.93		0.88
x_2	0.90		0.82
x_3	0.93		0.88
x_4	0.95		0.91
x_5	0.89		0.80
x_6		0.90	0.81
x_7		0.91	0.82
x_8		0.95	0.90
x_9		0.89	0.80
x_{10}		0.93	0.86

focal hotel relative to their total number of hotel visits. Data for the behavioural loyalty measure was obtained for a one-year period. There was a positive and significant correlation between the affective loyalty composite and behavioural loyalty ($r = .28, p < .05$). The temporal loyalty composite was also positively and significantly related to behavioural loyalty ($r = .19, p < .05$). However, the correlation between the instrumental loyalty composite and behavioural loyalty was non-significant ($r = .03, p > .05$). These results reinforce our decision to model loyalty orientation as a two-dimensional higher-order construct.

Summary

The objectives of this paper were threefold: (1) to rethink the consumer loyalty construct, (2) to develop a new measure of consumer loyalty, and (3) to test this measure in an empirical setting. We believe that we have made some progress towards achieving these objectives. However, our results provide an initial test only and much more work remains to be done.

The most significant re-specification to our hypothesised framework was the removal of instrumental loyalty from the model. The decision to model consumer loyalty as a two-dimensional higher-order factor was based on two key pieces of evidence: the explained variance in the first-order factors and the simple correlations with behavioural loyalty. The two-dimensional framework implies that feelings of attachment and expectations of continuity are more important than switching costs. However, it is important to consider the context in which we examined consumer loyalty before drawing more general conclusions.

Data for this study were collected from business and leisure guests at premium hotels. It may be that switching costs were low in this industry, as would be expected in a competitive market. Many firms have deliberately attempted to create switching costs for consumers. However, it seems that switching costs are not part of the cognitive processes of consumer loyalty. The importance of affective and temporal loyalty reinforces the need to focus on consumers' cognitive processes. Feelings of psychological attachment to firms and expectations of future interaction are highly related. Within the framework of competitive markets, it is difficult to conceive of a situation where strong feelings of attachment develop, but the consumer does not have expectations of continuity.

In summary, we have developed an instrument that appears to be a valid and reliable measure of consumer loyalty. Beyond the service context we studied, the measure may also have application in consumer good settings. In particular, it would be useful to test the framework in settings that have a lower level of involvement and relatively shorter purchasing cycles. Finally, it is important to consider the role marketing plays in shaping consumers' cognitive processes. If the creation of switching costs is not a path to consumer loyalty, then perhaps much more (re)thinking is required.

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