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An empirical study of the effects of *Guanxi* investment on customer loyalty in Chinese market —A Survey on customer winning-back management in hotel industries from Sichuan, Yunnan and Zhejiang

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Abstract The purpose of this study is to examine the relationship among *Guanxi* investment, affective commitment and customer loyalty. A customer win-back model is proposed, including *Guanxi* investment strategies, customer perceptions (price sensitivity, trust and affection), affective commitment and customer loyalty (i.e., true loyalty, latent loyalty, spurious loyalty, non loyalty). The fieldwork was conducted in the hotel industry in China ($N=1074$). Results show that *Guanxi* investment strategy has significant effects on customer's loyalty. This study hence contributes to the literature on customer win-back strategy and provides useful suggestions for managers in charge of customer relationship management.

Keywords *Guanxi* investment, affective commitment, customer loyalty

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摘要 顾客赢回管理模型包括关系投资策略、顾客感知（信任、情感和价格敏感）、情感性承诺、态度忠诚和行为忠诚等变量。为了考察关系投资、情感性承诺和顾客忠诚的关系，选取 1074 家酒店的数据为样本。研究结果显示，关系投资策略可以提高顾客对厂商的信任和情感依附，降低顾客对价格的敏感程度，并对顾客真正忠诚行为的形成有促进作用，这对管理者运用关系投资策略进行顾客赢回管理具有指导意义。

关键词 关系投资，情感性承诺，顾客忠诚

1 Introduction

As early as 1999, Stauss and Friege had concluded that the Return on Investment (ROI) of obtaining a new customer was 23%, in some high margin industries. However, more interestingly, the ROI of wining back a lost customer can be as high as 214%. Griffin and Lowenstein(2001) summarised the motives of a firm to wining back customers are as follows: (1) it is much easier to win back a lost customer than attract a new one because of the customer's knowledge cumulated from previous trade records; (2) wining back a lost customer provides better ROI and cost saving than those of creating a new relationship; (3) dialogues with the lost customers can be very beneficial to identify potential problems existing in the product and service process, which also constructive to remedy possible misunderstandings during communications with the customers; and (4) focusing on lost customers initiates the formal plan for winning back lost customers, weakens the intentions of negative (WOM), and encourages positive advocating behaviours.

To provide useful evidences for better managing customer win-back, Thomas, Blattberg, and Fox (2004) considered pricing as the key strategy for this purpose. They measured the impacts of win-back pricing with different levels upon the tenure of retaining a customer relationship after win-back. Their findings suggest that, low price is the necessary compensation to high customer win-back rates. For example, the below-margin pricing is proved the most successful strategy to win-back the lost customers. However, no profit-making organizations can afford to sustain these losses for in the long run. Therefore, the price has to rise. And along the increasing of price, there are new challenges in retaining this relationship, which seems to create a new dilemma for customer relationship management. However, there are still very little empirical researches in the field of customer win-back management. This piece of work is devoted to develop a customer win-back model, incorporating relationship investment strategy, customer perceptions, affective commitment, and customer loyalty, so as to provide useful suggestions for practitioners.

2 Relationship investment and customer winning-back

Relationships, or *Guanxi*, in the eyes of Chinese people, should at least show itself in twofold: (1) the etymon “Guan” means a gate, or a barrier, preventing the intrusion of outsiders; and (2) the etymon “Xi” means a bond, or a tie, linking the beloved insiders. The combination of these two etymons, “*Guanxi*” suggests an exclusive protection shell for insiders to isolate themselves from outsiders. And “*Guanxi* management”, therefore, highlights the process to cracking into this shell and being invited as an insider of the group. Lee and Dawes (2005) quoted a Chinese manager’s description about *Guanxi*:

“*Guanxi* is just like door steps. If you’re not yet on the steps, no one will do business with you. If we do not know you, how can we trust you! Once you are on the door steps, then we started to know you, then we open the door to talk business with you.”

What a remarkable observation! We define relationship investment (in Chinese sense) as the allocation of resources, such as time, energy, and money, to crack into the *Guanxi* shell, in order to attain customers’ trust and even affective attachment, and to achieve a long-term relationship bond. In essence, the common appreciation of relationship as a research construct between the westerners and the easterners includes variables trust, affect, and commitment. The well known trust-commitment paradigm proposed by Morgan and Hunt (1994) allows these three variables to be the foundation of building a long-term business relationship. Similar observations are reported in the Chinese local journals(e.g., Wang and Chen, 2006). However, due to the cultural factors, these local studies indicated that the formulation of this relationship in China can be very different from that of the westerners.

First, the mode for relationship development is different. It was observed a “business then relationship” event dependency for the westerners and a “relationship then business” for the Chinese(Ambler, 1994). Second, the basis for surviving this relationship is different. For the westerners, the relationship bond between businesses is mainly based on the organization to organization level, while for the Chinese this largely relies on the individual to individual level (Fock and Woo, 1998). Third, the mechanism to maintain the viability of this relationship is different. The westerners are strongly reinforced by the contract law and regulations imposed by the government to assure the fairness in a business relationship, while the Chinese counterparts are more keen to maintain a fair relationship due to the need to protect their very own reputation and interpersonal trusts(Lovett, Simmons, and Kali, 1999). Four, the structure of transaction costs for maintaining the relationship is different. The westerner relationship system is more formal and normative, thus, allows a new comer to

join this relationship with ease but results in a much higher transaction costs as a whole. On the other hand, the Chinese business relationship is very much dependent upon friendships, which reduces transaction costs but prevent new comers joining the game. Finally, the underlying rules to implement this relationship are also different. The Chinese relationship system largely relies on the win-win respecting to each other, while the westerner one is mainly based on the zero-sum social exchange game (Yeung and Tung, 1996).

However, after the implementation of the “reform and opening up” policy, China has gradually established her own economic system that fits very well with both the western style as well as the Chinese practical conditions. The very fast development of economy and the potentially huge domestic market attract a great number of entrepreneurs with their direct capital investments into this country. Due to the cultural differences discussed above, these foreign companies encountered significant difficulties in coping with the particular characteristics of Chinese *Guanxi* phenomena. Many of these foreign investors failed in their Chinese operations, and thus raise a concern about the validity of applying relationship marketing theory in Chinese market. For this, we argue that an appreciation of differences between western relationship management and Chinese *Guanxi* management is essential for western firms to thrive in Chinese market, especially, the proper ways of realizing relationship investment.

Chinese scholars Han and Xi(2001) echoed this argument. They asserted that relationship management is the most critical variable in Chinese business activities. Zai(1999) also pointed out that *Guanxi* is the most influential factor determining the resultant Chinese society after social transformation and the evolution of Chinese economy. And therefore, personal achievement in China is largely dependent upon his/her *Guanxi* in society. This phenomenon encourages more and more studies into Chinese relationship management. For example, Fock and Woo(1998) stated that *Guanxi* is among the sustainable resources to achieve competitive advantages in China. Lovett, Simmons, and Kali(1999) highlighted two reasons why we should pay great attentions to Chinese relationship management: (1) the greater the significance of China to influence the world as a whole, the more importance the world to adapt itself to appreciate the Chinese style of doing business; (2) there are overwhelming evidences suggesting that relationship management might be a promising approach of business development in the future for western organizations. This thought, in fact, was affirmed by the successful penetrating of a few companies into the markets of South Africa, Cairo, Mexico, and Peru. Tung and Worm(2001) concluded that due to its historically dominant existence in China, *Guanxi* will continually play a key role in Chinese society.

To better utilize Chinese relationship management, of course, one needs to understand the essence of Chinese *Guanxi* investment. In China, relationship investment can be implemented in many different forms. It can be as simple as inter-personal communications and also, with some more additional flavours, for example, empathetic interactions, gift giving, and catering to someone's appetite, all among the category of Chinese relationship investment. In theories, inter-personal communications are not merely the transmission of messages but also a useful tool to change the mind of a lost customer. Thus, communication is able to provide necessary brand knowledge to the customers, to help the firm to better understand its customers, and to strengthen the ties between the customers and the firm. More importantly, communication is absolutely able to reinforce the sense of trust and attachment of a customer to the firm. Wulf et al. (2001) agreed with this assertion empirically. Communication enhances relationship quality and is very beneficial to the establishment of a sustainable long-term relationship.

Besides, gift giving and providing special favour to suit partner's appetite are also regarded useful relationship investment in China. Gift giving in China shows respect and best wishes from the sender to the receiver. It will often result in a return of favourable attitudes to the sender and thus provides opportunities for long-term relationship bonding (Yau et al., 2000). Also, to apply the skill of providing special favour to suit partner's appetite, one will first need to understand deeply customers' true desires and then do his/her best to satisfy these desires. Yau et al. (2000) argued that this is in effect an artistic effort. Especially in China, marketers have to put a lot of efforts to discover the true "appetite" of their counterparts so as to pave their way to other business purposes. Finally, Yum (1988) stressed the usefulness of empathetic behaviours in China for relationship building. Empathetic behaviour denotes an attitude to show empathy to, or ready to comprehend of, others' states. As the old saying goes "to put yourself into other's shoes", which clearly suggests the use of empathetic behaviour in building the relationship bond in Chinese tradition. Relationship investment is indeed a promising area of study, leading to a true understanding of Chinese *Guanxi*.

3 Theoretical development and conceptual models

3.1 Interrelation among relationship investment, trust, affects and price sensitivity

Trust has been a highly touched variable in many disciplines. This variety of studies uses their specific angle to tap into their own definition, characteristics,

and structure of trust(Dahlstrom and Nygaard, 1995). However, regardless of the magnificent applications and research results, these studies concluded that trust, as an essential component of any economical relationship, in effect, forms the basis for organization's as well as society's survival. Yang and Peng(1999) studied the structure of trust in the Chinese context and discovered that inter-personal trust is a result of inter-personal interactions. In the studies of organizational inter-personal interactions, Dahlstrom and Nygaard(1995) also concluded that the higher level of relationship investments (e.g., time, energy, and money) between colleagues, the greater the sense of trust in the organization. With these observations, we assert that relationship investment can be used as viable tool in China to win-back the lost customers.

Affect is another important variable being considered in the relationship management studies. For example, Wathne, Biong, and Heide(2001) stated that affective bond in a business relationship can transform into a true monetary exchange. And this affect-based exchange relationship is more sustainable and is able to weaken the effectiveness of competitors' product as well as price promotion strategies. To achieve this affective bond, Bendapudi and Berry(1997) suggested that more relationship investments from suppliers actually create their customers a deeper affective attachment to them. Lee and Joglekar(2005)'s study echoed this observation. They argued that affect is, in effect, the most essential component in a relationship. In the real-world marketing practices, it is common for firms to use inter-personal skills to win-back lost customers. These relationship investments might include an effort to make friends with the customers, or even the decision maker of the customer organization, so as to provide a necessary vehicle for further implementation of win-back strategies.

This affective approach of building up business relationships, furthermore, provides additional benefits to marketers. Mela, Gupta, and Lehmann(1997) found that the business relationships based on affective bonds rather than monetary incentives can lessen consumers' price sensitivity. Thomas, Blattberg, and Fox(2004) provided a similar observation that the longer the tenure of a business relationship, the lower the sensitivity of a customer to the price. Based on the results of in-depth interviews with twelve Chinese hotel managers, the current study also discovered that relationship investment during the customer winning-back process can step up inter-organizational friendship and trust and, thus, minifies customer's price sensitivity. Therefore, we developed hypotheses as follows:

H1a: Relationship investment is significantly and positively related to customer trust.

H1b: Relationship investment is significantly and positively related to customer affect.

H1c: Relationship investment is significantly and negatively related to customer price sensitivity.

3.2 The structural of trust, affect, price sensitivity, and affective commitment

Affective consumption and economical rationality were very often regarded as the two extremes in consumption behaviours (Stern, 1997). The social exchange theory as proposed by Bagozzi (1975) also implies that affect, trust, and affective commitment are more relevant to affective consumption and *vice versa* the price sensitivity. Sanzo et al. (2003) and Thorsten, Henning, and Thureau (2000) empirically proved that trust is significantly related to affective commitment. Donovan, Brown, and Mowen (2004) pointed out that affect, in effect, is a very influential psychic power, and very efficient in determining human behaviours. That is, affect is highly possible to induce commitment. Contrastively, consumers with higher price sensitivity tend to exhibit rational consumption decisions (Stern, 1997), so as to achieve better prices (Goldsmith, Kim, and Flynn, 1995), or cost down (Lee and Joglekar, 2005). Based on this inference, it is reasonable to anticipate that the higher the price sensitivity of a win-back customer, the less probability for him/her to present affective commitment to the firm. In fact, price competition is among the triggers to evoke consumers' price sensitivity. Thus, the following hypotheses were proposed:

H2a: The higher the trust of a won-back customer to the firm, the higher the likelihood of this customer to present affective commitment.

H2b: The higher the affect of a won-back customer to the firm, the higher the likelihood of this customer to present affective commitment.

H2c: The higher the price sensitivity of a customer, the less the likelihood of this customer to present affective commitment.

3.3 Affective commitment and brand loyalty

Day (1969) was probably among the earliest pioneers to provide possible taxonomy for loyalty. He stressed that the sustainability of both behavioural intention and attitude forms the basis of loyalty. He discovered that the predictive power of using both behavioural and attitudinal measurements to predict loyalty is around two times of that of simply using behavioural observations. Dick and Basu (1994) highlighted that behavioural observations cannot provide a true understanding to consumer loyal behaviours. They asserted a two-dimensional model comprising both behavioural and attitudinal measurements to portrait consumers, in which consumers are categorized into four distinct types of loyal behaviours (Fig.1). Based on their model, consumers with "true loyalty" denote those who not only exhibit a high repeat purchase inclination but also show a positive affect to support and trust their beloved brands. They are the most valuable resources of firms. Customers with "latent loyalty" suggest a group of customers who are attitudinally bond to the brand but with a low repeat purchase

behaviour possibly due to out of stock, encountering difficulties to access the product distribution channels, or economically puny. Consumers with “spurious loyalty” are those who attitudinally neglect or unfavourable to the particular brand, but in fact, show a high repeat purchase rate. As consumers with this repeat purchase behaviour is mostly due to considerations of cost, purchase convenience, or lack of substitutions, they are easily transformed into “non-loyal” ones when external environment changes. These non-loyal consumers present a low disposition in both attitude and purchase behaviour. They are seldom a customer of the brand.

		High	Low
Attitude loyalty	High	True loyalty	Latent loyalty
	Low	Spurious loyalty	Non Loyalty

Fig. 1 Dick & Basu’s (1994) loyalty model

Based on Dick and Basu’s studies, Amine(1998) stated that the diversity of buying motives eventually weakens the validity of direct use of loyalty as a variable to predict consumers’ future behaviours. In fact, Bloemer and Kasper (1993) have already suggested a better alternative variable, commitment, to replace loyalty as the explainable variable to understand the true causes of repeated brand buying. In this sense, commitment can also play a role in classifying different loyal behaviours. Fullerton(2005) described the impacts of affective commitment upon consumers’ attitudinal and behavioural loyalty. However, they have yet to extend their thinking to accommodate Dick and Basu’s model in predicting consumers’ future behaviours(See Fig.2). This provides room for the following hypothesis:

H3: Affective commitment is significantly and positively related to consumers’ truly loyal behaviours.

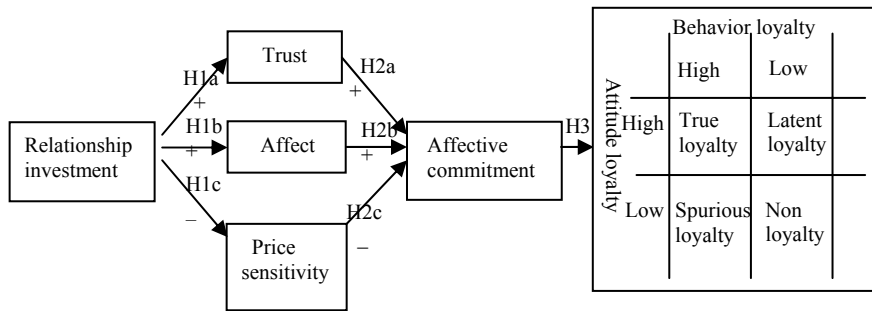


Fig. 2 Conceptual model of relationship investment and D&B loyalty mode

4 Research design and data collection

4.1 Measurement items

This study follows guidelines provided by Churchill(1979) and Gerbing and Anderson(1988) to access the validity and reliability of measurement items of all constructs. (1) Measurement items are mainly obtained from previous academic efforts to avoid reinventing the wheels and to assure the content validity of these measures. These measurement items then go through a translation back translation process based on the advices of Parameswaran and Yaprak(1987). (2) By using information from 12 in-depth interviews with professionals in hotel booking and itinerary management, this study develops additional measurement items to capture specific local and cultural variances in our research context. This qualitative information is also used to elaborate the measurement items borrowed from western literatures to adapt to the purpose of the current study. (3) In total, 48 measurement items are decided based on the above processes. Three PhD students in marketing discipline from a major university located in southwest China and 6 hotel marketing managers from Sichuan province were invited to screen out potential wording and validity problems in these measurement items. This results in 41 measurement items for our pre-tests. All items were measured with 7-point Likert scales.

4.2 Research objects

Hotels are selected as our focal platform to collect research data. After 30 years development of market economy, the capitalization and administration of hotels in China are approaching the standard of those of western countries. However, the reality of hotel management in China, regardless of domestic or foreign

owned hotels, is having a very difficult time retaining customers. To remedy this problem, many hotels started to employ relationship investment as part of their marketing strategy and have achieved certain level of success. This study uses defected, but won-back, hotel customers as the focal informants to provide information for our examination of effectiveness of relationship investment strategies. To assure sufficient tenorial coupling between our informants and their experienced hotels and to provide necessary win-back experiences for this study, we chose personnel in organizations who are responsible for booking hotels for their colleagues. These organizations include both private owned and state owned companies and government agencies.

4.3 Pre-tests

Before conducting large scale fieldwork, this study selected 82 informants who comprise our definition of hotel customers from 12 hotels located in Ruzhou city of Sichuan province. We divided these informants into 8 groups. For each group, a research assistant was assigned to distribute and collect questionnaires. A test-retest with a two-week interval was introduced to access the time-based reliability of these 41 measurement items. The resulting usable sample size was 72. Cronbach's Alpha was employed to examine items' construct reliability. Based on the guideline of Michael and Mark(1999), an exploratory factor analysis was also applied to access the construct validity of the measurement items. After these verification processes, 38 measurement items remained for our large scale fieldwork (see Table 1).

Table 1 Measurement items in the model

Sources	No. of items	Measurement items
Relationship investment (Smith and Barclay ,1997)	5	<p>A1: I have a feeling that this hotel has devoted a lot of time and energy to making our relationship work</p> <p>A2: During our staying, this hotel has laid great emphasis on our interests and feelings. (item developed from the original one by the authors)</p> <p>A3: The personnel in this hotel try hard to show you that they care about you and they always do something nice for you.</p> <p>A4: On special occasions, the hotel will send you cards or express their congratulations in other means. (item developed from the original one by the authors)</p> <p>A5: This hotel communicates with us about its management style and contacts us on a regular basis.</p>

(To be Continued)

(Continued)

Sources	No. of items	Measurement items
Trust (Lee and Dawes, 2005)	7	B1: This hotel keeps promises it makes to us. B2: This hotel does not always treat us honestly. B3: We need be cautious to when dealing with this hotel (item developed from the original one by the authors) B4: This hotel does not make any false claims. B5: This hotel is trustworthy. B6: We trust that this hotel keeps our best interests in mind. B7: When making decisions, this hotel considers our welfare and its own.
Affect (Lee and Dawes, 2005)	4	C1: I've developed a close friendship with the employees of this hotel. (item developed from the original one by the authors) C2: Relative to other hotels, I am willing to spend more resources (e.g., time, energy) on this one. (item developed from the original one by the authors) C3: The personnel in this hotel are our good friends, and we care about each other wholeheartedly. C4: We like the people in this hotel, and they like us.
Price sensitivity (Goldsmith et al., 2005)	6	D1: I don't want to pay more to choose another hotel I prefer. (item developed from the original one by the authors) D2: Price is the determinant factor for me to choose a hotel. D3: I know that the pricing of this hotel is higher than that of other hotels, but that doesn't matter to me. D4: I will go to other hotels if this one is more expensive. D5: I don't mind spending more money to stay in a hotel I like. D6: In general, the price or cost of staying in a hotel is important to me
Affective commitment (Gustafson et al., 2005)	5	E1: I take pleasure in being a customer of this hotel. E2: This hotel takes the best care of her customers. E3: There is a presence of reciprocity in my relationship with this hotel. E4: I have feelings of trust toward this hotel. E5: I'm willing to do something for this hotel as far as my capacity allows.
Attitudinal loyalty (Too et al., 2001)	8	F1: I really care about the fate of this hotel F2: I am willing to put in extra effort to stay in this hotel. F3: As long as the service is similar, I could just as well stay in a different hotel. F4: I am proud to tell others that I am a customer of this hotel. F5: For me, this hotel is the best alternative. F6: I am quite loyal to this hotel. F7: I expect to stay with this hotel for a long period of time F8: I would recommend this hotel's brand to others
Behavioural loyalty (Too et al., 2001)	3	G1: I stay in this hotel on a regular basis G2: This hotel stimulates me to come repeatedly G3: I have a customer of this hotel for a number of years

5 Confirmatory factor analysis and hypotheses testing

As China resides herself in a huge continent, we need to consider in this study possible sub-cultural and economical variances imposed by different regions in the country. To do so, this study designed sampling frame incorporated respondents from the south-western provinces Sichuan and Yunnan and the eastern province Zhejiang. Our strategy to obtain research data was to utilize the customer's database of hotels. And then, based on this database information, we were able to distribute research questionnaires to the focal informants. Due to a special "*Guanxi*" of one of the authors government departments concerned, we were able to access the information of all hotels in the above three provinces. Meanwhile, as the informants are those customers who have to be once switched from at least one hotel and being won back by the same service provider later, it is not suitable to use random sampling. We need to examine the consumption records of customers before they were selected to be our focal informants. Convenience sampling, in this case, is a more appropriate choice. A telephone call to each selected informant was also made beforehand to assure the accuracy of this hotel switching information provided by hotels. In total, 1520 questionnaires were distributed to these potential informants, which resulted in 1074 valid responses (70.7%).

5.1 Measurement model and the credibility

We followed Anderson and Gerbing(1988)'s advices to obtain our measurement models. The first step in this process was to assure the internal consistency of constructs. We calculated Cronbach's alpha for each construct using SPSS 11.5. The second step was to examine both the Convergent and the Discriminant validity of measurement models. AMOS 5.0 was used to implement Confirmatory Factor Analyses(CFA) for each measurement model based on the guidelines provided by Bagozzi and Yi(1988), so as to affirm the relationship between the observables and the latent variable. However, before we can access the fit indices of these measurement models, we need to make sure each of the estimated factor loadings, standard errors, and modification indices between the observable and the latent satisfies certain cut-off values(Hairs et al., 1998). As a result, measurement item A3 of relationship investment, B2, B6, and B7 of trust, C2 of affect, D2 of price sensitivity, E2 of affective commitment, and F2, F3, and F7 of attitudinal loyalty were eliminated from these measurement models. Table 2 reports the factor loadings, t-values, standard errors, and the reliability and validity examinations of all constructs respectively.

Table 2 Tests of reliability and discriminat validity

Constructs	Item	Loading	t-value	SE	CR	VE	Cronbach's α
Relationship investment	A1	0.82	16.94	0.33	0.88	0.57	0.874
	A2	0.80	17.73	0.36			
	A4	0.79	17.83	0.38			
	A5	0.80	17.88	0.36			
Trust	B1	0.81	18.06	0.34	0.88	0.54	0.883
	B3	0.78	18.44	0.39			
	B4	0.76	19.32	0.32			
	B5	0.78	19.04	0.42			
Affect	C1	0.80	16.68	0.36	0.84	0.58	0.837
	C3	0.77	17.68	0.40			
	C4	0.81	16.51	0.34			
Price sensitive	D1	0.81	18.35	0.34	0.89	0.51	0.799
	D2	0.63	21.59	0.097			
	D3	0.81	18.40	0.34			
	D4	0.80	18.55	0.36			
	D5	0.77	19.71	0.41			
	D6	0.75	18.57	0.44			
Affective commitment	E1	0.82	17.13	0.33	0.89	0.60	0.867
	E3	0.84	15.69	0.29			
	E4	0.80	17.72	0.36			
	E5	0.80	17.80	0.36			
Attitude loyalty	F1	0.80	17.85	0.36	0.89	0.50	0.872
	F4	0.79	18.79	0.38			
	F5	0.79	18.76	0.38			
	F6	0.78	19.71	0.39			
	F8	0.75	18.91	0.44			
Behavior loyalty	G1	0.93	16.88	0.14	0.93	0.80	0.894
	G2	0.90	9.95	0.19			
	G3	0.89	16.12	0.21			

Notes: $CR = (\sum \text{Standardized Loading})^2 \div \{(\sum \text{Standardized Loading})^2 + \sum \varepsilon_j\}$

$VE = \sum (\text{Standardized Loading})^2 \div \{(\sum \text{Standardized Loading})^2 + \sum \varepsilon_j\}$. ε_j is the error of item j

Table 3 tandarized correlation coefficients of estimated latent variables

Constructs	Relationship investment	Trust	Affect	Price sensitivity	Affective commitment	Attitudinal loyalty	Behaviour alloyalty
Relationship investment	0.867**						
Trust	0.770**	0.823**					
Affect	0.701**	0.655**	0.778**				
Price sensitivity	-0.350**	-0.269**	-0.245**	0.933**			

(To be continued)

(Continued)

Constructs	Relationship investment	Trust	Affect	Price sensitivity	Affective commitment	Attitudinal loyalty	Behavioural loyalty
Affective commitment	0.626**	0.550**	0.280**	-0.080*	0.989**		
Attitudinal loyalty	0.397**	0.416**	0.355**	-0.200**	0.507**	0.706**	
Behavioural loyalty	0.154**	0.161**	0.137**	-0.077*	0.658**	0.154**	0.969**

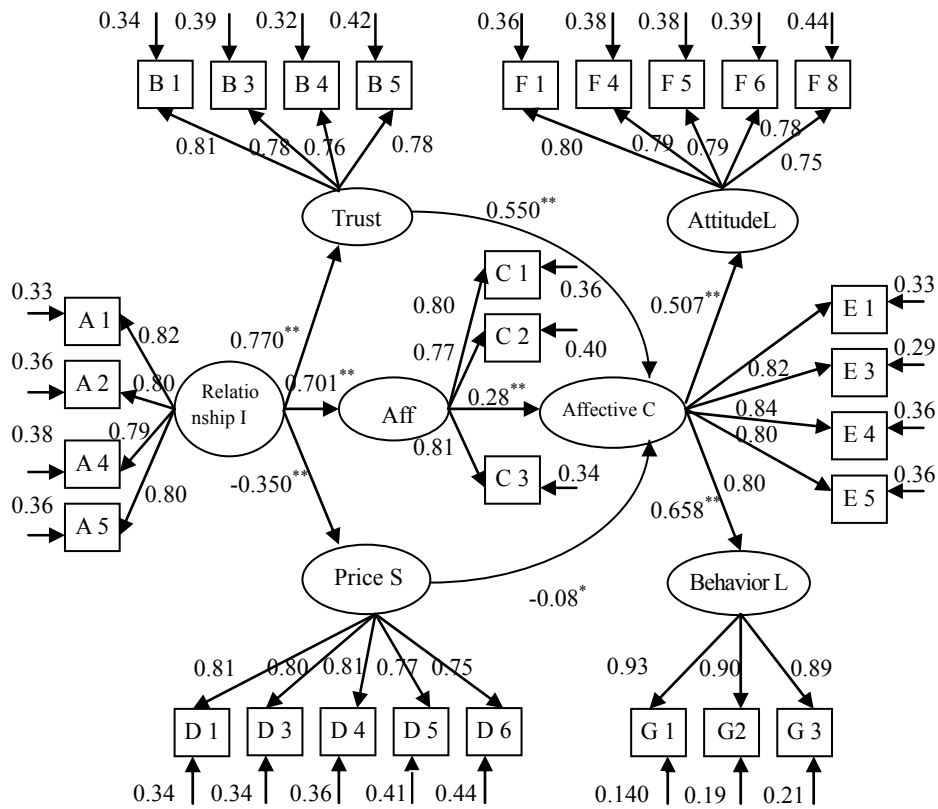
Notes: * $p \leq 0.05$, ** $p \leq 0.01$.

According to Table 2, all our Cronbach's alphas are above 0.799 and all Composite Reliability (CR) indicates that all constructs are above 0.84, suggesting good latent construct-indicators consistence (Bagozzi and Yi, 1988; Fornell and Larcker, 1981). In the meantime, all Variance Extracted (VE) of all constructs are above 0.5, indicating high convergent validity of all the measurement models (Bagozzi and Yi, 1988; Fornell and Larcker, 1981). Discriminant validity of these measurement models is accessed by the examination of standardized correlation coefficients of estimated latent variables (Joreskog and Sorbom, 1993). As Table 3 suggests, all constructs are convergent with high and significant internal consistency (diagonal figures) and show moderate significant correlations in between as hypothesized. This assures the discriminant validity of constructs.

5.2 Structural model and hypotheses testing

Based on the above measurement models, we were able to construct a structural model to test our hypotheses. Seven constructs compose this structural model, i.e., relationship investment, trust, price sensitivity, affect, affective commitment, attitudinal loyalty, and behavioural loyalty. This structural model is accessed based on absolute, incremental, and parsimonious fit indices as well (Hairs et al., 1998). According to Fig. 3, all fit indices are satisfactory.

Our statistical evidences show that the higher the relationship investment by a hotel, the higher the trust (coefficient 0.770, $p < 0.05$) and affect (coefficient 0.701, $p < 0.01$) of the won-back customers to the hotel. The higher the trust and affect of won-back customers to a hotel, the higher the possibility of customers' affective commitment to the hotel (with coefficients 0.550 and 0.280 respectively; both $p < 0.01$). On the contrary, relationship investment has a negative impact upon customers' price sensitivity (coefficient -0.350 , $p < 0.05$). This low price sensitivity also leads to a slightly positive affective commitment (coefficient -0.08 , $p < 0.05$). And finally, affective commitment exerts positive impact upon



* $p \leq 0.05$, ** $p \leq 0.01$; $\chi^2 = 1025.581$; $df = 552$; $\chi^2/df = 1.858$; $p = 0.058$
 GFI=0.948; AGFI=0.940; NFI=0.954; RMSEA=0.028; CFI=0.978
Fig. 3 The structural model and SEM results

both attitudinal (coefficient 0.507, $p < 0.01$) and behavioural loyalty (coefficient 0.6658, $p < 0.01$). Following the taxonomy of loyalty provided by Dick and Basu (1994), customers are defined as true loyalty when they are not only exhibiting the repeat buying behaviours but also affectively bond to the specific brands or firms. This study demonstrates that affective commitment is indeed a salient antecedent to the true loyalty.

6 Conclusions

The current study examines the effectiveness of using relationship investment to win-back lost customers in the Chinese market context. In the meantime, this

effectiveness is measured using “true loyalty” as proposed by Dick and Basu (1994). Results from this research indicate that relationship investment plays a key role in the business activities of Chinese market. To win back lost customers, firms operating in Chinese market have to invest a significant amount of time, energy, and even monetary incentives to interact with customers. And through these interactions, firms are able to win the all important trust and affective attachment from customers and thus crack into their “*Guanxi*” shell. Our evidence suggests that this is a very important, if not dominant, strategy to restore customer relationship and to revive their repeat buying behaviours. This answers the enquiry from the western world that whether relationship investment is a viable strategy in China. Our results may provide a useful source for those who want to understand and utilize this strategy in this fast growing market.

Consumer behaviours, to some extent, are greatly dependent upon how they were stimulated. By using relationship investment, rather than monetary incentives such as price promotion, for one hand, can satisfy customs’ affective needs during consumption. On the other hand, this can also evoke customers’ sustainable affective commitment and in turn, increase the capability of customers in the long-term business relationships to resist possible pricing enticements from competitors. This study confirms that relationship investment can effectively reduce customers’ price sensitivity and thus induce attitudinal and behavioural true loyalty.

Like many other academic studies, this study cannot exempt from possible limitations. First, this study in nature is a cross-sectional research. Therefore, it is difficult to imply the casual relationships between construct in the model. A longitudinal design, although more expensive, may be able to remedy this problem. Second, our dataset is obtained using a convenience sampling approach; it may not be able to represent the common behaviours of all Chinese consumers. It would be beneficial to use longitudinal consumer database to randomly sample customers for the study, although to date, there is no such database available in China. Finally, our sampling frame is confined to hotels only, which restricts the applicability of our findings to other industries.

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