STRATEGY AND CONSUMER BEHAVIOUR IN THE FINANCIAL SERVICES INDUSTRY: THE ROLE AND SIGNIFICANCE OF TRANSACTION RELATIONSHIPS

BY

ANTONY BECKETT

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CONTENTS

Abstract

This PhD develops a theoretical framework of consumer behaviour, drawing on existing literature in economics, psychology and consumer behaviour. That framework allows the articulation of the forms of buying behaviour used by individuals to structure their purchase decisions. Four common forms of buying behaviour are identified and the thesis focuses on two; rational/discrete and relational/dependent. A theorised linkage is established between the forms of consumer behaviour and financial instruments, through an examination of the characteristics of financial instruments. Those linkages are tested empirically using qualitative and quantitative techniques, the results of which are then tested using bivariate, statistical significance test and multivariate analysis. From these results the theorised linkages developed in the thesis are then accepted or rejected.

The outcome of empirical research and testing is a deeper understanding of consumer behaviour and the development of ideal-types to describe patterns of consumer behaviour. It also results in the development of a dynamic model of consumer behaviour which synthesises the empirical results and the creation of a contingency view of strategy. This view of strategy integrates the organisational challenges facing firms with the understanding of consumer buying behaviour developed in the dissertation. It argues that the strategic and organisational challenges facing financial services firms are contingent on the form of buying behaviour adopted by individual consumers.

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CHAPTER ONE

COMPETITION AND CHANGE IN THE UK PERSONAL FINANCIAL SERVICES INDUSTRY

1.1 Introduction

The focus of this project is on the UK personal financial services industry and the impact of changing consumer behaviour on the strategic alternatives available to firms operating in that industry. Personal financial services embraces a diverse variety of financial instruments[1] , purchased through very different channels, and used for a variety of ends. To view or treat this industry as a single entity would be a significant and mistaken simplification of a complex reality. Given the complexity of the industry the project focuses its discussion on three sub-markets within the overall personal financial services industry. Each of these sub-markets have been dominated by a particular type of financial

[1] Through out this dissertation the term 'instrument' is used to describe financial services. This is used to avoid the term 'product' as products usually possess a significant physical presence and result in visible consumption. Financial instruments are often highly intangible and consumption is invisible.

provider; banks, building societies and insurance companies. These providers can be described as 'mass producers' and have traditionally supplied a high proportion of the personal financial instruments consumed by the UK population. Although the general discussion of the project is set within the context of these three sub-markets and the emergence of competition between them, the empirical research refines the focus of the research still further. The empirical analysis focuses on what can be broadly termed 'insurance' instruments and separates these instruments into two groups, general and investment. Such a focus is adopted because the two types of instrument are taken as proxies for a wider range of financial instruments and forms of buying behaviour. A detailed discussion of the rationale for that use of proxies is developed in Chapter Three. That discussion argues that the emotional and buying responses of consumers towards general and investment instruments are quite different and that those differences are generalizable across a wide range of financial instruments. This ability to generalize results across a wide range of financial instruments means that the conclusions drawn from the empirical analysis, can be applied to a more general strategic discussion of competition in the three sub-markets.

1.2 Competition and Co-operation: A Game Theory Perspective

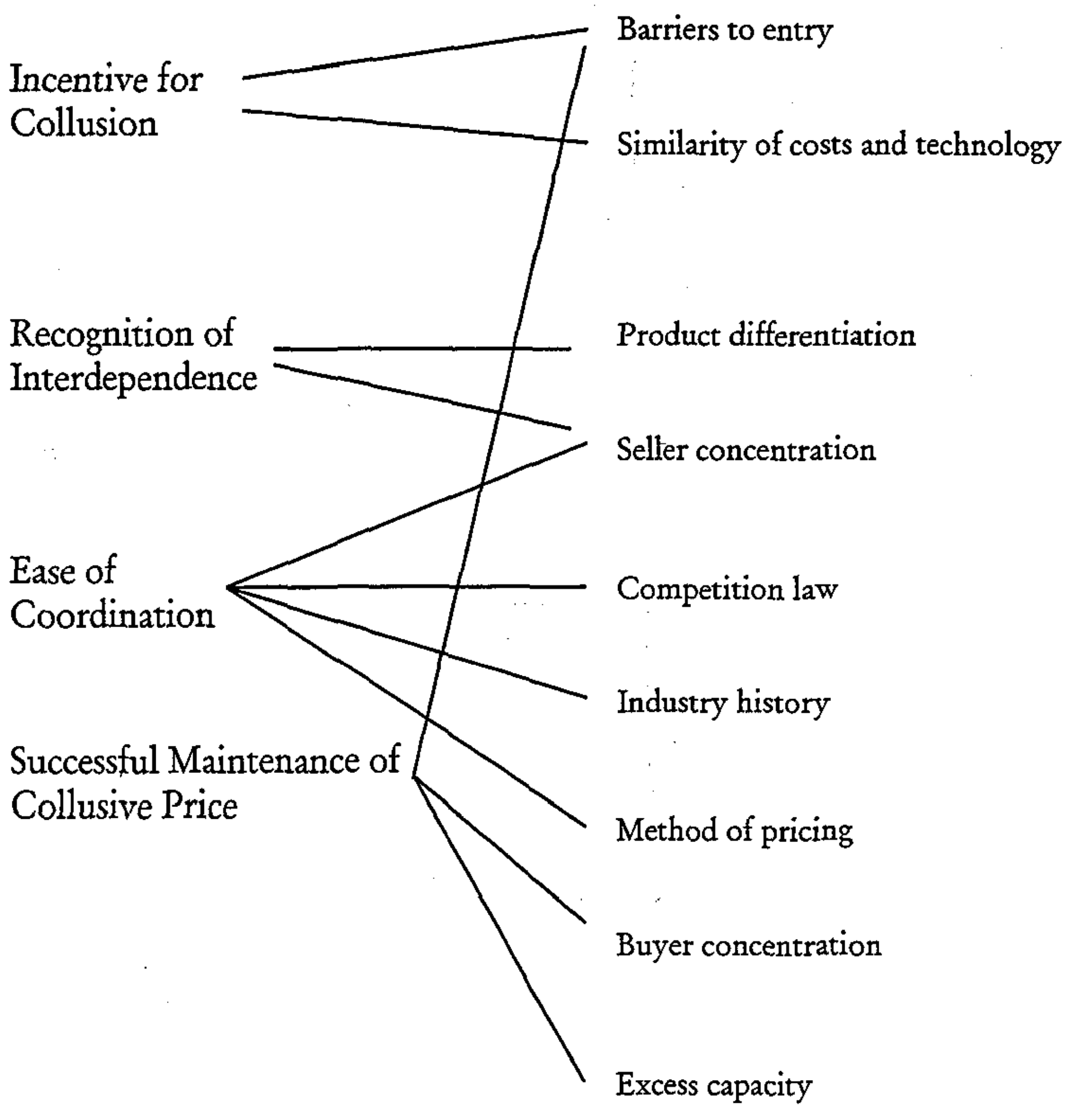
The origins of the current UK personal financial services industry can be traced back to the 1880's, when the legislative framework which was to dominate the industry for more than a century was put in place. A series of Parliamentary Acts defined banks and building societies and set out their areas of operation and by the turn of the century the role of insurance companies had also been defined. The overall effect of the legislation was to carefully differentiate financial services firms into discrete market segments. This process of delineation was accelerated during the inter-war year period by the 1931 Macmillan committee. The failure of the American banking sector and the resulting depression convinced that committee of the need to carefully regulate financial markets. By managing the financial sector the government could manipulate the macro-economy and protect it from short-term shocks. Moreover, the committee recognised that it was part of the government's role to guarantee the financial system within the nation and this could best be achieved through increased regulation.

Successive governments from the 1930's onwards tacitly guaranteed certain financial services firms a monopoly over the provision of financial instruments within their markets. Firms' competitive behaviour then focused on creating industry entry barriers through ownership of key resources such as branch networks. Regulatory bodies re-enforced this behaviour by legitimising forms of behaviour, i.e. they defined what was a bank and so forth and created norms of accepted competitive behaviour. In this way mobility barriers between the discrete markets were created. The result was the emergence of three distinct financial services markets; banks which supplied short-term credit and deposit facilities and money transmission services, building societies which provided long-term credit and savings facilities, and insurance companies which provided specialised insurance and saving instruments. Competition took place within markets, but not between them. Ultimately the structure and operation of the industry resulted in the formation of a series of market cartels, which excluded price competition and focused firms' competitive activity into non-price areas.

As the industry congealed into a number of clearly delineated markets, so firms serving those markets developed heterogeneous resources which enabled them to achieve efficiency and differentiation advantages over potential entrants. Examples of these resources would include, branch networks, skilled employees, operation of the money transmission system and access to low-cost funds. The result was a stable industry that generated significant levels of profitability.

However, the structure of the UK personal financial services industry began to breakdown as changes in the political and intellectual climate began to affect the industry. The genesis of these changes occurred in 1971 with the introduction of Competition and Credit Control (CCC). In introducing CCC the Bank of England sought to encourage greater competition in the banking sector, recognising that competitive behaviour would best serve consumers' interests. Briefly competition did develop, but, the crises in the secondary banking sector in 1974 highlighted the dangers of competitive behaviour. Moreover, it was not clear why banks should compete against one another in a market dominated by a small number of firms, creating an undifferentiated service. Although banks faced increasing competition from building societies for retail funds, their monopoly of the money transmission system, ensured their continued enjoyment of the 'endowment effect', interest earned by the banks from non-interest bearing deposits in the money transmission system. Understanding the competitive dynamics of the financial services industry demands a theoretical framework which provides an analytical perspective on the historical events. Game theory can provide very powerful insights into the competitive development and behaviour of firms and industries. Created by Von Neumann and Morgenstern in 1944, game theory provides a systematic way of understanding the behaviours of players in situations where their fortunes are interdependent. Interdependence between firms in an industry is most apparent in oligopolistic market structures where there exist a few firms, selling very similar, if not identical products or services. Price co-ordination in oligopolistic markets depends upon a number of structural determinants and these can be summarised thus:

Figure 1 **Structural Determinants of Oligopoly Price Co-ordination**



Grant (1982)

Applying the structural determinants of oligopoly price co-ordination to the financial services industry, the logic for price co-ordination is clear. Effective barriers to entry existed in the banking sector in the form of ownership of the money transmission system. Banks and building societies, within their strategic groups, shared similar costs and technology. All financial services firms, including insurance companies, possessed skilled staff and branch networks which acted as effective barriers to entry. Differentiating between financial providers was extremely difficult and 'brands' of financial instrument or provider did not really exist. The number of firms operating in the banking and insurance markets was highly limited, increasing seller concentration, and the number of building societies was falling rapidly. Regulation of banks and building societies lay in the hands of the Bank of England (BoE), which encouraged collusive behaviour to ensure the stability of the industry. The Department of Industry regulated insurance companies and encouraged similar patterns of behaviour, if not as overtly as the BoE. Moreover, the industry had a history of collusive behaviour which was further encouraged by trade associations who recognised the advantages of structured competition. Pricing methods were and are highly transparent, which encouraged competing firms to adopt very similar pricing strategies. Finally, firms ability to increase their capacity quickly was limited to the speed at which they could open new branches. Thus, there was little incentive to price aggressively and gain increased market share, if capacity could only be increased very slowly, far better to engage in highly controlled capacity expansion. These factors in combination, encouraged financial services firms to collude and maintain that collusion over time.

Oligopoly theory predicts that any price cut or quality improvement by one firm is likely to be matched by all others, prices increases or quality reductions will not be matched. The firms in oligopoly industry are highly interdependent and any attempt to gain competitive advantage will provoke an aggressive response. Game theory develops this analysis, suggesting that highly interdependent firms are in a 'prisoners' dilemma', where if they compete they lose through lower prices or higher quality, whereas if they co-operate they gain by avoiding competition. The incentive for firms to co-operate or compete depends on their expectations of the future behaviour of their rivals. If they believe rivals will avoid competitive behaviour, they will tend to co-operate, and the potential for co-operative behaviour is enhanced where interactions with competitors are continually repeated. Whereas, in short-run games or patterns of interaction, it is better to compete and seek to gain a clear competitive advantage. Firms in the UK personal financial services industry were operating in a classic oligopoly market structure and in game theory terms were locked into repeated games of the prisoners' dilemma. In these circumstances, the logical strategy is to co-operate and maintain accepted patterns of competitive behaviour. A tit-for-tat strategy emerges which rewards co-operation and punishes competition (Axelrod 1990). As a result, when the Bank of England sought to introduce competition into the banking market, banks were very slow to compete and in fact after a short burst of competition moved back to their traditional co-operative strategies. The same pattern of highly co-operative behaviour characterises building societies and insurance companies.

The competitive dynamics of the industry continued to develop during the 1980's as the Conservative government elected in 1979 believed that greater competition would produce beneficial results for consumers and set in motion a process of market liberalisation. Specifically, they encouraged the formation and operation of financial conglomerates, that spanned the traditional market boundaries. Financial conglomerates emerged as existing firms horizontally diversified and entered new sub-markets. Banks for example, moved into the mortgage market, focusing in particular on large mortgages, a market segment which building societies penalised with high interest rates. To their surprise the banks quickly gained significant market share and scaled back their operations in the early 1980's. The response from the building societies was to demand the right to provide 'banking' services, money transmission accounts, loans and overdrafts. Responding to that demand the Government passed the Building Societies Act 1986 enabling societies to offer a wider range of financial services. To enter the money transmission or current account market, building societies offered current accounts with far lower service charges and paid interest on the cash balances held in the accounts. They quickly gained market share from the banks and by the mid 1980's the weakest of the clearing banks, Midland, responded by offering similar terms for its current account. Soon after all the main UK banks followed suit. Building societies had always opened on Saturdays and this had helped them to attract retail deposits and now that they competed directly with banks, their Saturday opening provided them with a significant competitive advantage. Recognising this Barclays began opening some of its larger branches on Saturdays and again the other banks quickly followed. By the mid 1980's competition had appeared in a number of areas and the application of game theory again provides an explanation of why this happened. Entry into the 'game' or market was achieved by delivering improved value for the consumer in the form of lower prices/costs and improved quality. Entry, thus, demanded a competitive strategy and once one firm had moved from a co-operative to a competitive strategy, all the others followed, as the tit-for-tat strategy demanded retaliation. However, once a new equilibrium had been established, co-operative behaviour reasserted itself again, co-operation is still more profitable than competition. Having entered the money transmission market, building societies did not continue their highly aggressive competitive strategies, but adopted more co-operative behaviour. One way of signalling the adoption of co-operative behaviour is to cease adopting new competitive strategies and abide by the prevailing industry norm. Thus, having changed the 'game' to suit their needs, by offering money transmission services, paying interest on idle balances and opening on Saturdays, building societies were happy to re-establish co-operative forms of behaviour.

The creation of financial conglomerates affected not only banks and building societies, but also insurance companies. The Financial services Act 1986 was a recognition that financial services firms were rapidly expanding their activities and that consumers could be confused as to the type of advice they were being offered. The Act forced firms providing what can be broadly termed 'investment' instruments to choose one of two strategic positions; they could become either 'independent advisors' or 'tied agents'. Independent advisors sold investment instruments from a range of different companies, tied agents sold products from only one source. Forcing financial services firms to make such a choice polarised the market into financial conglomerates that sold only their own investment instruments and those firms that provided independent advice. Within a few years all large financial services firms sold only their own investment instruments and this choice drew banks and building societies into much closer competition with insurance companies. By the late 1980's the traditional differentiated structure of the UK financial services industry had been swept away. The polarisation of the industry is accompanied in the 1990's by a reduction in the number of firms competing in the industry. Many building societies, recognising that they no longer possess the financial resources or economies of scale to compete against larger societies and banks, engaged in a process of mergers. This process extended to large banks buying building societies that have fully converted into banks. Such strategic behaviour reduces the number and diversity of firms competing in the industry and potentially ensures the maintenance of the co-operative strategy. That, however, is not happening as the co-operative strategy is breaking down under yet greater competitive pressures.

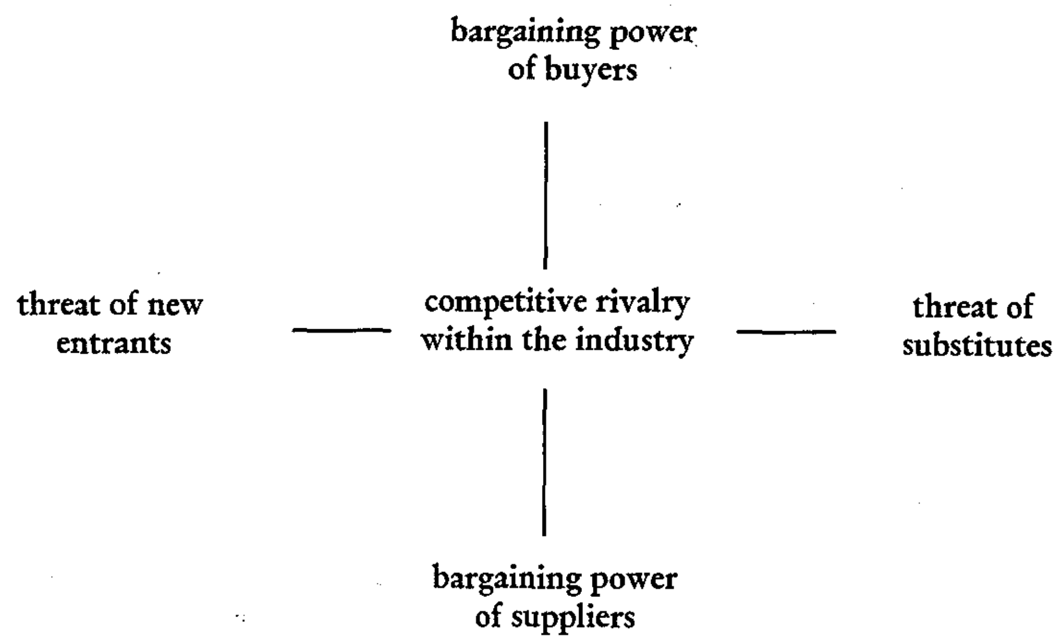
From the late 1980's and early 1990's a new competitive dynamic began to affect the personal financial services industry. This dynamic was driven not by horizontal diversification, but through the exploitation of advances in technology. By re-packaging existing service and instrument elements it became possible to develop new distribution channels. As a result of these developments, firms were able to distribute financial instruments via the telephone, rather than through branch networks and these firms are collectively known as 'direct writers'. These competitors changed the prevailing rules of the 'game' in that they operated in a very different manner to existing firms. For Direct

Line, for example, co-operation was not necessarily the most profitable strategy. Their method of production and distribution resulted in a considerable cost and quality advantage over existing firms. They translated that advantage into market share through aggressive competition. It took the entry into the industry of a competitor with a radically different cost structure and method of operation to break out of the tit-for-tat strategy and prisoners dilemma. Direct Line could gain significant competitive advantage by competing rather than co-operating. Of course once one firm has adopted a non co-operative strategy, other firms will follow suit, for not to do so would hand the strategic initiative to that firm. This is exactly what has happened in the market for motor insurance, where Direct Line's competitive strategies have driven down premiums and forced smaller firms to consolidate or exit the market. Arguably, the entire industry has reached a crucial turning point between orderly, co-operative competition and disorderly competition. With changing technology and the emergence of new entrants, firms may be forced to move from co-operative to competitive forms of strategic behaviour. That situation has resulted from a re-definition of the underlying structural determinants of the industry highlighted in figure 1 through a re-combination of technology and service elements. Direct writers do not share similar costs and technology with existing financial services providers, consequently they have effectively circumvented traditional barriers to entry, differentiated their service provision by offering consumers easier access to their financial instruments and created excess capacity within the industry. As a result of these industry changes a break down in the traditional co-operative strategies that have characterised competition in this industry can be expected. Firms will need to develop a new range of strategic responses to the changing industry conditions and this dissertation explores one form of strategic response, the creation and maintenance of customer relationships.

1.3 Industry Structure Analysis

A complementary analytical framework to that of oligopoly and game theory is Porter's industry structure framework. The industry structure framework identifies the key forces driving competition in any industry and Porter (1980) argues that to be successful a firm must be able to compete effectively against each force, see Figure : 2.

Figure 2 : Industry Structure Framework



Porter M. E. (1980)

The following analysis of the UK's personal financial services industry using Porter's five forces framework adopts the perspective of a firm supplying financial instruments to that industry. Buyers are thus private individuals, suppliers IT firms for example, new entrants overseas financial services firms and so on. The analysis seeks to move beyond the earlier discussion of the evolution of the financial services industry, so the provision of insurance services by banks and building societies is taken as given.

1.3.1 Buyers

Buyers seek to appropriate a firm's profits by lowering prices and improving quality. Their power can be said to be increasing if they are able to achieve these ends. Factors that increase buyer power includes; concentration of buyers, large buyers are powerful; buyer information, informed buyers are able to negotiate lower prices; switching costs, if buyers can switch easily between supplying firms they are able to drive down prices; price sensitivity, price sensitive buyers seeks to reduce prices

In the context of financial services buyer power has traditionally been fairly weak as a direct consequence of the cartelized nature of the industry. In these conditions buyer power is significantly reduced. However, as the industry has become more competitive, so buyer power has increased. A number of developments that have increased buyer power can be readily identified. Building societies expanding their range of operations and their conversion into banks has significantly expanded the range of choice available to consumers. This in turn has encouraged consumers to switching between competing financial firms in search of improved price/quality combinations. The development of technologically driven channels of distribution, particularly in insurance services, has increased consumer information and enabled consumers to compare prices easily. As a result, buyers have demanded lower prices and improved levels of service and quality. Significantly, firms exploiting technologically driven channels of distribution have sought to erode switching costs, by making the act of switching easier, meeting any costs which may be imposed by the firm the consumer is switching from and improving the price/quality combination sufficiently to make switching an attractive alternative. The expansion in the range of choice available and the development of new means of distributing financial instruments, has served to increase the power of buyers to 'negotiate' improved price/service combinations.

1.3.2 Suppliers

Suppliers are powerful where they are able to raise their prices and/or decrease the quality of the products/service they supply. Financial services are unusual in that their creation and distribution takes place almost totally within the boundaries of a single firm. Supply chains play a very limited role in this industry, unlike for example manufacturing where relationships with suppliers can play a crucial role in determining success. For financial services firms their key suppliers are probably software producers and suppliers of technology. In both instances the ability of suppliers to integrate forwards and replace financial firms is limited, largely due to their lack of brands and consumer recognition.[2]

[2] In the USA software providers are seeking a greater role in the provision of financial instruments, particularly via the Internet. Whilst this is an interesting development, its impact on the UK personal

Suppliers key role in this industry may be the enabling of new entrants to enter the industry, particularly retailers, through the provision of software and technology.

1.3.3 New Entrants[3]

The threat of new entrants is that they are able to enter an industry and drive down prices and improve levels of quality, so damaging existing firms. Entry into an industry is usually driven by new technology which enables the new entrants to reduce price and/or improve the quality of the products/services provided. The ability to create and distribute financial instruments without using specialised staff in a dedicated branch network system has eliminated one of the key barriers to entry into the industry. That development has enabled new firms to enter the UK personal financial services industry and two types of new entrant can be linked to these technological developments; direct writers and retailers.

Direct writers have focused on the market for insurance instruments, particularly motor, house contents and buildings insurance. These new entrants have aggressively exploited their costs and quality advantages to gain market share at the expense of incumbent firms.

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financial services industry is currently limited. For a fuller discussion of the potential impact of software providers on the financial services industry, see Hagel, Hewlin and Hutchings (1997).

[3] Differentiating between new entrants and substitutes can be difficult in the context of financial services. It depends on the understanding of financial instruments adopted. If financial instruments are defined from a functional perspective, mortgages, savings accounts, motor insurance and so forth, direct writers, the likes of Direct Line and First Direct, are new entrants, selling very similar financial instruments. However, if financial instruments are viewed from a distribution or institutional perspective, banks, insurance companies, building societies and so forth, direct writers can be viewed as substitutes as they replace existing channels of distribution. In this project a functional perspective is adopted and direct writers classified as new entrants.

A similar pattern of entry and capture of market share is likely to affect the money transmission, short loan, mortgage and savings account markets, those areas traditionally dominated by banks and building societies.

However, entry is not restricted to direct distributors, firms in other industries who operate branch networks, particularly large retailers are increasingly recognising the opportunities available in the financial services industry. Sainsbury's the food retailer for example, operates a nation-wide retail network which when combined with ATMs and telephone services, can provide full money transmission, savings and overdraft facilities. For large retailers the marginal costs of providing financial services through their existing branch network is minimal and the potential marketing linkages are vast. New entrants represent a very significant threat to existing financial services firms simply because they create and distribute financial instruments, in very different way. Their cost structures, methods of business operation, skills and competences, consumer perceptions and understanding of the industry and how they should operate within it, are very different from traditional financial services firms. They represent a very significant threat to existing financial services firms, if they are able to encourage consumers to break existing patterns of behaviour and switch to the new providers.

1.3.4 Substitutes

Substitutes describe new products or services that replace existing products or services, often creating additional benefits for consumers. However, in the instance of financial services it is difficult to envisage their replacement with radically different alternatives.

One area where substitutes may develop is through the provision of highly integrated financial instruments over the Internet. These would be controlled by consumers rather than financial services providers and as such represent a significantly different form of financial instrument to warrant the use of the term substitutes.

1.3.5 Rivalry

Rivalry describes the competition between firms within a market. Where rivalry is intense profits are reduced and firms find it difficult to survive. Factors likely to increase the level of rivalry include a reduction in the level of demand, new entrants entering the industry, a large number of firms similar in size and financial strength competing for the same market share and a market in which the products and services are difficult to brand. The outcome of these factors is to raise the level of competition and focus it onto prices. In terms of the financial services industry, the level of rivalry has been increasing as the growth in demand has fallen and in some cases the overall level of demand has decreased, new entrants have entered the industry and financial instruments have proven extremely difficult to brand or differentiate. As a result competition has become price oriented, evidenced by the current price wars in the mortgage market. Price competition encourages firms to seek efficiency gains and in the financial services industry this has taken the form of a series of mergers and take-overs. The rationale for this activity is to bring together competing firms and to rationalise their capacity so reducing costs and improving scale economies. Rivalry in the industry is intense and is likely to remain so and in fact increase as new entrants seek to gain market share.

The significance of the framework is that it highlights a number of factors or contingencies which determine a firm's strategic behaviour. Contingency theory argues that individual organisations or firms adapt to their environment. The environment is seen as posing requirements for efficiency or differentiation, to which the firm must respond in order to survive and prosper. Each of the main contingency theories identifies a contingency factor and delineates the form of organisational response required in terms of strategy and/or structure (Blau 1970; Burns and Stalker 1961; Chandler 1962; Woodward 1965). Different industries are exposed to varying contingencies and one of the key roles of strategic management is to adapt the firm to emergent contingencies. Firms that fail to recognise the emergence of new contingencies, frequently struggle in the new environment.

Traditionally the key form of contingency in the financial services industry has been government intervention, which shaped the industry into a series of discrete markets, limiting competition. The impact of liberalisation, itself a contingency, has been to create a series of new contingencies to which firms in the industry need to respond. Drawing on the above analysis, two key contingencies can be identified; the emergence of new entrants into the industry and changing consumer buying behaviour. These contingencies are interrelated. New entrants either exploit new methods of distribution as is the case for direct distributors, or market financial services very differently, frequently as an adjunct to another business such as retailing. The net effect of these new entrants is to change the buying behaviour of consumers and their expectations of financial services firms in terms of service and value provided. Changing consumer behaviour is one of the key driving forces behind the successful entry into the industry of direct writers and retailers. If consumers are prepared to switch to new providers then the competitive structure and dynamics of the industry will change very rapidly. Understanding consumer behaviour and the forces that motivate it will become increasingly critical in the shaping of marketing and strategic behaviour, not only for new entrants but also for existing financial services firms.

This discussion of contingencies, particularly the development of consumer driven contingencies, locates the overall thrust of the dissertation. It seeks to place consumer behaviour into a wider competitive framework. Based on the premise that changing consumer behaviour will act as a key catalyst of change in the competitive dynamics of the financial services industry. Such an analysis demands an understanding of consumer behaviour, and the dissertation creates a perspective of consumer behaviour based on existing literature, which is then tested empirically. That work sheds new light on consumers' buying behaviour in the context of financial services. Combining that work with an understanding of strategy results in a contingency view of strategy and marketing based around consumer behaviour. That discussion highlights some of the strategic and marketing alternatives open to firms based on the analysis in this project.

1.4 Resource Based Views of Strategy and Competition

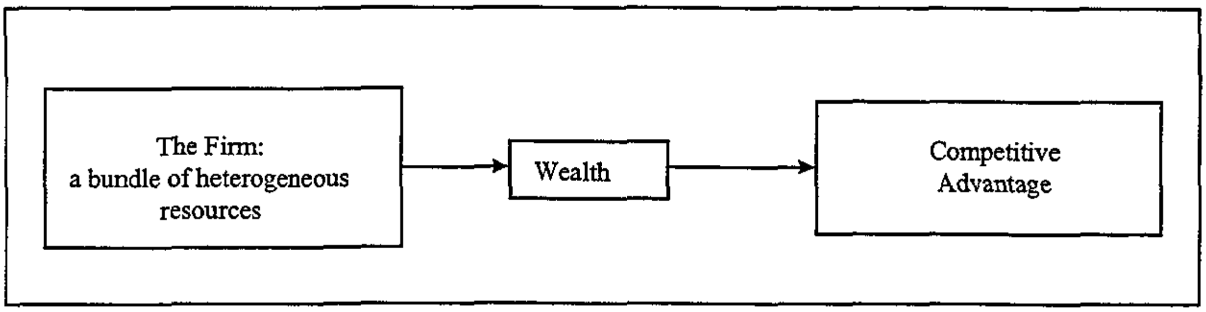
In creating a synthesis of strategy and consumer behaviour in the context of financial services, a useful starting point is the development of an understanding of strategy. Porter's framework articulates the environmental contingencies which shape a firm's strategy, but does not provide a definition of the concept of strategy. Numerous definitions of strategy exist, see Mintzberg (1990). In this project a resource based view of the firm and strategy is used, drawing on the work of (Barney 1986a, 1991; Conner 1991; Mahoney and Pandian 1992; Peteraf 1992; Wernerfelt 1984, 1989). This framework was chosen as it identifies a linkage between the external factors affecting firms, described above using Porter's framework, and the internal resources they own and control. It views the firm as a collection of resources (Penrose 1959), which are drawn together by managers in search of economic 'rent' (Bowman 1974). The underlying objective of all firms is the creation and maintenance of streams of economic rent over time.

To earn economic rent the firm must create some form of output that consumers want to purchase and the term 'wealth' can be generally applied to describe all forms of output, irrespective of its form. Thus, art galleries create wealth in the form of enjoyment and educational experience, just as BMW creates wealth by producing motor cars. The key to earning economic rent is the creation of a form of wealth that is both unique and demanded by the consumer. The more unique the wealth, the greater the economic rent the firm can generate. The easier it is for competitors to copy or create substitutes, the lower consumers will be able to drive prices and the lower the resulting economic rent. For example if a gallery owns certain pictures that are unique, the only means of experiencing those pictures is by visiting the gallery. Other galleries can only offer 'substitutes' in the form of copies or other pictures. If the consumer demands to view the originals, that gallery can charge considerable admission prices and earn economic rent. Alternatively if consumers believe a Honda is a good substitute for a BMW, the ability of BMW to earn economic rent will be impaired. The ability to protect uniqueness is a central preoccupation of firm strategy. Simply being unique is, however, not a sufficient condition to generate economic rent, consumers must demand the unique wealth created. Consumers interest in the wealth created and manipulating that interest is, therefore, a key dimension of strategy.

Unique wealth is an outcome of combining resources together that are themselves unique or are combined in unique ways. Wealth generated from resources that are widely available, i.e. homogeneous resources, is unlikely to be unique and thus unable to generate sustainable streams of economic rent (Barney 1991). The key to earning sustainable economic rent, therefore, is to identify heterogeneous resources and 'protect' or 'insulate' them from competitive forces that seek to erode their heterogeneity. Linking economic rent, unique wealth and resources in this way creates a perspective of the firm radically different from that found in classical economics (Machlup 1967), industrial economics (Bain 1956) and traditional strategic management research (Ansoff 1965; Hofer and Schendal 1979). In this perspective the firm as an organiser of resources and creator of heterogeneous resources from homogeneous inputs assumes paramount importance. Recognition of the importance of unique resources and their ability to earn streams of economic rent, has encouraged economists and strategic management writers to view firms as bundles of resources, a perspective that stretches back to the seminal work of Coase (1933) and Penrose (1959).

Heterogeneous resources generate two broad strategic options into which all strategies can be placed: differentiation and efficiency. The ability to create differentiation and efficiency advantages rests on the possession of heterogeneous or strategic resources. In other words, those resources that enable the firm to create advantages that other firms cannot duplicate. Both strategic options enable the firm to compete against the five forces identified earlier. The creation of differentiation and/or efficiency advantages enables the firm to reduce the power of each force to erode the economic rent they generate from their wealth creation activities. Buyers' power is reduced as they find it difficult to find alternatives that are of a high enough quality at the right price. If suppliers increase their prices, greater levels of efficiency help the firm to absorb the increases. Firms that are differentiated or efficient will find it easier to compete against new entrants and substitutes whilst rival firms find it harder to compete away the economic rent of firms with these advantages because they have to copy the differentiation advantages or increase their levels of efficiency. Thus, the focus of strategy is to identify the key resources that enable a firm to generate differentiation and/or efficiency advantages and so compete effectively against the five forces in the industry. A linkage can be drawn between resources and economic rent and is illustrated below in Figure : 3

Figure 3 : Resource Based View of Strategy



Beckett A. G. (1996)

Given the importance of heterogeneous or strategic resources, it is important to be able to identify which resources are strategically significant. Barney (1991) articulates a framework that identifies four attributes resources must possess to be the basis of sustained competitive advantage: they must be (I) valuable, (ii) rare, (iii) imperfectly imitable, and (iv) there must be no strategically equivalent substitutes.

1.4.1 Valuable Resources

Valuable resources are those resources which enable the firm to implement strategies to improve efficiency or effectiveness. SWOT models help the firm to identify opportunities and threats and match these against particular resources, thus identifying those that are valuable (Barney 1991).

1.4.2 Rare Resources

In order to create a strategy that results in sustainable competitive advantage, competing firms must not be able to implement a similar strategy. Therefore, the resources on which a strategy is based must be both valuable and rare. For if they were not thus, it would be relatively easy for competitors to acquire the valuable resources and implement similar strategies.

1.4.3 Imperfectly imitable resources

Valuable and rare resources can only generate sustained competitive advantage if the firms which do not possess these resources cannot acquire them. Lipman and Rumelt (1982) and Barney (1986a; 1986b) describe these resources as imperfectly imitable. Resources are imperfectly imitable for one or a combination of three reasons; (i) unique historical reasons (ii) causal ambiguity, or (iii) the social complexity of the resources.

1.4.4 Substitutability

The last requirement for a resource to be a source of sustained competitive advantage is that there must be no strategically equivalent resources which themselves are neither rare nor imitable, (Barney 1991). If such resources were available, then competing firms could duplicate strategies by using the substitute resources and these strategies would be incapable of generating sustained competitive advantage.

The framework provides a means by which strategic resources can be identified, developed and protected. In terms of the strategic alternatives identified earlier, efficiency and differentiation, strategic resources provide firms with the ability to achieve these advantages. If, however, the resources on which these advantages are based do not fulfil the requirements of Barney's strategic resource framework, the advantage they generate will be temporary. Thus the key to creating and sustaining forms of competitive advantage is to identify resources that generate efficiency and/or differentiation advantages and meet Barney's requirements.

Resource based perspectives of strategic management, (Barney 1991; Conner 1991; Mahoney and Pandian 1992; Peteraf 1993, Teece 1990; Wernerfelt 1984,1989) recognise that resource heterogeneity emerges through the individual and highly unique development of firms over time. This perspective of firms' development is apparent in evolutionary economics (Loasby 1976, Marshall 1890, Nelson and Winter 1982). Historical circumstances define the range of strategic options available to a firm in terms of the resources it possesses (Teece 1990), the skills embedded into the organisation (Nelson and Winter 1982) and its ability to perceive strategic opportunities and first mover advantages (Liberman and Montgomery 1988). Choices are rarely made with the luxury of a 'clean slate'; current strategic options are the result of past decisions and those decisions have created the choice environment which currently faces the firm (Weick 1979). Thus, 'success' for a firm in terms of securing economic rent over time, is determined by its ability to identify, secure and protect unique resources from which it is able to create unique wealth. Strategies are defined in this study as patterns of resources commitments, with the objective of earning economic rent.

The resources used by a firm to generate efficiency and differentiation advantages reflect the contingencies in the wider environment. An interactive process is seen to be occurring between the contingency forces in the environment, buyers, suppliers and so forth and the resources and strategy of the firm. Firms adjust their resource portfolio and their strategies to cope with and to manage, external contingencies. The earlier discussion of the financial services industry highlighted how government intervention shaped financial services firms' resources and strategy. Trade bodies then ensured that firms' competitive strategies maintained that industry structure and limited the nature of competition. These external forces created contingencies which firms both reacted to and sought to manage. This is a view of organisation behaviour consistent with that of Pfeffer and Salnick's (1978) external control of organisations. Change in the environment creates new contingencies to which firms must then respond. Foremost amongst the new contingencies emerging from liberalisation and greater competition will be changes in consumer behaviour. More informed and increasingly less loyal consumers will place new demands on financial services firms and the forms of wealth they generate. To maintain their competitive advantage, financial services firms will need to manage their strategic resources and strategy to reflect this emerging contingency.

1.5 Conclusion

Using the game theory perspective, industry structure analysis and the resource based view of strategy, this chapter has articulated the nature of the financial services industry and the behaviour of firms within that industry. That discussion highlighted the interrelation between the resources firms use to create competitive advantage and the nature of the environment in which they operate. Changes to that environment forces firms to re-examine their resources and ability to generate and sustain competitive advantage. In the instance of the financial services industry, developments in information technology and liberalisation of competition has resulted in a radical restructuring of the industry and firms' ability to create and sustain competitive advantage. One key outcome of these changes has been the emergence of greater choice for consumers. Increasingly, however, consumer choice and behaviour will become a key strategic and marketing consideration for financial services firms. Developing this linkage between strategy and consumer behaviour, the following chapter examines the existing literature on consumer behaviour. Out of that discussion an understanding of consumer behaviour emerges which can be linked to the strategic behaviour of firms.

CHAPTER TWO

CONSUMER BUYING BEHAVIOUR AND ITS IMPACT ON STRATEGY

2.1 Introduction

In most industries consumer behaviour creates a powerful imperative around which products and services are designed and strategy is shaped. This has not traditionally been the case in the financial services industry, but as financial markets become more competitive and greater choice is available to consumers, so how they make their purchase decisions will become more important. The task facing financial services firms is to identify strategic resources which enable them to create efficiency and differentiation advantages within the confines of consumer behaviour. To do this it is important to have an understanding of what motivates consumer behaviour and the behavioural alternatives available to consumers.

Within the traditional structure and operation of the industry, buyers had little choice in terms of selecting financial instruments. The rigid structure of the industry, combined with the operations of cartels, meant that consumers had to accept the form and price of the financial instrument provided. Switching between financial providers generated little, if any, long-term benefit and forced the consumer to incur, disruption, if not financial costs. Consumers were locked into buying patterns which they had little incentive to change. However, the emergence of competitive market conditions has had a critical impact on the behaviour of consumers and created a new contingency to which financial services firms arguably need to respond. To identify how this contingency will affect firms' strategy it is necessary to possess a framework that articulates and classifies consumer buying behaviour.

2.2 Models of Consumer Behaviour

Understanding the nature of consumer buying behaviour has been a key component of research in marketing, stretching back to Copeland's (1923) studies on brand loyalty. If organisations are to be able to anticipate and influence likely customer reactions to their strategies and the forms of wealth they create, it is crucial to understand how and why consumers organise their buying behaviour.

One approach to understanding consumer buying behaviour is to generate complex models of consumer decision-making, a common approach in the consumer behaviour literature. This method of building complex consumer behaviour models can be described as the consumer behaviouralist approach (Engle, Kollat and Blackwell 1986; Howard and Seth 1969 and Nicosia 1966). Though widely used, this approach has attracted criticism. For example, Ehrenberg (1988) argues that the problem with the work of the consumer behaviouralists is that it tries to explain why consumers behave as they do, without knowing or understanding in any quantitative detail just how they do behave. For example, the Howard and Seth model seeks to explain buyer behaviour through the use of constructs such as 'attention', 'attitude', 'motive', 'interaction' and so forth. These are then mixed with marketing inputs, ('price'), ('quality'), social variables, ('family') and aspects of actual behaviour, ('overt search'), all ultimately leading to 'purchase' and 'satisfaction'. No detailed evidence exists as to how these constraints actually relate to any specific facets of consumer behaviour. None of these models provide an adequate explanation as to why consumers repeat patterns of purchase behaviour or why purchase behaviour is suddenly altered, (Ehrenberg 1988). Foxall (1991) noted that these complex models of consumer buying behaviour were all founded on a rational decision sequence which assumed to rational a consumer and did not offer any empirically testable hypotheses.

Rather than seek to break phenomena down into small elements and build these into general theories, an alternative approach is to draw on Max Weber's 'ideal types' construct. This method seeks first to characterise phenomena into broad groups, or ideal types and once classified into groups the researcher can then analyse the constituent elements of the phenomena. The rationale of this approach is that complex social interactions rarely, if ever, operate to a set pattern as do elements in the physical sciences. So rather than postulate general theories that seek to describe behaviour in all contexts, ideal-types describe forms of behaviour in certain contexts. This approach of characterising consumer behaviour into blocks makes it far easier to study the strategic and marketing implications that arise out of that behaviour. Clearly, some of the detailed understanding of consumer behaviour is lost in creating large blocks of knowledge. However, as the focus of the Dissertation is on the strategic and marketing challenges that emerge out of consumer behaviour, rather than the specific nature of that behaviour, such an approach was deemed legitimate.

Weber argued that in developing ideal-types, the key was to identify characteristics that shaped the form of the ideal-type and the frames of reference within which the ideal-type operated. So in seeking to develop ideal-types that can be used to characterise consumer buying and contracting behaviour, it is critical to identify the underlying constructs that determine that behaviour. That demands a search for the underling motives that drive consumer behaviour and identification of the nature of the environment within which that behaviour operates. Ideal-types reflect certain underlying constructs or imperatives and individual buying and contracting behaviour is shaped to accommodate them. This is consistent with the work of Fishbein which links attitudes and outcomes, arguing that individuals' attitudes toward certain outcomes, motivate behaviour (Fishbein 1967).

Characterising consumer buying behaviour into broad forms demands the identification of those factors that play a key role in shaping that behaviour. Drawing on existing literature in economics, psychology, consumer behaviour and marketing literature, it is possible to identify two attitudinal factors, that play a fundamental role in determining consumer buying behaviour. They are:

i) Purchase uncertainty,

ii) Involvement

2.3 Purchase Uncertainty

The requirement for consumer behaviour and contracts to structure exchange emerges from the need to eliminate or minimise the uncertainty affecting the purchase decision. Choice is relatively straight-forward where little uncertainty exists. As uncertainty increases, it acts like friction in the physical sciences, making choice and, therefore, consumer behaviour harder and more expensive (Arrow 1971). The reason for this increased cost is that uncertainty affects transacting parties' knowledge of ex post outcomes. The greater the uncertainty, the less is known of ex post outcomes and so the chance of making errors increases. Consumer behaviour and forms of contracting seek to reduce this uncertainty by limiting the range of possible future outcomes or creating systems through which unexpected outcomes are handled. However, the ability of contracting to handle uncertainty is of course an extension of the individuals ability to process information and make decisions.

2.3.1 Rationality

Rationality describes the amount of information available to the individual and their ability to process that information. Ideally the greater the amount of information available and the individuals' ability to process it, the lower will be the uncertainty associated with purchase. In this way a direct linkage is drawn between information and uncertainty; simply, more information means less uncertainty.

Rationality as an explanation of human decision-making appeared in the work of eighteenth century philosophers, and has been widely used by economists to explain and predict individual behaviour (Eztioni 1988). Rational consumers are perceived as being able and motivated to seek out the best possible deal available when making purchases. To enable them to do this, rational individuals are assumed to have access to perfect information, which enables them to behave in a rational manner. The assumption of perfect information removes any uncertainty from the choice environment. The result is a consumer able to assume the responsibility of decision-making when purchasing products and services and capable of making the 'best' possible choice, given a set of preferences.

However, the problem with rationality as an explanation of consumer behaviour lies in the assumption of perfect information. In any real decision-making environment it is not possible to assume that decision makers possess perfect information, simply because all decision-making environments contain some form of uncertainty. The existence of uncertainty means that information can never be perfect and thus consumers can never be fully rational. Because of the lack of perfect information, Simon (1957) and Williamson (1975) reject rationality as an effective explanation of human decision-making.[4] It does, however, serve as an ideal-type. Consumers can be viewed as behaving in a manner that approximates rationality, where they have high levels of information or are used to using a product or service and are therefore likely to adopt a 'rational' approach to decision-making. They are not purely rational, but instrumentally rational, approximating rationality (Eztioni 1988).

Decision-making and contracting behaviour in consumer behaviour and marketing literature, the comprehensive and attitudinal models identified earlier, whilst not based explicitly on the demands of rationality, do still reflect some of the notions of this model. Consumer behaviour models have focused on the extensive role of information in shaping and directing choice, a key element in the rational model. Nicosia (1966) identifies search and evaluation of information; Howard and Seth (1966) link the amount of information held with the extent of learning and thus problem solving; Engle, Kollat and Blackwell (1986) identify information input and processing as central elements in decision-making; Bettman (1979) recognises that individuals have limited capabilities for processing information and this limitation affects their decision-making activities. The causal chain

[4] To be fully 'rational' the individual would calculate the costs and benefits of any particular course of action and then choose that action which maximised their utility or satisfaction. Clearly such behaviour is impossible for any individual and in recognition of this some writers like Eztinoi differentiate behaviour that seeks to approximate rationality.

common to these approaches can be summarised as information - attitude - purchase. As an explanation of behaviour this form of linkage is predominant in the social sciences and can be clearly identified in behavioural economics (Katona 1960; Scitovsky 1976). Within these models of consumer choice, information is assumed to be freely and readily available. They make no reference to the context in which information is found and used, and, as with the concept of rationality, decision-making takes place within a vacuum.

An alternative to rationality emerges in the work of Simon (1957). Simon acknowledges that individuals' cognitive abilities are sequential and limited in nature and that the environment within which decisions are made is so uncertain and complex, that it is impossible to specify all the potential outcomes within it. Simon argues, however, that individuals still desire to behave rationally and thus there exists a tension between individual's decision-making abilities and desired decision-making behaviour. That tension is reconciled through the use of simplified models of the real choice environment. This simplification of the environment Simon terms 'bounded rationality', rationality still operates, but only within certain areas.

Within the concept of bounded rationality the environment is described by a series of "givens" or premises that are accepted by the subject as short-hand means of describing the decision environment. Simon termed these simplifications 'heuristics'; their purpose being to economise on the costs of information search and processing and reduce decision-making costs. By limiting the range of possible outcomes that are considered, the individual can approximate rational decision-making within a limited sub-set of the total choice environment. In limiting the choice environment, the decision-making is unlikely to generate outcomes that maximise any objective. Satisfactory, rather than maximised results are generated and Simon referred to this form of behaviour as 'satisficing'. Individuals know when outcomes are satisfactory by comparing current results with past experience, or some absolute measure of satisfaction, for example, the car starting or the kettle working. Past experience is important because it informs the individual of the quality or level of results they should expect to derive from a particular transaction. If satisfactory results are not achieved, they can alter the transaction, for example, by transacting with other parties. If results are satisfactory or exceed current expectations, then future requirements from transactions can be adjusted in the light of experience.

In this study the decision-making behaviour of individuals is accepted as boundedly rational and a key focus of research then is the identification of the heuristics that guide that decision-making in the context of financial services purchasing. The use of brands to guide purchase is an example of boundedly rational decision-making in the context of buying and contracting behaviour. The brand acts as an heuristic, simplifying the decision environment, reducing uncertainty and transaction costs. The greater the reliance on heuristics to simplify the choice environment, the more the individual's behaviour approximates to bounded rationality.

In making decisions in an uncertain environment Williamson (1985) argues that, *ceteris* *paribus,* individuals will seek to reduce their costs of transacting and will favour approaches that allow them to achieve this aim. Transaction costs describe the costs of reducing or dealing with uncertainty when transacting. In a known environment, rationality enables individuals to minimise transaction costs. In highly uncertain environments, the lack of perfect information makes rational decision-making impossible. Bounded rationality and the use of heuristics reconciles individual's need to behave rationally with the uncertainty inherent in choice environment. By simplifying decision-making using heuristics, transaction costs are reduced and the speed of decision-making is increased.

2.3.2 Self-Interest Orientation

The self interest orientation explicitly recognises that a contributory element of the uncertainty associated with transacting emerges from the behaviour of parties to the transaction. Those parties may act in their own interests and seek to achieve an advantage over the other party. Three levels of self interest are identified; opportunism, self-interest seeking and obedience. Obedience is effectively the null form in that it assumes that economic agents are totally submissive and is probably most strongly associated with Soviet central planning approaches to economics. Simple self interest assumes that economic agents facing one another would candidly and fully disclose their bargaining positions and stick to any bargains made. Such models citizens would not lie, fail to pay or argue over terms of a contract and the future would hold no surprises for contracting parties, (Diamond 1971). Both these perspectives of human behaviour do not reflect the reality of the world. If they did contracting and transacting would be far easier and far cheaper.

Opportunism reflects the propensity of human economic agents to lie, steal and cheat, mislead, disguise, obfuscate and otherwise distort the disclosure of information to achieve advantage (Willimason 1975, 1985). It is a source of 'behavioural uncertainty', an uncertainty that would vanish if individuals were fully open and honest in their efforts to realise individual advantage. Ex ante and ex post opportunism can be clearly identified in insurance literature under the headings of adverse selection and moral hazard. In seeking to transact, parties engaged in the transaction must operate within the decision-making constraints of bounded rationality and assume that the other party will seek to behave opportunistically. Because of the existence of bounded rationality and opportunism, informational asymmetries will exist between the two parties which will not be removed over time. Informational asymmetries describe a situation where one party possesses more information than the other and can use that information to its advantage. Such asymmetries can increase as additional asymmetries develop as events unfold.[5] The net result of limited rationality and the self-interest of trading parties is the creation of uncertainty within the choice environment. Consumer behaviour seeks to reconcile the limited decision-making skills of individuals and the uncertainty inherent within the

[5] In traditional economics such asymmetries are removed through perfect information and rationality and interaction between parties can be viewed as 'perfect'. Whereas in the real world of course, it is the very existence of such asymmetries that provides the opportunity to generate profits.

choice environment.[6] The task facing the individual is to adopt a form of purchasing behaviour which reduces uncertainty to an acceptable level.

Consumer behaviour is not, however, simply a response to uncertainty and limits on rationality, it is also a reflection of the individual's desire for that particular product or service. In order to understand consumer behaviour it is necessary to integrate individuals response to uncertainty and their desire for products and services. These are the two fundamental forces motivating and shaping consumer behaviour.

2.4 Consumer Involvement

The concept of involvement has had a major impact on the study of consumer behaviour, (Bloch 1982; Mitchell 1979; Traylor and Joseph 1984). Despite the wide range of definitions of involvement (Mittal and Lee 1989), there seems to be a common thread that runs through the work. This manifests itself as the interest a consumer finds in the product class and stems from the consumer's understanding of how the product or service meets important values and goals and also from the interest taken in possessing and using a particular product/service (Bloch and Richins 1983). Involvement is significant because if individuals are not interested in the product or service, they can effectively ignore uncertainty, either by not making a purchase or by purchasing in a careless manner. Understanding how

[6] The transaction cost literature identifies how firms, rather than individuals, reconcile their limited decision-making abilities with the uncertainties inherent within the wealth creation process. Firms achieve this reconciliation through their structure, contractual agreements and configuration of their organisational boundaries (Williamson 1975;1985)

involvement varies according to the good or service purchased and understanding involvement, demands an understanding of the product or service the individual is consuming and the needs and motivations that motivate purchase. Chapter Three examines the characteristics of financial instrument in more detail and explores the potential for involvement to vary between financial instruments.

Involvement is closely related to consumers' needs and motives. Motivation describes the forces acting on a consumer which initiate and direct behaviour towards the attainment of specific goals. Goals are the result of needs which cause a state of tension in an individual, which may be physiological, psychological or sociological. Achieving the goal releases the tension experienced by the individual (Betts 1994). Motives are usually divided into physiological and psychological. Physiological motivates describe innate needs such as food, water, sleep, and shelter and when activated demand immediate attention. The link between physiological needs and financial services is limited. Financial services do not directly satisfy physiological needs, but are instrumental in the acquisition of products and services that do.

The relevance of basic primary needs to consumer behaviour, has been largely discounted as these needs are subject to modification by psychological factors (Markin 1969). Consumers do not want products to simply satisfy basic physiological needs, but require branded goods to reflect their psychological aspirations (Betts 1994). Bayton (1958) defines psychological needs as those based upon tension systems existing in the individual's subjective psychological state and his relation with others. Psychological needs thus describe a large number of mainly extrinsic, socially acquired and learned motivations. One of the popular means of expressing these psychological needs is Maslow's 'hierarchy of needs' which places those needs into a sequence of priorities.

Level	Need
5	Self-actualization, personal fulfilment, self-development
4	Ego-system, prestige, success, recognition
3	Social belongingness, affiliation and affection
2	Safety and security, future satisfaction of physiological needs
1	Biological drives for food, water, shelter etc..

As the individual moves through the hierarchy needs change from the lower physiological to psychological. This progression through the hierarchy is driven by the desire to reduce tension or by changes in the level of involvement. Once a set of tensions are fulfilled, the individual's interest in these falls and their interest in the next level of needs increases. Rising and falling levels of involvement or tension encourages the individual to focus on a particular level of needs.

Understanding the form of need fulfilled by a financial instrument helps to explain the level of involvement or interest the individual has with that instrument. Financial services fulfil needs at different levels of the hierarchy. Money transmission services for example enable the individual to obtain goods and services that satisfy basic physiological and safety and security needs, gold credit cards will satisfy ego and prestige needs. Most financial instruments fulfil needs at the lower end of Maslow's hierarchy, because of their role as enabling devices. Once the financial instrument is purchased, involvement falls rapidly as the individual then seeks to use the instrument to obtain products and services which fulfil higher order needs. Involvement is usually sustained only where the product or service is perceived as communicating attributes of the buyer to other interested parties. A motor car for example, communicates messages about the individual long after the initial purchase is made and this maintains the buyers involvement in the product.

It is the interaction of involvement and uncertainty that shapes consumer behaviour into broad ideal-types. Using these factors a consumer behaviour matrix can be developed that identifies the buying behaviour alternatives or ideal-types available to individuals.

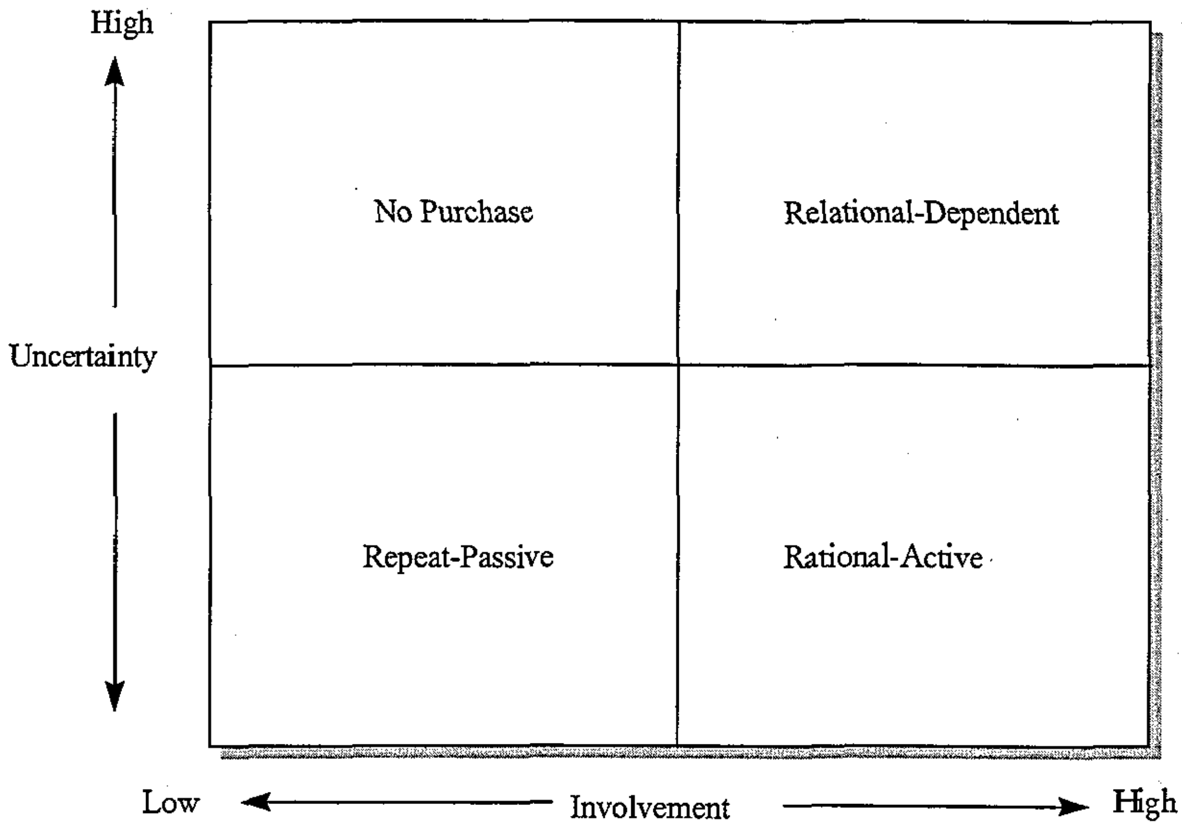
2.5 Consumer Behaviour Matrix

By placing the two factors that motivate individual contracting choices, involvement and uncertainty, onto a simple continuum running from high to low, it is possible to construct a matrix of consumer behaviour, see Figure : 4. This matrix describes the purchasing/contracting alternatives available to individuals to structure their transactions when acquiring products and services. Each quadrant represents a different combination of involvement and uncertainty and thus a different degree of desire for the product or service under uncertainty. Within each quadrant a contract form is identified which enables the individual to transact effectively and cheaply, given the mix of involvement and uncertainty. Dwyer, Schurr and Oh (1987) construct a similar framework of contracting analysis which identifies seller, buyer and bilateral maintained relationships, based around the work of Thibaut and Kelly (1959). The limitation of their model stems from the factors hypothesised to motivate individual behaviour and particularly the creation and maintenance of relationships. In Dywer, Schurr and Oh's model, individuals decision to create relationships is motivated by the benefits and costs associated with a transaction. However, as the discussion of bounded rationality highlighted, consumers frequently cannot calculate benefits and costs of a particular decision and it is because of their inability to make such calculations that relationships are formed. This understanding of relationships also ignores the degree of involvement with the purchase and the individual's ability or confidence to make purchase decisions. Both of which are believed to play a key role in determining consumer behaviour generally and the formation of relationships specifically (Morgan and Hunt 1994).

The advantage of the consumer behaviour matrix, as an approach to understanding consumer buying and contracting behaviour, is that it draws very directly on the economic, consumer behaviour and psychology literature discussed earlier and combines it into a single framework. The rich diversity of literature in these areas is synthesised to create ideal-types of behaviour which describe consumer buying behaviour. The interrelatedness of the ideal-types enables researchers to contextualise observed forms of consumer behaviour and to articulate the linkages between them. Using the consumer behaviour matrix a highly dynamic view of buying behaviour is developed, where consumers switch between forms of behaviour to manage the purchasing of various goods and services. The ability of individuals to vary their buying behaviour to reflect the nature of a certain choice environment has not been explored fully in existing consumer behaviour literature. This is probably because attention has been focused on the internal elements of the consumer behaviour models, rather than the appropriateness of those models in particular contexts.

The ability to contextualise buying behaviour is particularly important when considering the origins of relational buying behaviour. Relationship marketing has been widely quoted in the literature (Berry 1983; Dywer, Schurr and Oh 1987; Jackson 1985; Johnson and Bonoma 1984; Levitt 1983), but the underlying dynamics of that behaviour have not been adequately explored. This is because attention has been focused on the marketing and organisational implications of relationships (Perrien, Filiatrault and Ricard 1993), or examining those factors which encourage their formation (Morgan and Hunt 1994). Although these are critical perspectives, it is equally vital to be capable of explaining why consumers adopt relational forms of behaviour in preference to other forms of buying behaviour and to articulate what those other forms of behaviour actually are. Thus, a key role of the consumer behaviour matrix is its facility to unify otherwise diverse elements of theory into a coherent structure and contextualise forms of buying behaviour.

Figure 4 : Consumer Contracting Matrix



2.6 Forms of Consumer Behaviour

2.6.1 Rational - Active

In this quadrant the individual's involvement in the product or service is perceived to be high as is their confidence in making purchase choices. It is these active consumers that economic theory has viewed as the norm, possessing the ability and inclination to make carefully considered purchase decisions across all choice environments. In terms of ideal-types these consumers are rational or rationally inclined.

Eztioni (1988) notes that rationality can be defined in a number of forms and argues that individuals make decisions in a more or less rational manner depending on the nature of the choice environment and item purchased. Examples of individuals approximating rationality would include purchases of commodity goods and services such as petrol, milk, orange juice, flour and so forth. Within these purchase environments the consumer is in control of the situation, can articulate their requirements and uses short term contracts to structure the purchase. These contracts are described by Macneil (1978, 1980) as 'discrete', they have a clear beginning, short duration and a definite end. No interactions are expected after the transaction, there is a clear division of benefits and costs, disputes are settled through reference back to the original contract and the switching costs between contracts are low. Discrete contracting is a reflection of the characteristics of the product or service transacted and the underlying rational behaviour of the decision maker. Individuals will tend towards discrete, rational contracting to structure their purchasing behaviour, when possible, as it enables them to reduce transaction costs and to exert a high degree of control over the purchase decision, (Eztioni 1988). To purchase in an 'instrumentally rational' manner, the individual consumer is assumed to possess sufficient ability and information to enable them to make clear comparisons between competing products and thus make an informed choice. If the information is not available, or the individual lacks the ability to make choices, 'instrumental' rationality and discrete contracting is no longer an effective means of structuring the transactions. In these circumstances the individual either adopts an alternative form of behaviour or makes no purchase.

2.6.2 Repeat - Passive

In this quadrant individuals display low levels of involvement with the product/service, in this sense they are either disinterested or are fully aware of the product/service features and are making repeat purchases. Given the low levels of involvement and the limited perception of uncertainty, these consumers can be described as 'passive' in that they will make repeated purchases without actively seeking out alternatives. This repeated pattern of purchase behaviour has been described as behavioural loyalty and has been extensively researched and analysed (Brown 1952; Cunningham 1956; Frank 1962). Johnson (1973, 1982) develops this work by identifying those market and social factors which encourage or coerce individuals into repeated behaviour patterns. The absence of a motivating event to encourage search for alternatives, a lack of choice, or a lack of incentive to alter purchasing patterns, encourage individuals to maintain existing purchasing patterns. It can be argued that these consumers, in maintaining patterns of purchase, are adopting a boundedly rational approach to their buying and contracting behaviour. Having selected a heuristic to guide their behaviour, a brand for example, this behaviour is repeated until better alternatives become available and make a more rational approach worthwhile.

Making repeated purchases from a single source or type reduces the 'cost' of purchasing by limiting uncertainty, whereas a more rational approach may expose the individual to uncertainties which could result in financial or psychological losses. This form of repeat purchase behaviour is common in fast moving consumer good (FMCG) markets where consumers use brands and brand identities to determine their purchasing behaviour.

2.6.3 No-purchase

This quadrant describes consumers who, because they have no involvement with the product or service and do not possess the ability or confidence to make transaction decisions, make no purchase. An example of this behaviour is individuals who leave significant sums of money on deposit rather than purchase financial services that could generate greater returns. Much marketing activity is directed at individuals in this quadrant in an attempt to convince them that the product or service is useful and therefore worthy of purchase.

2.6.4 Relational - Dependent

In this form of contracting consumers are involved with the product or service, but lack the ability and confidence to make informed choices within the product class or between brands. In this instance the individual consumer will seek advice and help from other parties to make their purchase choices. They can be described as 'dependent' consumers, forming relationships with other parties for advice and guidance and in this way the relationship helps to structure the pattern of purchases.

Relational contracting emerges from the work of Macneil (1978) and Williamson (1975,1985), both of whom recognised that in particular contexts discrete and repeat contracting were not effective in structuring exchange. It is used in highly uncertain environments where the individuals lack the information to make rational decisions yet perceive that differences in quality exist between competing products/services. In this instance they will want to make informed choices and have to draw on the help and advice of others. The relationship then replaces information search and processing activities found in discrete, rational contracting. Rather than seek out information and make their own decisions, consumers seek the advice of the other parties. Those parties will include friends, family, colleges and possibly advice from the other party in the relationship. This view of relationships in reducing the choice set available to individuals is consistent with the work of Seth and Parvatiyar (1995). They argue consumers' motivation to engage in relational behaviour is driven by a desire to reduce their choice set, viewing relationships as a means of limiting rationality. The relationship becomes a boundary around the choice set facing the individual when they make a decision, making choices within the bounded set reduces transaction costs and limits uncertainty (Simon 1957).

Trust plays a critical role where the consumer relies on information and advice from the party with whom they are contracting. That party could gain considerably by behaving opportunistically and much of the role of professional associations is to protect consumers from such behaviour. Relational contracting describes the combination of high involvement and perceived uncertainty which result in the individual forming a transaction relationship to obtain the goods/services they require. The transaction relationship describes the interactions that take place between the two parties. The interaction between relational contracting and transaction relationships can be viewed thus:

Relational contracting:-
Describes personal/environmental conditions that encourages the individual to form a relationship.

Transaction relationship:-
Describes a pattern of interactions between trading parties based on the existence of a relationship between them.

The strength of the relationship between two parties, in this instance a firm and a customer, can be judged by the extent to which the consumer will incur costs to consume within their preferred relationship, even where an alternative relationship exists. The greater the costs the consumer is willing to incur, the stronger the relationship and vice versa. Often firms mistake repeat-passive behaviour for the existence of a relationship, assuming that consumers making repeat purchases have a relationship with the firm. That error of judgement is revealed when the consumer is presented with an alternative providing only marginal benefits and yet still switches to the new alternative. The existence of marginal benefits encourages the consumer to switch into the rational/active ideal-type and to reassess and possibly alter their existing patterns of consumption. In this instance consumers are not prepared to incur costs and consume from their existing provider and in any real sense a relationship has not existed between the parties.

Time plays a critical role in understanding the development of consumer behaviour within the contracting matrix. Depending on the type of product or service, individuals enter the matrix either as rational-active consumers, able to specify their needs and to select the appropriate product/service, or via the relational-dependent quadrant seeking advice to guide their purchase decisions. Over time however, levels of involvement and perceived uncertainty alter and as this occurs, so the individuals move from their quadrant of entry into the repeat-passive quadrant. Having either taken the purchase decision themselves or sought advice and then acted upon that advice, repeat purchases are made with little cognitive effort. A similar pattern of behaviour is displayed in FMCG markets. Once the initial purchase decision is made, subsequent purchase decisions involve far lower levels of cognition because the 'costs' of cognition in terms of time and effort are high, repeat purchasing is easier, quicker and cheaper. Much consumer advertising seeks to provide reassurance that the current pattern of purchase is legitimate and encouraging consumers to continue. New entrants in these circumstances seek to encourage consumers to move into the rational-active or relational-dependent quadrants and in so doing to reassess their current patterns of purchase. Evidence suggests that encouraging consumers to re-assess existing patterns of purchase requires a product/service to possesses significant benefits over existing products/services. Late entrants offering 'me too' products/services find it difficult to attract new customers (Liberman and Montgomery 1988).

2.7 Strategic Implications of Consumer Behaviour Ideal-Types

Each of the ideal-types described above has implications for strategy, in that each gives rise to contingencies to which firms must respond.

2.7.1 Rational-discrete

The strategic threat of rational-active consumer behaviour for firms is that consumers re-appraise their repeat-passive behaviour and as a result change their existing patterns of purchasing behaviour. As suggested above, encouraging consumers to re-examine their behaviour requires the provision of a product/service that is either cheaper or better or both than existing products/services. If such a provision is made, consumer involvement in that product/service can be raised and the existing pattern of repeat purchase behaviour re-considered. Direct insurance writers such as Direct Line owe their success to their ability to switch consumers out of the repeat-passive quadrant and into the rational-active quadrant, through the raising of involvement levels. By offering a combination of lower prices and improved service, consumer's involvement is raised and they are encouraged to switch providers. The strategic challenge posed by rational/active consumers is to move them into repeat/passive forms of behaviour and although direct writers have been successful in breaking repeat/passive behaviour patterns, they have found them far harder to re-establish.

2.7.2 Repeat-passive

As discussed earlier, consumers use repeat-passive behaviour to structure their purchases of products and services where their interest or involvement in the product/service has decayed. Strategically the challenge facing firms depends on whether they are new entrants or existing incumbents. New entrants have to encourage consumers to move into the rational-active quadrant as described above. Existing incumbents seek to retain consumers within the repeat-passive quadrant through reassurance or through improvements in their own product/service provision. In the context of financial services, it had been possible to retain large numbers of consumers within this quadrant simply because the benefits of switching were so low and the costs so high as to make changes in the pattern of purchasing behaviour prohibitively expensive. As the industry becomes more competitive, there is a distinct possibility that switching costs and inertia will be increasingly eroded and as that happens it may be difficult for financial services firms to keep consumers in the repeat-passive quadrant.

2.7.3 No Purchase

No strategic contingencies flow from this quadrant, as the consumers are failing to purchase, but strategic challenges do emerge. Firms need to raise levels of involvement and reduce uncertainty so as to encourage purchase, as the consumers within this quadrant represent an important source of potential new business.

2.7.4 Relational-dependent

In strategic terms the relational-dependent quadrant offers a potential basis for the creation of differentiation. Through the creation of a relationship, a firm is able to differentiate itself from competing alternatives by offering a enhanced uniqueness. The usual way in which relationships are created is through the development of a brand (Christopher, Payne and Ballantyne 1991).[7] Brands embody a cluster of values and meanings which through consumption of the brand, are transferred to the individual. A relationship exists between a brand and an individual, where the individual consumer believes in or is committed to the values personified by the brand. Evidence of that relationship is provided through repeat purchase of the brand and a willingness on behalf of the individual to pay a premium for the brand of their choice. Creating such brand loyalty demands that the brand in some sense be unique, either in its physical properties or through the values it communicates about those who consume the brand. Brands and brand loyalty are the basic building blocks of differentiation advantage in FMCG markets, but only where consumption of the brand results in the communication of values to others. If consumption is invisible, as in the case of financial services, creating brands and brand relationships is far harder. That difficulty in creating brand relationships is compounded

[7] It is possible to question the use of the term relationship to describe consumers interaction with brands. The existence of a relationship suggests that the individual is in some way committed to a trading partner, or in this case a brand. However, brand commitment may be extremely low and hardly worthy of the term relationship. The ability of a brand to create a relationship may depend on the nature of the product/service purchased and the degree of involvement the individual has with that product/service.

by firms inability to differentiate the financial services they provide. Financial instruments, because they are easily imitated and there are few outward signs of consumption, are unlikely to provide a basis for the creation of sustainable competitive advantage. An alternative approach is to focus on the nature of the interactions that occur between the consumer and the firm and to seek to use these interactions to generate competitive advantages.

This approach is termed relationship marketing (Berry 1983; Crosby, Evans and Cowles 1990; Dywer, Schurr and Oh 1987) and its basis as an explanation of consumer buying and contracting behaviour was explored briefly in the consumer behaviour matrix. As a strategy it is based on the notion that consumers create a relationship with a firm, within which products/services are purchased and that through this relationship a bond of loyalty/commitment can be created. The bond of loyalty/commitment encourages consumers to make multiple and cross-purchases, from a single source. Moreover, loyalty/commitment creates barriers to entry/mobility for other financial services providers and so can be perceived as a strategic resource. This approach has not been widely used in the financial services industry, because choice was limited by the structure of the industry, so consumers had little incentive to switch between financial services providers. Firms had to acquire new business, but once they had done so the costs of switching significantly outweighed the benefits and consumers adopted the repeat/passive form of buying behaviour. That is no longer true as competitive forces have eroded switching costs and improved switching benefits, so consumers are encouraged to adopt rational-active forms of behaviour. As these changes occur the retention of customers assumes greater importance, because the costs of recruiting new customers are significant and also because existing customers provide opportunities for firms to sell additional financial instruments.

This study focuses on consumer behaviour in the relational-dependent quadrant. The rationale for such a focus is two-fold. Firstly, relationships are central to the way in which individuals structure their economic lives, but they have not been widely explored in the economics and marketing literature until recently. Secondly, transaction relationships can be viewed as a strategic resource on which a differentiated strategy could be based. In this sense the transaction relationship potentially offers firms an alternative to price only competition based on the rational-active form of behaviour. In this sense its strategic potential is highly significant and thus worthy of investigation.

2.8 Conclusion and Project Hypothesis

This chapter and the overall research study draws together three strands of intellectual thought from the literature on strategy, economics and consumer behaviour, to generate an analysis of the financial services industry. In terms of theory development and use, Whetten (1989), reviewing what constitutes a theoretical contribution, argued that the most fruitful avenue of theory development involves the borrowing of a perspective from other fields and challenging existing theories and approaches. That is what has been attempted here by combining the work in economics, on the problems of contracting in uncertain environments, with the work in consumer behaviour literature, on what motivates individuals to make purchases. The result is the consumer behaviour matrix which highlights the forms of contracting alternative available to individuals; but most significantly, in terms of theory development, it provides an explanation of why and in what contexts the individual should adopt a particular form of behaviour. Thus the theory not only describes but also explains, and in Whetten's terms this enhanced power of explanation may be viewed to constitute a significant theoretical development.

The strategic approach, based on the resource-based framework, provides an understanding of the competitive dynamics of the industry. It focuses attention on the importance of 'strategic' resources and considers how strategic resources in the industry have been affected by the process of change. The buying and contracting approach, based on work in law, economics and consumer behaviour, examines how consumers structure their behaviour when transacting. The consumer behaviour matrix classifies buying and contracting behaviour into a number of ideal-types that describe how individuals cope with the problems of bounded rationality and uncertainty when buying products and services. These ideal-types are not inherently rational or irrational, rather they are a response to a particular choice environment. Where the individual takes on responsibility for decision-making they can be viewed as behaving 'rationally'; the use of relational contracting or passive, repeat contracting can be seen as a form of instrumental rationality, reflecting the choice environment and/or level of involvement. This view of individual buying and contracting behaviour, varying according to the choice environment, is consistent with the work of Eztioni (1988) and Hodgson (1988). The approach to consumer buying and contracting behaviour adopted here does not perceive rational or relational behaviour as theoretical polemics. Rather it perceives them as alternatives, used by the consumer in differing decision or choice environments. This differs from existing literature in economics which has tended to view consumers as falling into the rational extreme (Becker 1976 Friedman 1953) or the relational extreme (Berry 1983; Copulsky and Wolf 1990; Moriarty, Kimball and Gay 1983). Furthermore, the ideal-type conceptualisation negates the need for complex models of consumer behaviour, frequently used in consumer behaviour research.

By placing consumer behaviour into an 'ideal-type' framework, Ehrenberg's criticisms of the consumer behaviouralist approach can be addressed. Consumers repeat patterns of purchase behaviour because this is an effective means of limiting uncertainty and thus transaction costs. If the product/service characteristics are altered, or if consumers' underlying attitudes change, so the transaction costs associated with choice are re-configured. Where that occurs, so the purchasing/contracting ideal-types used to structure the exchange alter to reflect the new transaction costs. The research structure diagram, see Figure 5, highlights the linkage between the product/service characteristics, consumer attitudes, ideal-types of behaviour and strategic alternatives. In terms of purchasing and contracting behaviour, consumers draw on ideal-types to fit the form of contracting environment they are operating within. That environment is shaped by the factors described earlier in this chapter and by the characteristics of the product/service purchased. Ideal-types are not viewed as competing structures, as theories in a positivist framework, but as alternatives on which the individual draws as their needs change or the choice environment changes. The ideal-type concept is powerful because it enables us to group consumer behaviour into patterns, rather than view all consumer behaviour as inherently individual, or expect to identify single general theories that apply in all contexts. Once consumer behaviour is grouped into ideal-types, it is possible to highlight the strategic contingencies that flow from them, thus very directly linking strategy and consumer behaviour. Drawing on the discussion in this chapter an overall project hypothesis can be formulated:

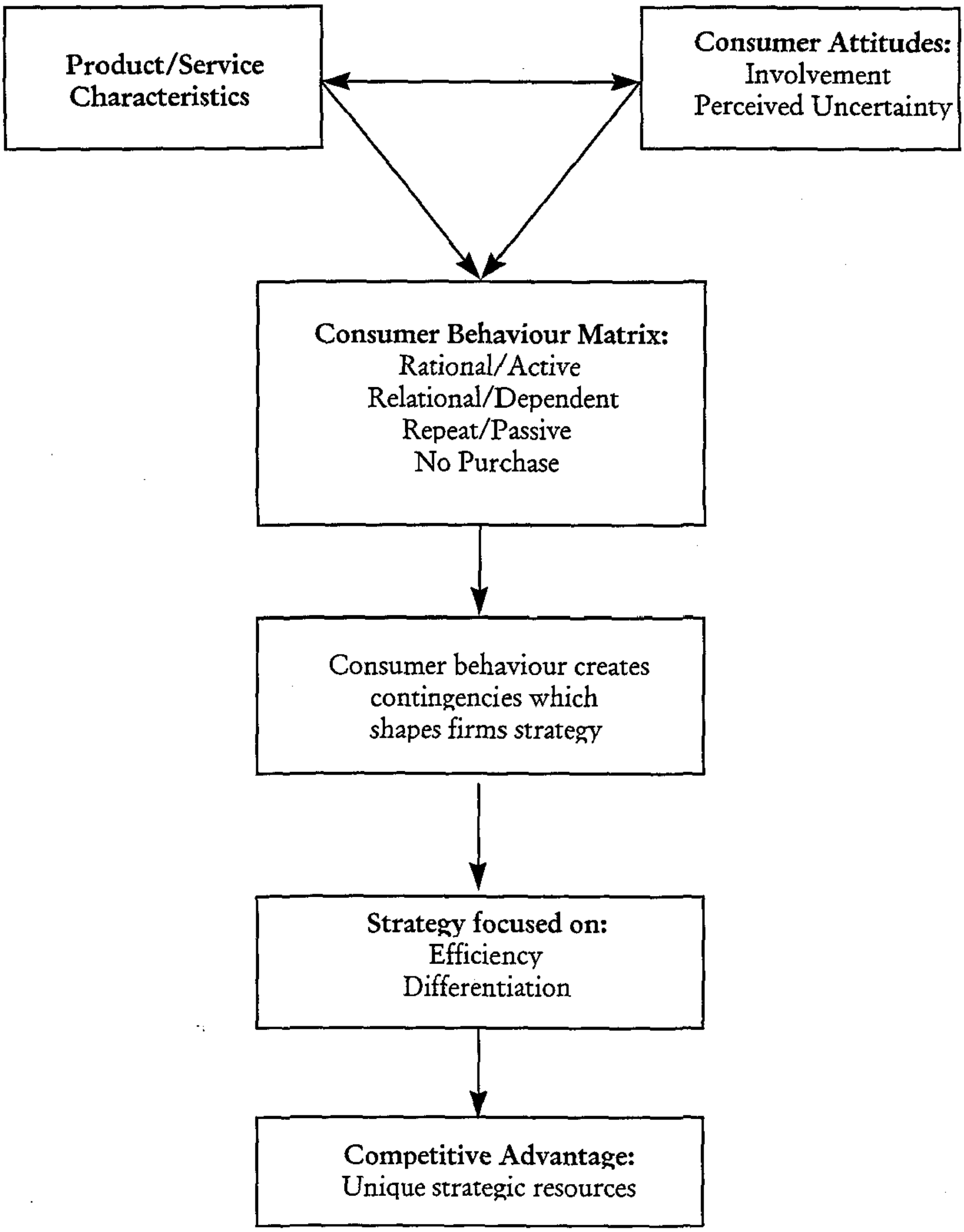
'The strategy of financial services firms is contingent on consumer behaviour and that behaviour is contingent on the form of financial instrument purchased.'

and

'The ability of financial services firms to generate competitive advantage rests on their ability to create and maintain relationships with consumers.'

These overall hypotheses supports a number of sub hypotheses which emerge from the discussions in later chapters. The following chapter considers the particular characteristics of financial services instruments and the impact of those characteristics on consumers' attitudes and the transaction costs associated with purchase. By drawing these threads together it will then be possible to hypothesise as to the ideal-type of purchasing/contracting behaviour used to structure the purchase of particular forms of financial instrument. Chapter Four develops this analysis, focusing on the relational/dependent ideal-type and synthesising existing consumer behaviour and transaction relationship literature to identify attitudinal antecedents of the relational/dependent and rational/active ideal-types. These attitudinal antecedents are then used as the means by which the consumer behaviour ideal-types can be tested empirically and as the basis for a questionnaire. Chapter Five details the development of the questionnaire and the overall empirically approach. Chapter Six, examines the empirical results generated and Chapter Seven drawing on those empirical results, develops a contingency view of strategy. efficiency

Figure 5 : Research Structure Diagram



CHAPTER THREE

BUYER BEHAVIOUR: CHARACTERISTICS OF FINANCIAL INSTRUMENTS AND CONSUMER NEEDS

3.1 Introduction

Chapter one considered how a number of factors shaped consumers' use of contracts to structure their purchases. Out of that discussion emerged a consumer behaviour matrix which drew on the individual's involvement with the purchase and their confidence in making decisions. The matrix suggests a number of contracting 'ideal types' which the individual can use to structure purchases in various decision-making environments. It was concluded that individuals adopt the following patterns of behaviour:-

Table 1 : Elements of the Consumer Behaviour Matrix

Uncertainty	Involvement	Contracting Outcome
Low	High	Discrete/Rational
High	High	Relational/Dependent
Low	Low	Repeat/Passive
High	Low	No Purchase

This chapter examines particular characteristics of financial instruments and highlights their impact on the consumer's decision-making environment. To understand how the characteristics of financial instruments impact on consumer buying behaviour and encourage consumers to adopt one of the ideal-types of behaviour discussed in Chapter Two, it is necessary to examine the interaction between financial instruments and uncertainty and involvement.

The first part of this chapter examines the characteristics of financial instruments, uncertainty and transaction costs. It then links the discussion of uncertainty and involvement in Chapter One with that of financial instruments through the creation of a typology of financial instruments. That typology relates forms of financial instrument to buying behaviour and thus establishes a rationale for variations in consumers behaviour and for the use of ideal-types in particular financial services choice environments.

3.2 Characteristics of Financial Instruments

Differences between services marketing and product marketing (Berry 1980) have been widely acknowledged and resulted in a significant body of literature. Yet as Betts (1994) notes, the impact of services marketing issues on consumer behaviour literature and understanding is limited. Marketing academics have recognised that physical products and services pose very different decision-making problems for consumers (Bateson 1977; Shostack 1977). However, whilst a discussion of the characteristics of services is informative, it tells us little about variations in consumer behaviour because the discussion is not rooted in an understanding of consumer behaviour. It is useful to review the traditional understanding of financial services characteristics and their impact on transaction costs, and then relate that discussion to the forms of buying behaviour identified in Chapter Two. This integration of consumer behaviour theory and characteristics of financial instruments, generates a contextual perspective of consumer behaviour in financial services and provides an indication of why consumers use differing forms of behaviour to purchase different financial instruments.

Four characteristics are generally cited as distinguishing services from products:

Intangibility. The absence of a physical substance makes services more difficult to grasp mentally and evaluate.

Inseparability. Services possess attributes which can be evaluated only after purchase or during consumption.

Heterogeneity. Inseparability leads to some services being prone to variation in quality, which further exacerbates the consumers uncertainty over outcome.

Perishability. Services have to be provided when the consumer requires them and this demands a synchronisation of supply and demand

Mackechine (1992) supplements these four general characteristics of services with two further features relevant specifically to financial services:

Fiduciary responsibility. Ultimately the financial consumer is buying a set of promises and must trust the supplier to deliver on those promises.

Two-way information flows. Financial services may involve a series of regular two-way transactions, usually over an extended period of time.

To these six characteristics can be added three additional characteristics that relate to financial instruments

Transparency of performance

Uncertainty of outcome

Poor comparability

The following section examines each of these characteristics.

3.2.1 Intangibility

Given the importance attached to intangibility by other writers, (Bateson 1977; Crosby, Evans and Cowles 1990; Shostack 1977) it is useful to consider how intangibility affects decision-making. Decision-making is difficult where uncertainty exists, because uncertainty means that decision-makers does not know for certain the outcome of their decisions. Tangible clues or surrogate indicators are used by individuals to reduce uncertainty of outcome. For example the decor of a restaurant potentially communicates information about its overall quality. Remove those clues and decision-making becomes much more difficult. In purchasing financial services the individual is frequently purchasing promises of future behaviour rather than immediately delivered benefits, and this is in direct contrast to the case of physical goods or other forms of service (Carter, Chiplin and Lewis 1986). Judging these promises of behaviour, ex ante to their occurrence is difficult, if not impossible, even with tangible clues which are typically rare in financial services. The lack of tangible evidence and the unpredictable nature of many financial instruments, therefore, clouds the decision-making environment with uncertainty.

3.2.2 Inseparability

Some financial instruments create a separation between purchase and consumption. Where this separation occurs, the ability of the individual to assess the quality or acceptability of the instrument, is impeded. When services cannot be evaluated even after purchase they are said to be high in 'credence qualities'. The difficulty associated with assessing the quality of credence services forces consumers to rely, either on word of mouth communication with friends, family and reference groups, or to form trust based relationships with financial providers. Trust reduces the need for monitoring and so reduces the costs of transacting (Arrow 1969).

3.2.3 Heterogeneity

Inseparability leads to some services being more prone to variation, which can compound the problem of consumers' uncertainty over outcome. Services frequently rely on the consumer's ability to communicate what is required, a factor which can significantly alter the quality of the service provided. The creation of certain forms of financial can be 'industrialised'; 'Fordist' production systems are used to produce the service, significantly reducing quality variations. In other instances, human judgement plays a key role in defining the quality of the service and significant variation in quality are possible, investment services are an obvious example.

3.2.4 Perishability

Services cannot be stored, they are created and delivered at the same instant. This means that producers of services have to carefully synchronise their output to correspond with the demands of consumers. Financial services firms have dealt with this problem through the application of technology, ATMs enable consumers to withdraw cash when they require it and direct banking over the telephone creates a 24 hour, seven days a week, fifty two weeks of the year, service.

3.2.5 Fiduciary responsibility

When purchasing financial instruments the consumer is in fact frequently purchasing a set of future promises. Often the financial provider is taking on responsibility for the individuals' funds and welfare. Consumers need to identify which firms are trustworthy and financially secure. If the BCCI debacle indicates anything, it is the need, first and foremost, for individuals to ensure that the institution with whom they are placing funds is financially solvent. A poor investment decision is likely to result in a potential loss, but a loss which can perhaps be minimised, the collapse of the institution could result in the entire loss of an investment.

3.2.6 Two-way Information Flows

Financial services are unusual in that they are not concerned simply with one-off purchases, but often involve a series of regular two-way transactions.

3.2.7 Transparency of Performance

One of the unique features of financial instruments is the difficulty consumers may have in understanding or even identifying the performance of a financial instrument. Transparency of performance is related to the availability of information and the ability of consumers to make sense of that information. The information available to consumers varies considerably between financial instruments. In the case of money transmission accounts, information relating to performance is available and easily understood. If for example a cheque fails to clear or a direct debit is not paid, the failure of performance is easy to identify, understand and rectify. Other financial instruments specify clearly the performance expected, life assurance or annuities for example. In other cases contracts are less transparent and detail performance only in broad terms, motor, household and contents insurance are good examples. In extreme cases performance can be very difficult to identify, endowment investment instruments for example provide the consumer with very little information relating to performance and investment and unit trusts and pensions often provide information in an inaccessible form for consumers. *Ceteris paribus* the less transparent the investment instrument, the greater the degree of trust required by the individual when purchasing.

3.2.8 Uncertainty of Outcome

In purchasing consumer goods and services consumers are in most cases seeking to reduce the uncertainty they face in the external environment (Earl 1990). Their intention is to extend their sphere of control and create 'certainties' in their lives, imperatives around which planning is based. This perspective of consumer goods is also true of certain financial instruments. Some financial instruments are designed with the express purpose of increasing control and simplifying life, for example, money transmission accounts, overdrafts, loans and insurance. These financial instruments make reasonably 'certain' promises regarding future outcomes, the outcomes can either be monitored over a period of time, or are contractually binding. Other instruments, however, such as investment products, are unusual in that, rather than reducing uncertainty, they deliberately expose the purchaser to uncertainty. These financial instruments pose particular problems for consumers in coping with uncertainty. When buying inherently uncertain financial instruments, consumers must make an assessment of the abilities of individuals with whom their funds are entrusted. Consumers are in fact making judgements over future promises of behaviour and such judgements are notoriously difficult to make. This of course explains the extensive role of authorities in monitoring and enforcing financial services contracts, particularly in relation to long-term investments.

3.2.9 Poor Comparability

Comparative judgements form an important element of any purchase decision, they allow the identification of the benefits required from the purchase and those derived from the various alternatives available in the market. Hence individuals carefully compare cars or hi-fi systems before they are purchased. Some financial instruments are relatively easy to compare because their performance and benefits are identifiable. A good example might be savings accounts paying a clearly identifiable rate of interest. Problems in terms of comparability emerge as the time-scales over which outcomes are delivered lengthen, coupled with the uncertain nature of particular financial instruments. It is the combination of extended time periods and uncertainty of outcome, that results in problems of comparability. Investment instruments are a good example of where making comparative judgements between instruments are virtually impossible, because the intended outcome is both uncertain and distant in terms of time scales.

3.3 Characteristics of Financial services Instruments and Transaction Costs

The key conclusion from the discussion of the characteristics of financial services instruments is that a combination of these factors increases the level of uncertainty faced by the consumer when purchasing certain forms of financial instrument. Increased uncertainty makes decision-making more expensive, because the consumer now has to find ways of reducing or accommodating that uncertainty. The transaction cost framework identifies the costs associated with uncertainty and focuses on how consumers or decision-makers can reduce these uncertainties. Using a transaction cost framework, Chant (1987) identifies two forms of behaviour capable of reducing uncertainty, i) identify good from bad investments and ii) monitor and enforce behaviour/contracts.

Chant argues that to identify good, as opposed to bad investments, individuals engage in a process of search prior to purchase. The objective of the search, however, is to reduce uncertainty and help the individual to make choices that generate favourable outcomes. This link between information search and decision-making is recognised in consumer behaviour models (Bettman 1979; Howard and Seth 1969; Nicosia 1966). The second type of uncertainty occurs over time once the purchase has been made, and involves the need to monitor the performance of contracts and enforce or ensure the outcomes of any agreements. Monitoring costs which arise from performance uncertainty are incurred throughout the life time of the purchase. To monitor them effectively the individual must have access to and understand the available information. Frequently, however, information is not readily available or when it is the individual cannot understand it. Under these circumstances effective monitoring of the contract by the individual is not possible. Enforcement costs arise from the need to ensure that the outcomes of the purchase are those which the two parties initially agreed in the contract. The difficulty for the individual consumer in dealing with enforcement uncertainty is that it can occur after the purchase has taken place. An insurance company, for example, may refuse to pay out on the insurance or the firm may go bankrupt and consequently a reduction of this form of uncertainty can be extremely difficult. Monitoring and enforcement seek to reduce ex post uncertainty. Transaction costs vary according to the uncertainty inherent within the decision-making environment and this is related very directly to the type of financial instrument. This link and the resulting variations in transaction costs, provides an explanation as to why consumers match the financial instrument they are purchasing with a particular form of contracting. Rational contracting and purchasing behaviour deal with ex ante uncertainty through a careful specification of the outcomes which flow from the purchase. Thus, consumers are able to anticipate the performance of a gallon of petrol or pint of milk and are therefore prepared to use discrete contracts. Monitoring and enforcement uncertainties are limited by the consumers' ability to recognise failure or poor performance and to take steps to remedy it, either by complaining or by taking legal action.

Where ex ante uncertainty cannot be reduced through a search, or is difficult to reduce, because of the inherent characteristics of financial instruments, individuals can use a relational-dependent form of purchasing/contracting to structure their purchases. The advantage of this approach is that part of the responsibility for decision-making can be passed onto another party. That third party i.e. a financial advisor takes on responsibility for the search, monitoring and enforcement of the contract.

3.4 Typology of Financial Instruments

Drawing on the above discussion it is possible to hypothesise a linkage between types of financial instrument and the forms of consumer buying behaviour identified in the consumer behaviour matrix. That linkage is based on the factors of involvement and uncertainty and the particular characteristics of financial instruments. Table : 2 combines the nine salient characteristics of financial services, with the psychological and physiological needs each fulfils and uncertainty experienced by the individual when purchasing.

Table 2: Typology of Financial Instruments

Form of Financial Instrument	Characteristics of the Financial Instrument	Consumers' Needs and Motivations	Purchase Uncertainty
Annuities	Intangible; Fiduciary Responsibility; Transparency of performance	Security	Low
Life Assurance	Intangible; Fiduciary Responsibility; Transparency of performance	Security	Low
Motor Insurance	Intangible; Fiduciary Responsibility; Transparency of performance; Some uncertainty of outcome; Perishability; Inseparability; Heterogeneity	Security	Low
House Contents/Buildings Insurance	Intangible; Fiduciary Responsibility; Transparency of performance; Some uncertainty of outcome; Perishability; Inseparability; Heterogeneity	Security	Low
Money Transmission Accounts	Intangible; Fiduciary Responsibility; Transparency of performance; Perishability; Inseparability; Heterogeneity; Two-way Flow of Information	Security; Future satisfaction of physiological and psychological needs	Low
Overdrafts/Loans	Intangible; Transparency of performance; Perishability; Inseparability; Heterogeneity; Two-way Flow of Information	Security; Future satisfaction of physiological and psychological needs	Medium
Endowments	Intangibility; Uncertainty of Outcome; Poor Comparability; Poor Transparency of Performance; Fiduciary Responsibility	Security; Future satisfaction of physiological and psychological needs	High
Unit/Investment Trusts	Intangibility; Uncertainty of Outcome; Poor Comparability; Poor Transparency of Performance; Fiduciary Responsibility	Security; Future satisfaction of physiological and psychological needs	High
Pensions	Intangibility; Uncertainty of Outcome; Poor Comparability; Poor Transparency of Performance; Fiduciary Responsibility	Security; Future satisfaction of physiological and psychological needs	High

Table : 2 highlights the linkage between the characteristics of financial instruments and the needs they fulfil. Insurance instruments, life assurance and money transmission accounts all fulfil lower order needs and, therefore, consumers involvement with those instruments will be low. Consumer have to purchase these instruments and at the point of purchase involvement in the instrument is likely to be high.[8] In terms of uncertainty, these instruments pose low levels of uncertainty, the outcomes that flow from them can be anticipated and any errors clearly identified. Investment instruments, pensions, unit and investment trusts and endowments, all fulfil higher order needs and, therefore, the expectation is that consumers involvement with these instruments will be higher. The outcomes that flow from these instruments are highly uncertain and errors difficult to identify and rectify. Given the differences between the two groups of instruments, the expectation is that consumer behaviour will vary between them. Consumers will use discrete/rational behaviour to structure their purchases of insurance instruments and relational/dependent behaviour to purchase investment instruments. Differences in the characteristics of financial instruments and the type of need met, generates variations in uncertainty and involvement, explaining why consumers use different forms of buying behaviour, to structure their purchases. Any changes in the underlying characteristics of the financial instrument, or the manner in which it is distributed, will potentially alter uncertainty and/or involvement and change buying behaviour.

[8] In FMCG markets low involvement frequently results in non-purchase. Because consumers need financial instruments as enabling devices to obtain other goods and services, purchase of those instruments is undertaken even where involvement is low.

2.5 Conclusion

This chapter has sought to integrate the discussion in Chapter Two on involvement, uncertainty and the forms of buying behaviour adopted by consumers, with a detailed examination of the characteristics of financial instruments. The purpose of that discussion is to highlight why consumers vary their behaviour according to the type of instrument purchased. Variations in behaviour are a response to differing levels of uncertainty and involvement, reflecting the particular characteristics of financial instruments. For the purposes of empirical analysis it is possible to 'cluster' financial instruments into two groups by involvement and uncertainty; general and investment instruments. General instruments, general insurance and money transmission instruments combine low involvement and low uncertainty, such a combination encourages rational/active buying behaviour, especially in the instance of general insurance instruments where the annual renewal point encourages consumers to search for alternatives. Money transmission accounts or current accounts, suffer less from rational/active behaviour because of the high switching costs associated with these instruments. Once a consumer has purchased a current account and customised the account to meet their needs, the costs of purchasing a new account and undergoing another process of customisation is extremely high. Investments instruments, pensions, endowments and unitised investment instruments, combine high levels of involvement and uncertainty and this combination encourages the use of relational/dependent behaviour to reduce the uncertainties associated with purchase.

The ability to separate financial instruments into two discrete groups and to link each group with a form of consumer buying behaviour, greatly facilitates empirical research. Using the forms of financial instrument as proxies for behaviour, it is possible to test the levels of involvement and uncertainty associated with the forms of financial instrument. Such analysis then allows confirmation or rejection of the hypothesis linking forms of consumer behaviour to forms of financial instrument.

Having established the context in which relational/dependent behaviour is used by consumers, the following chapter considers how that behaviour can be developed into a full transaction relationship and form the basis of differentiation and competitive advantage. For relational/dependent behaviour to develop into a full relationship and a strategic resource, it has to be underpinned by loyalty or commitment. A consumer may choose the relational-dependent ideal-type, form a 'relationship' make a single transaction and then never return to the financial provider again. Should their personal circumstances change, they will form a new 'relationship' and repeat the purchase process. In these circumstances the 'relationship' cannot be viewed as a strategic resource, especially as the costs of creating the relationship may be greater than the revenues gained from any sale.[9] In an increasingly competitive market, the creation and maintenance of customer

[9] This creation of new relationships to make purchases has been common practice in parts of the financial services industry, particularly for Independent Financial Advisors (IFAs) or brokers. The renumeration system encouraged IFAs and brokers to create new relationships and make sales rather than to service existing clients and to manage their long-term financial needs.

relationships based around loyalty and commitment on the part of both parties, may become a key means of establishing and sustaining differentiation and competitive advantage. It is necessary, therefore, to examine the concepts of loyalty and commitment and those factors which underpin these concepts. That study is undertaken in the following chapter.

CHAPTER FOUR

TRANSACTION RELATIONSHIPS AND LOYALTY/COMMITMENT

4.1 Introduction

Chapter Three concluded by identifying a rationale for relational-dependent behaviour and the context in which such behaviour would operate. In the conclusion to that chapter it was argued that for a relationship to develop into a strategic resource, the consumer had to develop loyalty/commitment to that relationship.

From a strategic perspective, financial services providers need to develop their repeat-passive interactions and relational-dependent opportunities, into fuller relationships. This chapter explores which factors might make that development possible by drawing on the existing loyalty and commitment literature in psychology and consumer behaviour. If this development is possible, the relationship can operate as the basis for a differentiated strategy. Differentiation requires a firm to create wealth that has unique features which 'add value' for consumers. Where that added value results in higher levels of involvement, it may be possible for firms to develop and sustain a relationship through which prices can be raised and/or consumers encouraged to concentrate their purchases with a single provider. In the highly competitive financial services industry, where the instruments provided are to a large degree homogeneous and traditional switching costs are being eroded through changes in technology, the competitive advantages of relationships in reducing switching through increased loyalty/commitment, would be considerable.

Chapter Three highlighted that in some areas the potential exists to develop relationships, based on consumers' need to use relational/dependent contracting. To move that relational/dependent opportunity into a full relationship, bonds of loyalty/commitment need to be created between the trading parties. Once those bonds are established and maintained, the relationship can be viewed as a strategic resource. This chapter explores how bonds of loyalty and commitment are formed and examines their linkage to relationships.

4.2 Transaction Relationships and Exchange

Given the importance of long term relationships, it is surprising that economists, corporate strategists and marketers have devoted so little attention to their analysis. Coase (1933), Commons (1974) and Simon (1957) recognised the importance of relationships in guiding the form of transactions between parties and the organisational structures that develop to manage those transactions. Williamson (1975, 1985) has developed a detailed framework to analyse the nature of relationships between firms and the manner in which the form of transaction shapes that relationship. Economists generally, however, have ignored the implications of long term relationships, preferring to remain within their rational, certain and instantaneous world (Earl 1983). Marketing and marketers have increasingly recognised the importance of loyal customers, but have not differentiated meaningfully between repeated acts of purchase and commitment when discussing relationship marketing.

Numerous areas of our economic and social lives are structured by transaction relationships, for example, doctors, hospitals, schools, garage mechanics, where the consumer's ability to make informed purchase decisions, for whatever reason, is limited. The existence of long term relationships in the market-place, e.g. between solicitor and client, consultant and client, industrial sales people and firm representative, has been documented e.g. Hakansson (1982); Jackson (1985a, b). Economic and, to an extent marketing theory, however, has developed an understanding of exchange and markets where agents are stripped of their identity. Faceless buyers and sellers grind out decisions from objective functions to exchange standardised goods and services at equilibrium prices. In reality transacting parties are far from faceless and there is considerable importance attached to transacting with known parties in stable transaction relationships.

Traditionally in marketing and consumer research studies attention has focused on tangible goods within a single - transaction perspective (Arndt 1979; Dywer, Schurr and Oh 1987; Gummesson 1987). There is, however, evidence that the role of relationships in reducing transaction costs and lubricating the process of exchange is being increasingly recognised, particularly in the area of services marketing (Lovelock 1983). Purchasing services often involves long term commitments and a continual stream of interactions between buyer and seller (Lovelock 1983). Marketing literature is increasingly recognising the need to expand the focus of buyer - seller interactions to include relational properties, for example Dywer, Schurr and Oh (1987); Jackson (1985b): Johnson and Bonoma (1984); Wilson (1995). Drawing from that work some scholars have begun to address the competitive possibilities and potential that relationships provide, e.g. Berry (1983); Jackson (1985a, b); Levitt (1983); Moriarity et al (1983). Services literature has recognised the importance of personal interaction in the creation of satisfied customers e.g. Crosby and Stephens (1987); Parasuraman, Zeithmal and Berry (1985); Solomon et al (1985), and relationship marketing is recognised as a strategy to overcome service intangibility (Berry 1983). Berry (1983) has even argued that drawing customers into long-term relationships should be the focus of marketing rather than simply attracting new customers (its traditional focus).

In purchasing any product or service, individuals are forced to bear the costs of information collection, negotiation and the creation of provisions and guarantees for enforcement of the contract within which the purchase is organised. These costs arise because the parties to transactions may possess asymmetric information, divergent motives and mutual suspicions and they are managed through the creation of contracts. Problems arise, however, where what is purchased is highly complex and where it is difficult for the purchaser to understand it and ascertain how it will perform. Aklerlof (1970) examined transacting behaviour and the need to reduce uncertainty in his paper on the 'Market for Lemons'. He identified the problem faced by purchasers of second-hand cars in attempting to differentiate between good and bad vehicles. Little information about the past history of the car is usually available and the consumer is purchasing future performance which cannot be sampled ex ante to the transaction. Furthermore, the seller possesses more information than the purchaser, but it might not be in their interests to make this information available. In this situation the individual must reduce the uncertainty they face relatively inexpensively if they are to purchase a decent car and avoid purchasing a 'lemon', (American jargon for a bad vehicle). For most of us this means paying a premium to buy from a garage with a warranty should any thing go wrong. The individual seeks to establish a relational-dependent form of interaction to overcome the problems of uncertainty. That interaction may develop into a relationship as a range of services are consumed over an extended time period. Thus, consumers create relationships with garages and through the relationship purchase a vehicle and various ancillary services such as M.O.T. and servicing.

Crosby, Evans and Cowles (1990) suggest that the existence of the following elements create purchasing and contracting problems for individuals.

i) The product or service is complex, customised and delivered over a continuous stream of transactions (Berry 1983; Levitt 1983; Lovelock 1983),

ii) Many buyers are relatively unsophisticated about the product or service (Gingold and Maier 1986), and

iii) The environment is dynamic and uncertain in ways that affect future needs (demand) and offerings (supply), (Williamson 1975,1985; Zeithmal 1981).

The existence of these factors results in a form of uncertainty that is not easily reduced by the individual through information collection and processing. Fixed trading partners within a relationship reduce the level of uncertainty faced and this is a function of the following factors:-

i) Each person has some stable traits (honesty, reliability, skill etc.) and the cost of establishing who is honest, reliable etc. is an investment that facilitates future trading between parties.

ii) Parties to a transaction can establish rules or norms for their exchange relationship, a common view concerning contingencies, and procedures for settling disputes that can serve them beyond a single transaction. The cost of negotiating and establishing these rules will have to be incurred again if the parties change.

iii) The expectation of continuity exchange has a favourable effect on the behaviour of the parties. Abstention from cheating in the present is an investment that will reap rewards in the future (Axelrod 1990).

Arrow (1969) noted that it was useful for individuals to trust one another as this reduced the 'costs' of transacting and increased the opportunities for mutually beneficial co-operation. The strategic advantages of continued contact can be analysed in game theory using repeated games. In a single, non co-operative game, parties may fail to achieve a mutually beneficial solution because each party recognises the opportunities to cheat or to reap a short term advantage. Where games are infinitely repeated, however, parties give up short-term benefits in order to realise more substantial future gains (Axelrod 1990). These games replicate life where continued interaction encourages individuals to co-operate with one another. Game theory suggests, therefore, that under certain conditions, high uncertainty and repeated interactions, that individuals will form and maintain relationships with fixed trading partners to purchase certain goods and services.

Chapter One examined uncertainty, involvement and transaction costs, in terms of consumer behaviour. Here the transaction relationship acts like a bridge between the consumer's involvement with or desire for the product or service and the uncertainty they perceive in selection, purchase and monitoring. By purchasing within a transaction relationship they are able to reconcile their involvement and uncertainty and yet limit their costs of transacting.

4.3 Marketing Perspectives of Relationships and Transacting

Drawing on the developing body of literature in marketing, it is possible to identify two differing perspectives of relationships. One is rooted in the very traditional marketing perspective drawn from industrial marketing, where relationships are the natural extension of repeated patterns of interaction. As interactions occur and promises of product/service quality are made and met, so the parties develop a relationship (Bitner 1995; Pine, Peppers and Rogers 1995). It is this perspective of relationships, and the antecedents of their development, that has encouraged marketing scholars to pay considerable attention to structural factors, such as exit costs and to measure patterns and frequencies of interactions. Database marketing has also been closely linked to this conceptualisation of relationships; Petrison and Wang (1993) suggest that the key to relationship marketing lies in the ability of the firm to know their customers and to target them more effectively. Interestingly, the decision to build database relationships with customers is usually initiated unilaterally by the firm and often involves the passing of data on customers to various parts of the organisation without the consent or knowledge of the individual. Such behaviour could hardly be viewed as 'relationship' building, more accurately it represents 'information mining'.

Another perspective of relationships emerges in the work of Akerlof (1970), Axelrod

(1990), Ben-Porath (1980) and Macneil (1974) and is developed theoretically and empirically by the work of Morgan and Hunt (1994). This perspective of relationships could be termed attitudinal, certain attitudes and preferences are perceived prerequisite for the creation of a relationship. Relationship are not perceived as emerging through repeated patterns of interactions between trading parties, although such interactions may be the result of a relationship between the parties. Understanding relationships demands therefore, an understanding of consumers' attitudes and preferences and specifically the underlying characteristics of involvement and confidence.

In this study the attitudinal perspective of relationships is adopted, building on the consumer behaviour matrix developed in Chapter Two. Using the characteristics of involvement and uncertainty the consumer behaviour matrix identifies four ideal-types of consumer behaviour. Significantly that matrix draws a distinction between repeated patterns of purchase, termed repeat/passive and relationships interactions, termed relational/dependent. That matrix challenges the understanding of relationships as extensions of repeated patterns of purchase, by providing an alternative explanation and rationale for that behaviour. Repeat purchasing may occur simply because it is convenient to do so, because buyers cannot be bothered to seek out alternatives, or the alternatives they require are not available. In these circumstances the customer is making repeat purchases and using the matrix it is possible to argue that, rather than having a relationship, the individual has adopted the repeat/passive ideal-type to structure their exchange. Whereas in this study, relationships develop only where consumers possess high levels of involvement and low levels of confidence and, driven by their desire for the product/service, create transaction relationships to structure their purchasing/contracting behaviour. Relational contracting conditions of high involvement, low confidence, form the antecedents of transaction relationships and as such relations are not perceived as an extension or outcome of repeated interactions. However, the outcome of a relationship may be a pattern of repeated transactions, which possibly explains why firms have used repeated transactions as a proxy measure for relationships. The inherent danger is that using such a measure creates a false perception of relationships existing where they do not. Relationships enable consumers to purchase goods and services in relation to which consumers are unable, for whatever reason, to make rational or nearly rational consumption choices. As suggested in Chapter Two, the significance of relationships is that they have the potential to generate differentiation advantages. That strategic potential is articulated using the strategic resource framework discussed in Chapter One.

4.4 Transaction Relationships Within the Strategic Resource Framework

For relationships to be viewed as strategic resources it must be possible to view and understand them within the context of Barney's (1991) strategic resource framework. Barney identified four key characteristics of strategic resources, fundamental to sustained competitive advantage: : (i) resources must be valuable, (ii) rare, (iii) imperfectly imitable, and (iv) there must be no strategically equivalent substitutes.

4.4.1 Valuable Resources

For a resource to be classified as valuable it must make a positive contribution to both financial services providers and consumers. If one party does not generate benefits from the relationship, involvement will be low and subsequently there will be little inclination to create and sustain the relationship over time. The value of the relationship for a financial services provider rests on their ability to create bonds of loyalty/commitment between the trading parties and on their ability to concentrate the consumer's financial services purchases within it. Increasing the concentration of purchases within a relationship has important advantages for the firm. Marketing costs are significantly reduced as the firm concentrates on existing rather than new customers and underwriting risks are reduced as more data is collected on the individual. As the understanding of customers needs' improves, through the exchange of information over time, so new opportunities to provide services can be identified. In marketing jargon this is termed 'share of wallet', encouraging customers to concentrate their purchases of services with a single provider. Finally, new customers are recruited via family/friend networks, a method very successfully exploited by accountants, solicitors etc. who have developed customer bases in this way.

For consumers the formation of a transaction relationship creates value in two ways, by reducing their perceptions of uncertainty (Seth and Parvatiyar 1995) and reducing the transaction costs associated with purchasing, monitoring and enforcing contracts (Chant

1987). Moreover, by encouraging consumers to purchase financial instruments the rate of return derived from their capital might be increased; at least that is usually the intention and this helps to raise the level of consumer involvement with the financial services provider. In this way the relationship creates value for both parties and a sense of reciprocity which is regarded as vital in sustaining relationships over time (Duck 1991).

4.4.2 Rare Resources

To be a strategic resource, relationships must not only be valuable, but also rare. Traditionally consumers formed multiple relationships to structure their purchases of financial services. This reflected the differentiated structure of the industry which separated firms into particular areas, and forced consumers to separate out their purchases in a similar manner. As financial services firms engage in horizontal integration, the need for consumers to form multiple relationships diminishes. If an individual's entire financial needs can be met within a single relationship, the opportunity exists to draw consumers into a single relationship that provides for all of their financial needs and this relationship can be described as rare. Multiple relationships cannot be described as rare because they are not mutually exclusive and the consumer still has the opportunity to switch between them. Under these conditions the relationship cannot be regarded as a strategic resource. Firms must, therefore, create exclusive relationships, or convince the consumer that the relationship is exclusive. Central to this idea of exclusivity is the role of identity.

Duplicating a relationship is difficult if the significance of that relationship is dependent on the identity of the involved parties. A pattern of interactions takes place between two individuals, in which information is exchanged and an understanding of the consumer and their needs is developed. The consumer perceives that they have a relationship with the other individual, even where they work for a large financial provider. Replacing that relationship is not simply a matter of offering financial instruments and services of a similar quality at a competitive price in order to persuade individuals to substitute one relationship for another. Competing firms must duplicate the interactions between the parties within the relationships, and the trust invested in those individuals. If identity plays a key role in the formation and operation of transaction relationships, two consequences result. Firstly, consumers are unlikely to create multiple relationships because the cost, in terms of effort in providing information and building up trust, is high. Secondly, once the relationship is created, consumers are likely to be loyal to it as their levels of involvement in the relationship are high. Where transaction relationships are based on identity they can be perceived as rare because the pattern of interactions and feelings of loyalty, commitment and trust are only applicable to the individuals within that unique transaction relationship. Those feelings and attitudes cannot easily be transferred to another party as they are usually focused on the individual, rather than an organisation. Thus, the relationship is rare in that the feelings and attitudes within it are not easily duplicated, and possible substitutes for the relationship are also limited because of the high levels of perceived uncertainty.

4.4.3 Imperfectly Imitable Resources

For valuable and rare resources to be a source of sustained competitive advantage they must be imperfectly imitable. Imperfect imitability demands that firms are unable to duplicate valuable and rare resources. In discussing imperfect imitability, Barney (1991) identifies three sources from which it may emerge, namely, historical reasons, causal ambiguity and social complexity.

Relationships develop from interactions between a consumer and a firm over extended periods of time and successful exchanges create a pattern of interactions which grow and develop into a relationship (Cunningham and Harris 1982; Wilson 1995). As these interactions take place, investment in the relationship by both parties occurs and improves its long-term value (Farrell and Rusbult 1981). In a financial services context these investments frequently take the form of adaptations in the 'sales-and-interaction' process as the two parties become used to dealing with one another. These investments not only create mutual trust, but also help to develop technical and knowledge bonds. As this occurs, the relationships acquire the characteristics of a personal, rather than a purely economic, relationship.

Creating patterns of successful exchange, investing in the relationship and building trust take time, commitment, and resources. Consequently transaction relationships cannot be duplicated in an instant and the opportunities created by the relationship are the outcome of past decisions and strategies. Duplicating a relationship of this nature and removing the competitive advantage it provides demands a pattern of resource commitment by the firm, possibly over extended periods of time (Ghemwhat 1991). This is particularly true where investment in human capital is made. Selecting, recruiting and training personnel capable of dealing with consumers can take considerable periods of time and be extremely difficult to duplicate. Historical commitment of capital in staff creates imperfectly imitable resources that bind together transaction relationships.

The second factor which can determine the imperfect imitability of resources is that of casual ambiguity, which arises when the link between the resources used by the firm and the firm's sustained competitive advantage is not fully understood (Barney 1991). As the role of relationships as a resource contributing to sustained competitive advantage is understood, the linkage between the two is clearly apparent, casual ambiguity does not contribute to imperfect imitability.

The final cause of imperfect imitability is the social complexity of the resources which generate sustained competitive advantage. Within relationships the identity of the trading parties has a significant impact on the behaviour of the parties (Ben-Porath 1980). Replacing one relationship with another is not straight-forward if the success of the relationship depends on the identity of the parties. In these circumstances simply duplicating physical assets will not replicate the essence of the relationship. In this sense identity and the role it plays in lubricating exchange is a complex social phenomena and is neither easily understood nor duplicated (Barney 1991). Thus, the unique historical development of relationships as an outcome of past commitments of resources, and the socially complex nature of relationships, particularly their dependence on the identity of the parties, render them difficult to duplicate or imitate.

4.4.4 Non-Substitutability

Finally, for relationships to be a key resource and form the basis of sustained competitive advantage, they must not be substitutable by other resources. If it is possible to replace a relationship with a similar, or substitute relationship, transaction relationships could not be the basis of sustained competitive advantage. To be a strategic resource, transaction relationships must be mutually exclusive and identity plays a crucial role in this context. As discussed earlier, the identity of trading parties conveys information and much of this information is of a qualitative rather than quantitative nature. It would be difficult, therefore, to replace a transaction relationship with information technology because of the difficulty in communicating 'soft' qualitative information through this medium. For example, telephone banking has been extremely successful in distributing simple financial services, such as money transmission, because the identity of those delivering the service is perceived as unimportant. But where the consumer has to trust the firm or its employees, identity plays an important role. Humans tend to trust other humans and relationships and loyalty are built on the interaction between two people. It is possible that simple relationships with branches and branch staff are substitutable by technologically driven means of distribution, but more complex relationships are not (Howcroft and Beckett

1993). Thus, in certain contexts, the transaction relationship may be substitutable with other forms of distribution, but where the identity of the trading parties is significant, for example, where advice is required, transaction relationships cannot be substituted.

Transaction relationships which are valuable, rare, imperfectly imitable and not substitutable by other resources, fulfil the demands set by Barney (1991). To translate that strategic resource into a strategy and, ultimately, sustainable competitive advantage, financial services firms have to form exclusive transaction relationships with their customers and, within that relationship, satisfy a wide range of financial needs. In marketing terms this demands that consumers concentrate their purchases within the single relationship. This is contrary to the traditional view of consumers' contracting and purchasing behaviour in the context of financial services and explains why there is a necessity to focus on those factors that build loyalty/commitment and develop the strategic potential of transaction relationships. Loyalty/commitment acts as a mediating factor between relational behaviour, where the consumer recognises the need to use a relational behaviour to structure their purchases, and a transaction relationship within which the consumer concentrates their purchases.

What is apparent from the discussion of transaction relationships from a resource-based perspective, is that the relationship becomes a strategic resource only when the consumer develop bonds of loyalty/commitment to it. In the absence of loyalty/commitment, relational behaviour is not necessarily a strategic resource. Relational behaviour may be rare, imperfectly imitable and not substitutable, but critically, not valuable as the consumer may switch to an alternative relationship. In this sense the relationship is like a brand, the consumer is aware of its existence, it has an identity and provides reassurance. However, for consumers to guided by relationships when purchasing, they must be loyal or committed to those relationships.

4.5 Loyalty and Commitment

In seeking to understand the use of transaction relationships to structure exchange, it is important and useful to draw on the loyalty/commitment literature, for two reasons. Firstly, because the intellectual development of loyalty/commitment reflects the increasing importance of relationships rather than repeated acts of purchase. It is the existence of loyalty/commitment that transforms repeated patterns of purchase into relationships and ultimately strategic resources. Secondly, the two concepts of loyalty/commitment and relationships are so closely inter-linked that it is not meaningful to perceive them as existing independently. Consumers may interact with other parties, but that interaction will occur within the rational-active or repeat-passive modes, unless loyalty/commitment exists to transform those interactions into relationship. For a relationship to exist, the parties have to be loyal/committed to one another. Given this close interrelationship between loyalty/commitment and relationships, it is reasonable to draw on the loyalty/commitment literature to identify those factors which may underlie a relationship.

Customer loyalty has long been recognised as an important element in the marketing and consumer behaviour literature, but until recently it has received little attention in the context of relationship marketing (Morgan and Hunt 1994). As suggested above, loyalty/commitment is perceived in this study as the very basis of a relationship. It is important, if not vital, therefore, to understand the dynamics of loyalty/commitment across different financial services contexts and its impact on the formation of relationships to structure purchases.

The history of the concept of consumer and brand loyalty extends back to Copeland's (1923) study of what he termed 'brand insistence'. The majority of early loyalty studies were operationalized behaviourally and focused on patterns of repeat purchasing of a particular brand or service over time. These measures were based either on the actual purchasing behaviour of consumers or on their reports of that behaviour. One early conceptualisation of loyalty was to measure the purchasing sequence of consumers. Brown (1952) for example defines "undivided loyalty" as the purchasing sequence 'AAAAAA'; "divided loyalty" as 'ABABAB'; "unstable loyalty" as 'AAABBB' and "no loyalty" as 'AFCBAH'. Brown's conception of loyalty is strongly focused on repeated patterns of purchase: the greater the degree of repeat purchase, the higher the level of loyalty.

A second form of definition and measurement is to examine the proportion of purchases devoted to a given brand. Cunningham (1956) examined the portion of total purchases represented by the brand used most often within the product category. The proportion of purchases, as measured in percentage terms, indexes the strength of consumer's loyalty to a particular brand. A third definition focuses on the probability of purchase, where the probability of the consumer purchasing a given brand is calculated, giving a stochastic model of consumer behaviour (Assael 1987). Frank (1962) researched repeat purchase probability where loyalty was defined as the relative frequency of purchases of a specific brand from a prior set of purchases.

Finally, a fourth definition was constructed from a synthesis of variables by combining several behavioural criteria. Burford, Enis and Paul (1971) developed a loyalty index based on several behavioural components, such as the fraction of object expenditure within the product class budget, the number of switches from the loyalty object, the number of brands available and those patronised. However, although this approach produced a fruitful stream of literature and research, by the late 1960's researchers began to question the validity of measuring loyalty purely in a behavioural context. Day (1969) criticised past concepts of loyalty on the basis that they could not differentiate between true or 'intentionally' loyal behaviour and 'spuriously' loyal buyers. He referred to the latter type of buyers as 'deal oriented' in their re-purchasing because they lacked any real attachment to brand or firm attributes. Day advanced the definition and conceptual understanding of loyalty by including a psychological element in the discussion, (Jacoby 1971). The problem with this approach to loyalty is that it provides no explanation as to why the consumer is repeating purchases, or what would occur if alternatives were presented.

An alternative perception of loyalty based on cognitive and attitudinal approaches emerges in the work of Guest (1942) who examined 'brand preference'. Monroe and Guiltiman (1975) further developed this approach to loyalty using a single 7-point scale item that examined price sensitivity to re-purchasing a particular brand. Bennett and Kassarijian (1972) described loyalty in terms of acceptance and rejection regions, with brand scaled along a continuum of preference. Jarvis and Wilcox (1976) developed this work using a weighted index of brand awareness to define 'cognitive loyalty'. More recently Jain, Pinson and Malhotra (1987) used eight 6-point Likert-type scale items to measure customers' intentional loyalty and general propensity to switch. Another approach to cognitive/attitudinal definitions of loyalty is that of the consumer behaviouralists, Engle, Kollat and Blackwell (1986); Howard and Seth (1969) and Nicosia (1966). This approach has attracted criticism, see earlier comments in chapter one and Ehrenberg (1988).

In the 1970's researchers began to incorporate both the behavioural and attitudinal dimensions into loyalty studies. Jacoby and Kyner (1973 p1) suggest that "a 'uni-dimensional' measure is probably insufficient for measuring such a complex multidimensional phenomena as brand loyalty". Day (1969) argued that in order to be truly loyal, the consumer must hold a favourable attitude toward the brand in addition to purchasing it repeatedly. Day found that the predictive power of a model using attitude and behavioural dimensions was almost twice as effective as a model using behavioural dimensions alone. Newman and Werbel (1973) provided the conceptual foundation for the development of another composite measure of loyalty. Loyalty scores were summed from responses to a series of information search questions. In Newman and Werbel's concept of loyalty, the highest brand loyalty score was given to a person who had re-purchased the old brand, thought only of that brand at the onset of the purchase decision process, and showed no evidence of brand-related information seeking. Recent studies examining loyalty using composite measures include Blackman and Crompton (1991a, 1991b); Howard, Edginton and Selin (1988); Jarvis and Mayo (1986). One of the great problems in trying to understand loyalty is the confusion between behavioural and attitudinal approaches and the inadequacies in the formation of means to measure these concepts. For example, the behavioural measures used in the more recent composite loyalty definitions have not markedly developed beyond these early investigations. Much of the inadequacy of the behavioural approach derives from the lack of a theoretical conceptualisation. A result of this lack of theoretical focus on loyalty is the emergence of a multitude of measures and approaches to research. A review of the brand loyalty literature, (Jacoby 1971; Jacoby and Chestnut 1978; Jacoby, Olsen and Szybillo 1971; Newman and Webel 1973) suggests there is still considerable debate as to the nature of brand loyalty. Jacoby and Kyner (1973 p1) assert that, "there are at least eight major approaches to operationally defining brand loyalty".

The concept of commitment has been the focus of studies in other areas of the social sciences, including social psychologists, opinion researchers, sociologists, and organisational behaviouralists (Crosby and Taylor 1983; Hunt, Chonko, and Wood 1985; Lund 1985). Commitment has, therefore, been defined, but the underlying factor has been consistency, of either behaviour (Becker 1960; Lee and Zeiss 1980) or of cognition (Kiesler 1968). Day (1970) argued that to adequately measure the attitudinal component of loyalty, researchers must first regard the construct theoretically as a psychological and sociological phenomena. Commitment or loyalty will only emerge where there is involvement with the purchase and commitment to the brand. Recent attempts to measure commitment have developed this multidimensional conceptualisation, (eg Brunson, Shelby and Johnson, 1991; Yair 1990). Commitment has been interpreted from different perspectives in sociology and psychology literature. The sociological perspective focuses on the societal and social factors that constrain or commit the individual to a consistent line of action (Allutto, Hrebiniak and Alonso 1973). Psychologists define commitment in terms of decisions or cognition's that fix or bind an individual to a behaviour (Kiesler 1971).

Because there is a clear association between loyalty and commitment some definitional problems have arisen. A number of researchers, Beatty and Kahle, (1988) and Crosby and Taylor, (1983) for example, have dealt with this problem by limiting commitment to a cognitive dimension and perceiving brand commitment as an emotional or psychological attachment to a brand. Rosenberg (1965) argues that consistency between beliefs and feelings for an object, and the flow of experiences that derive from the object, result in a stable, behavioural intention towards the object. This view of human behaviour is consistent with the work of Frey and Eichenberger (1989), who found that existing experiences deeply affected an individual's attitudes towards future purchases. Good experiences re-enforced or developed positive attitudes and negative experiences had the opposite effect.

Extending Frey and Eichenbergers' work it is possible to link commitment, involvement and uncertainty. Where consumers are involved in the act of purchase, that is they find the act of purchase interesting because it fulfils higher order needs, they are more likely to become committed to that relationship. Fulfilling higher order needs is a pleasant experience and Frey and Eichenberger suggested that such experiences would re-enforce positive attitudes, resulting in stable behavioural intentions (Rosenberg 1965). Extrapolating the work of Frey and Eichenberger and Rosenberg it is possible to argue that consumers, having enjoyed the experience of purchasing through a relationship, will develop a degree of commitment to the relationship which encourages repeat purchases. Commitment is further enhanced if the consumer perceives a high degree of uncertainty in the choice environment; they will then increasingly turn to and trust their relational contracts and relationships. Without these relationships to help them make choices the costs of transacting will be high as the purchases expose the individual to high levels of uncertainty which either have to be managed or ignored.

On the basis of the above discussion an important distinction is made between behavioural and emotional loyalty. Behavioural loyalty describes repeated acts of purchase without any commitment to the product or service purchased. Emotional loyalty describes consumers who are emotionally committed to a product or a firm and make repeated acts of purchase which are motivated by that commitment. This distinction is based on a review of the previously cited literature, and on the work of Johnson (1973, 1982). He studied the commitment individuals displayed to groups and to other individuals in society and identified two types of loyalty or commitment: structural and personal loyalty. Structural loyalty reflects the social and cost factors which constrain an individual's actions and thus their maintenance of consistent patterns of behaviour. Personal loyalty relates to the extent to which an individual is dedicated to some course of action, which encourages them to maintain patterns of behaviour. Such a distinction between two loyalty concepts reflects both the sociological/behavioural and psychological perceptions of loyalty and commitment. This conceptualisation of loyalty distinguishes between repeated purchases made due to a lack of choice, ignorance or inertia, structural loyalty, and those purchases which are motivated by commitment.[10]

The term 'structural loyalty' can be used to describe the impact of the traditional financial services market structure and dynamics on consumers' purchasing and contracting. Under these conditions financial services consumers were behaviourally loyal in that they repeated purchases without commitment to the provider or brand. As competitive forces have altered market structures and competitive dynamics, structural loyalty and the form of competitive advantage that it generated has been eroded. Under these circumstances personal or emotional loyalty will assume a far greater significance, especially where loyalty develops a relational contract into a transaction relationship. In these

[10] In this dissertation the term behavioural loyalty is used to describe loyalty motivated by structural factors and emotional loyalty describes loyalty based on personal factors.

circumstances commitment imposes a cost onto competing alternatives in so much as they have to offer comparable alternatives at a significantly lower price/ higher quality to encourage consumers to switch. Clearly the degree of price /quality enhancement needed to encourage switching depends on the level of commitment. It is in this context and this context only, where individuals are committed to a brand or firm, that loyalty, termed here 'personal loyalty', becomes a strategic asset capable of generating sustainable competitive advantage. Loyalty will not exert a significant influence if the consumer is using rational/discrete contracts to structure their transactions. The availability of information means that they are able to make their own comparisons and decisions without relying on the advice of other parties, (Macneil 1978).

Drawing on the above discussion the terms 'emotional' and 'behavioural' loyalty can be defined thus; emotional loyalty describes the psychological commitment to a trading partner, whereas behavioural loyalty describes the pattern of interactions that flows from that commitment. These factors can exist independently; consumers may be emotionally loyal and yet fail to translate that loyalty/commitment into behaviour patterns. Alternatively consumers may repeat patterns of purchase, but may not be motivated by loyalty/commitment to the other trading partner. The notion of transaction relationships is based on the existence of both emotional and behavioural loyalty/commitment. If that relationship is not underpinned by emotional loyalty or psychological commitment, the consumer may switch back to rational forms of purchase, should changes in the choice environment occur. In that sense it could not be perceived as a strategic resource because only if the consumer is committed to the relationship can it become the basis for a differentiated strategy.

4.6 Loyalty/Commitment and Transaction Relationships

Drawing on the work of Morgan and Hunt (1994) transaction relationships are perceived in this study as an extension of loyalty/commitment. In their study Morgan and Hunt differentiate between transactional and relational behaviour; this study has developed that approach and used the consumer behaviour matrix to differentiate between four types of possible contracting/purchasing behaviour. In that matrix relational contracting leads to the formation of transactions relationships and those relationships are based on a number of attitudinal antecedents, of which two have been identified in Chapter Two; involvement and uncertainty. However, arguably a number of additional antecedents can be identified in the loyalty/commitment literature. The rationale for drawing on this literature to identify additional antecedents is quite straight forward; where individuals are loyal/committed to one another they are perceived as having a relationship and are therefore likely to display very similar attitudinal antecedents. Linking these elements in this way enables the study to draw on the extensive loyalty/commitment literature discussed above and on Rusbult's and Morgan and Hunt's empirical work.

Rusbult's Investment Model (Rusbult 1980a) predicts that relationship commitment is a positive function of satisfaction, and of the amount invested in the relationship, and a negative function of the outcomes available from the next best alternative relationship. Two types of investment are distinguished: intrinsic investments, which consist of resources which are explicitly put into the relationship, such as time, emotional involvement and money, and extrinsic investments, which are previously extraneous interests which become linked to the current relationship, such as a home which might be lost upon the dissolution of the relationship. The model used in this dissertation differs from Rusbult's in that it focuses on attitudinal factors, rather than on investments, as the key determents of relationship commitment. The elements identified by Rusbult as creating relationship loyalty/commitment can be described as structural and give rise to repeat/passive forms of behaviour, rather than fully fledged relationships.

Morgan and Hunt (1994) identify a number of key mediating variables: relationship termination costs, relationship benefits, shared values, communication, and opportunistic behaviour. Five outcomes flow from these variables: acquiescence, propensity to leave, co-operation, functional conflict, and decision-making uncertainty. From these mediating factors and outcomes a model is developed. Morgan and Hunt's model differs from the one used in this study in that it assumes that a relationship exists, whereas the model used here hypothesises that the form of contracting and purchasing used reflects the nature of the good or service being purchased. In those instances where relational contracts are appropriate, transaction relationships may develop. Commitment and trust are unlikely to develop in those circumstances where the consumer is confident and takes on the responsibility for decision-making. The model developed in this project (see Figure : 9) reflects the impact of the purchasing and contracting choice environment on decision-making and identifies a number of factors such as satisfaction, trust, identity and ethical behaviour which act as determinants of loyalty/commitment. Once loyalty/commitment is established then the transaction relationship can be developed into a strategic resource.

Drawing on the work of Morgan and Hunt (1994) and Rusbult (1980a), and their approach to the study of loyalty/commitment, it is possible to hypothesise that loyalty/commitment is the function of a number of variables. As suggested above, these variables reflect the work of Morgan and Hunt, rather than Rusbult's approach to relationships.

4.6.1 Involvement

Involvement is perceived as a key factor driving purchase and ultimately loyalty/commitment. Beatty, Khale and Homer (1988) argue that if marketers are able to increase consumers' interest in products/services, more individuals will be inclined to purchase within the product/service class and greater levels of loyalty/commitment can be attached to particular brands. If involvement with the product/service class does not exist, consumers will be much less likely to purchase, let alone attempt to build loyalty/commitment. Establishing the need for the product/service is thus seen as a prerequisite of loyalty/commitment. The association of involvement and loyalty/commitment can be extended to the purchase decision, so that involvement in the purchase decision results in loyalty/commitment to the means of purchase employed, be that via direct distribution or a relationship.

4.6.2 Perceived Uncertainty

The confidence of the individual consumer in making decisions plays a significant role in how they structure their purchasing and contracting behaviour. Confidence and uncertainty are inversely related; the less uncertainty individuals have in the decision-making environment, the more confident they are about taking decisions and the more rational-discrete they become. There is a body of psychology literature which suggests that individuals do not like uncertainty or risk, (eg Engel, Kollat and Blackwell 1986; Khaneman and Tversky 1982) and will seek to avoid or eliminate it from their decision-making. There are only a few empirical and conceptual studies focusing on uncertainty in marketing and strategic management, apart from the perceived risk literature in consumer decision-making (eg Hugstad and Taylor 1979). Jackson (1985a, b) highlights that uncertainty reduction is a major reason for the creation of stable patterns of exchange and Earl (1990) examines how consumer goods and services help to reduce the degree of uncertainty individuals face by extending their control into the environment. However, uncertainty plays a key role in determining purchasing and contracting behaviour because it affects the ability of an individual to make decisions in a given choice environment.

If the individual is confident of their ability to understand the nature of the decision environment and the consequences of choice, they are more likely to accept responsibility for choice and action it themselves. Where they are not confident of their ability to process information and make decisions, they will seek the advice and guidance of others, (Macneil 1978). That perception of uncertainty, and confidence in dealing with it, depends on the availability of information and their ability to process and understand that information. Greater information implies less uncertainty, easier decision-making and lower transaction costs. Where individuals are faced with a high degree of uncertainty they are *ceteris paribus* more likely to use trading parties they know and have used before. Thus, loyalty and past experiences are likely to play a key role in determining where and how the purchase is made. Where uncertainty cannot be reduced the consumer is likely to avoid purchasing, especially where their involvement with the product/service is low. A significant proportion of brand loyalty marketing is focused on the reduction of uncertainty for consumers. Brand names, to some extent, indicate a given level of quality and these are 'trusted' or accepted by consumers as good quality proxies.

Traditionally this has not been an issue in the financial services industry where consumers have assumed, possibly incorrectly, that government intervention removes variations in the quality of provision. Consequently, perceptions of uncertainty have assumed a far lower level of importance in determining purchase decisions.

4.6.3 Satisfaction

In the marketing literature satisfaction is regarded as a function of the discrepancy between consumer expectations and perceptions (e.g. Gronroos 1984; Lehtinen and Lehtinen 1982; Parasuraman, Zeithaml, and Berry 1985; Solomon et al. 1985; Surprenant and Solomon

1987; Zeithaml, Berry, Parasuraman1985). The commonly held view of satisfaction, therefore, is the difference between what people feel is deserved and what they actually receive. Given that satisfaction is the difference between outcomes obtained and outcomes expected, there would be little incentive for a person to spend time and energy looking for alternative sources of financial services, or switching to other alternatives if their needs would be less well met. It follows, therefore, that for satisfaction or dissatisfaction to affect buying behaviour, the individual would need to be aware of the available alternatives and the satisfaction that could be derived from them. A satisfactory pattern of purchase is one where the costs of loyalty are less than the rewards derived and where the rewards are greater than what the consumer feels is appropriate (Thibaut and Kelley 1959). This is a common approach in measuring customer satisfaction, SERVQUAL for example, measures service quality, by measuring the difference between what is felt appropriate (i.e. perception) and what is actually received (i.e. reality) (Parasuraman, Zeithmal and Berry 1985).

The level of dissatisfaction will have an impact on information search. Those individuals dissatisfied with the relationship will be more inclined to search for (and be aware of) alternative sources of supply. This form of behaviour is consistent with Sabatelli and Cecil - Pigo (1985), who indicate that the monitoring of alternative supply sources, i.e. other brands or firms, is indicative of a low degree of loyalty to the existing supplier. Moreover, where dissatisfaction is being experienced, attempts by one party to deepen the pattern of interaction, by selling additional products, for example, are likely to be resisted.

The relationship between satisfaction, loyalty and commitment has received empirical support from work undertaken by Rusbult and colleagues. Tests of Rusbult's Investment Commitment Model show strong links between satisfaction and commitment (Duffy and Rusbult 1986; Farrell and Rusbult 1981; Geyer 1985; Johnson 1985; Rusbult 1980a, b; Rusbult, Johnson, and Morrow 1986). Other work suggests that expected future levels of satisfaction are crucial to patterns of purchase in current time periods (Altman and Taylor 1973). Individuals project current levels of satisfaction into the future and anticipate if these will be acceptable to meet future requirements Jackson (1985b). If they are not acceptable, consumers will be inclined to switch their purchase behaviour in current time periods. On this basis the loyalty of the individual towards a firm is continually being tested against both current and future levels of satisfaction and firms must be capable of delivering a stream of benefits which are at least comparable to competitors. A good example in the financial services context are direct distributors and the opportunity they provide for consumers to test quotations at very little expense. The ability to make direct comparisons at little cost has encouraged consumers to adopt rational-active behaviour when purchasing certain forms of financial instrument.

4.6.4 Identity

In transacting, certain costs are incurred, in information collection, advertising and negotiating and the creation of provisions and guarantees for enforcement. These costs arise because the parties to transactions comprise different individuals with asymmetric information, divergent motives and mutual suspicions (Ben-Porath 1980). Identity reduces these transaction costs and speeds up the process of decision-making. Identity can take a number of forms, individual product brands, corporate brands and individuals, each form communicates information and values to the consumer. The consumer recognises the 'identity' of the brand, firm or 'knows' the individual and associates that identity with blocks of information or values. Identity is thus a shorthand means of communicating a bundle of information, it is a heuristic and is useful to the consumer due to their cognitive limitations. Consumers do not and/or cannot search the entire choice environment every time they make a purchase, instead they use heuristics like brands to speed up their decision-making and reduce its costs. Relationships operate in the same way, allowing the individual to speed up and reduce the cost of decision-making (Seth and Parvatiyar 1995). Except that in the context of financial instruments and the domain of this dissertation, identity is associated with an individual, rather than a brand.[11]

Identity plays a key role in lubricating relationships and this is particularly true where the exchange has long-term implications, where it difficult to assess the quality of what is exchanged, or where the exchange demands continued interactions. Under these conditions, the identity of trading partners helps to reduce uncertainty and develop trust. Reducing uncertainty and creating trust is particularly important because the consumer in these circumstances is frequently purchasing promises of future performance.

[11] Corporate identities may encourage trust and reduce uncertainty in the context of financial services, however, such identities fall outside the focus of this dissertation.

4.6.5 Trust

Trusting behaviour is conceptualised as action that (i) increases one parties vulnerability to another whose behaviour is not under one's control and (ii) takes place in a situation where the penalty suffered if the trust is abused would lead one party to regret the action. This definition draws on both Rotter's (1967) definition of trust and that of Moorman, Deshpande, and Zaltman (1993). Within the field of financial services it is possible to identify instances where the existence of trust is a prerequisite to certain forms of behaviour. Without trust in the financial system, for example, money would be withdrawn from banks and thereby threaten their very existence.

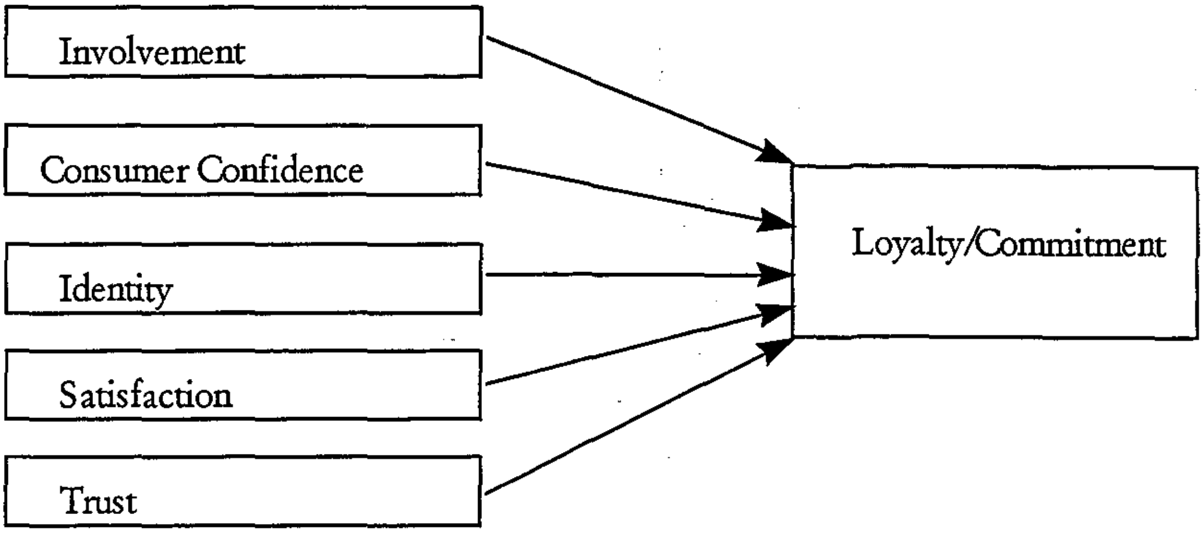
Trust replaces the information search and this allows the individual to significantly reduce the costs of undertaking transactions. This is particularly true in highly uncertain decision environments, or where the individual lacks the ability to make their own decisions. In these situations trust is a lubricant, in that it enables the individual to undertake a purchase of a financial instrument by reducing transaction costs (Chant 1987). As transacting costs are reduced, the benefits that flow from the relationship do not have to be especially large to encourage the individual to remain within it. The existence of a transaction relationship based on personal loyalty and trust, encourages individuals to maintain patterns of purchase within the parameters of the relationship.

The importance of trust can be seen in its impact on long-term relationships. Where trust exists both parties are sure that adaptations to future contingencies will be made in a mutually beneficial way. They refrain from cheating on one another knowing that future transactions between them will occur and that it is more beneficial to both parties to continue the relationship rather than seek short-term gains. In the context of financial services relationships and the provision of investment instruments, there exists some evidence of 'cheating' by financial services firms or specifically by their employees. In certain instances financial services sales personnel have adopted a short-term view of the consumer and sought to extract as much revenue as is possible, rather than meeting the financial needs of the individual. They have adopted a competitive rather than a co-operative strategy, and the possibility of future interactions discounted. The result was that consumers trust in financial services firms and their employees was eroded and they resisted the formation of relationships, suspecting that sales personnel wanted to exploit any relationship, rather than solve their financial needs. It is possible that many consumers would rather remain in the 'no purchase' quadrant than form relationships with financial providers and their personnel and expose themselves to 'cheating' strategies. Evidence that cheating strategies or behaviour occurred is provided by the need for legislation to supervise the behaviour of sales staff, and the continuing debacle of the pensions miss-selling scandal. It could be argued that trust is an essential ingredient of successful bilateral relationships and at a strategic level, 'cheating' strategies by sales personnel are extremely costly.

The study's empirical research seeks to test these antecedents of transaction relationships and to identify if they vary by financial instrument or individual. From this testing it will then be possible to draw conclusions about both transaction relationships and loyalty/commitment. If the factors or attitudes already identified and discussed in the study are found to exist, it will be possible to draw conclusions about how individuals structure their purchasing and contracting behaviour, and also to ascertain the degree of loyalty/commitment to that behaviour.

Drawing on the discussion contained in this chapter and Chapters One and Two, a model of the relational/dependent ideal-type can be postulated (see Figure : 6). This model draws on the loyalty/commitment literature discussed above and postulates five factors or attitudes which form the basis of relational contracting and transaction relationships.

Figure 6 : The Five Factor Model



Source : A. Beckett (1997)

This model provides a link between the loyalty/commitment literature and the concept of transaction relationships. From the work in Chapters One, Two and Three it is possible to hypothesise as to the context in which transaction relationships will be used. Drawing on the loyalty/commitment literature discussed in this chapter, it is now possible to hypothesise the attitudinal antecedents that will underpin or underlie transaction relationships. If these elements are found to be absent or cannot be linked to investment instruments, it would strongly suggest that consumers are not forming transaction relationships to structure their purchases of financial instruments.

4.7 Conclusion and Hypotheses

Having identified and discussed the theoretical concepts that underpin the study, in terms of the attitudinal antecedents of transaction relationships and their context, the next step in the research is to generate a series of hypotheses which emanate from that discussion and around which the empirical analysis can be organised.

The first area of focus in the empiricism is to test for the existence of the ideal-types identified in the consumer behaviour matrix. For the purpose of this study two ideal-types are examined; rational/discrete and relational/dependent. Accordingly, the study hypothesis can be identified as follows:

H : 1 'Respondents attitudes differ between rational/discrete and relational/dependent ideal-types'

The research uses different forms of financial instrument as a proxy for rational and relational purchasing contexts, and tests for differences in attitudes and behaviour between the instruments. If differences exist this may indicate that respondents recognise the need to structure their purchasing behaviour to reflect both the inherent characteristics of the financial instrument being purchased and the choice environment.

From this hypothesis a number of sub hypotheses can be developed which draw very directly from the discussion in this chapter.

H : 1.1 'Involvement is positively associated with the relational/dependent ideal type '

H : 1.2 'Consumer confidence is negatively associated with the relational/dependent ideal type'

H : 1.3 'Identity is positively associated with the relational/dependent ideal type'

H : 1.4 'Trust is positively associated with the relational/dependent ideal type'

H : 1.5 'Satisfaction is positively associated with the relational/dependent ideal type'

The second area of empirical focus explores the differences in attitudes between loyal and non-loyal consumers. Having argued in this chapter that loyalty/commitment and transaction relationships are inherently linked, the expectation is that similar patterns of attitude will characterise loyal respondents and the antecedents of relational/dependent contracting. The two can thus be reconciled and loyal/committed consumers will be those who form and maintain transaction relationships in certain contexts. Those individuals represent strategic resources around which a differentiated strategy can be based. If it proves impossible to link transaction relationships and loyalty/commitment then the viability of a differentiated strategy based on loyalty/commitment is significantly reduced.

H : 2 'Differences in attitudes exist between loyal/committed and non-loyal/committed respondents'

This hypothesis focuses very directly on the attitudinal constructs that underlie loyalty/commitment, highlighted in this chapter. From this hypothesis emerge a number of sub hypotheses

H : 2.1 'Involvement is positively related to loyalty'

H : 2.2 'Consumer confidence is positively related to loyalty'

H : 2.3 'Identity is positively related to loyalty'

H : 2.4 'Trust is positively related to loyalty'

H : 2.5 'Satisfaction is positively related to loyalty'

H : 2.6 'The antecedents of loyalty/commitment are consistent with those of the relational/dependent ideal-type'

The final hypothesis seeks to use the constructs of loyalty/commitment to predict loyal behaviour. If those constructs are able to predict loyalty, it would allow firms which wanted to strengthen relationship commitment to focus their strategies and marketing plans onto those constructs. This would improve their chances of creating bonds of loyalty and developing consumers into strategic resources.

H : 3 The hypothesised determinants of loyalty/commitment can be used to predict loyalty/non-loyalty in respondents'

These hypotheses address particular issues within the overall project hypothesis laid out in chapter one: Ho 'Is the strategy of financial services firms contingent on consumer behaviour and is that behaviour contingent on the form of financial instrument purchased ? Should consumers hold different attitudes towards financial instruments, or showed variations in attitude exist between loyal and non-loyal consumers, their purchasing behaviour may also vary significantly either by type of instrument, or by loyalty of the individual. Such variation in attitude and behaviour could produce very different contingencies to which strategy would need to respond. The next chapter outlines the research methodology and presents the empirical results.

CHAPTER FIVE

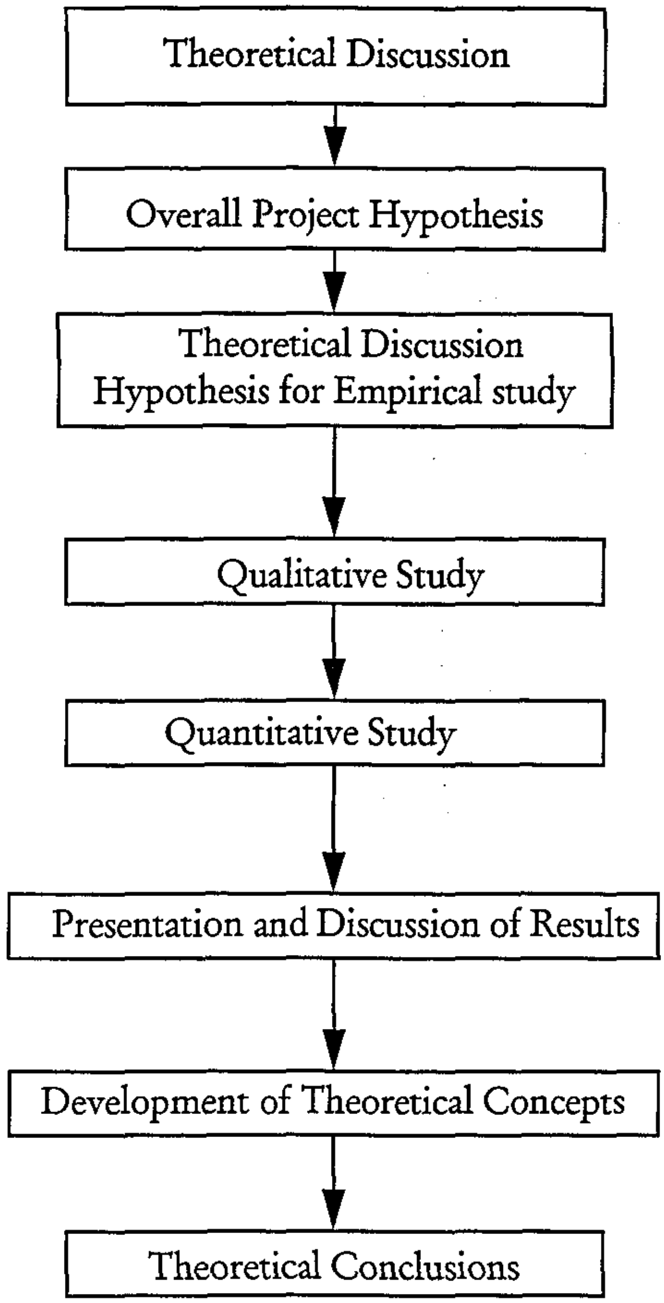
EMPIRICAL METHODOLOGY AND TESTING

5.1 Introduction and Research Method

In designing any research process, a key consideration is to identify a clear process which structures the empirical data as it is collected so that it can be analysed in a systematic manner. In part this structure is achieved by specifying the hypotheses in advance of designing and undertaking the empirical research, so that the empiricism has a clear sense of direction. It is also achieved by ensuring that the research methodology is designed to reflect the overall project hypothesis, as well as being reliable and valid (Adams and Shvanevedelt 1985; Kervin 1992). Given the research objectives stated in Chapter One, and the context in which the research was to be undertaken, it was decided that the most effective data collection method would involve a two stage process; qualitative and quantitative. The overall research process is shown in Figure : 7. From the theoretical discussion developed in Chapters One, Two, Three and Four a number of hypotheses have been articulated. The initial stage would take the form of a qualitative study, which would develop the research themes identified in the theoretical work. The second stage then draws on the qualitative research and theoretical work to derive a survey questionnaire.

From the information generated by this research methodology, the hypotheses are then either accepted, rejected or modified. Once that stage is complete the qualitative and quantitative results are discussed within the context of the theories contained in Chapters One, Two, Three and Four. Chapter Six examines the qualitative and quantitative results within the context of the theoretical discussion of the earlier results and Chapter Seven concludes by highlighting the marketing and strategic implications of the work.

Figure 7 : The Research Process Diagram



5.2 Domain of the Study

The focus of the empiricism in this dissertation is on the forms of behaviour adopted by consumers to purchase financial instruments. Two ideal-type forms of behaviour have been articulated using the contracting matrix; rational-discrete and relational-dependent. In constructing the empirical analysis it was necessary to identify a means of testing these buying behaviours. That demanded that the research use types of financial instrument as proxies for forms of behaviour. This linkage of instrument and behaviour helped respondents and interviewees locate types of behaviour, they recognised the forms of instrument and then could relate their behaviours to those instruments. In discussions with members of academic staff when developing the empirical approaches and exploring the ideas and concepts to be studied, it became very apparent that terms such as 'rational' and 'relational' could not be directly used. Were respondents and interviewees unable to associate certain types of financial instrument with buying behaviours, the central thrust or tenant of the research would be disproved. The forms of financial instrument chosen to act as proxies were, general insurance instruments i.e. house contents, buildings and motor insurance and investment instruments i.e. endowments, pensions, PEPs, unit trusts. One of the problems in studying buying behaviour in the context of financial services is that there exists a wide diversity of financial instruments available and methods of distribution. That diversity can cause confusion for respondents and interviewee so it is important to reduce diversity and ensure that the study is manageable. General insurance instruments were chosen as proxies for rational-discrete behaviour as this market has been most directly affected by the direct distributors and respondents regularly purchased these instruments; regular purchase would encourage familiarity and confidence. Investment instruments were chosen as proxies for relational-dependent behaviour as purchase is infrequent, the instruments are complex, encouraging the formation of relationships. In both instances involvement is expected to be high in relation to the purchase decision, but not the financial instrument, even in the case of investment instruments were traditional consumer behaviour theory would expect high levels of involvement (Engle, Kollat and Blackwell 1986).

5.3 Qualitative Study

In the first stage of the empirical research a series of qualitative discussion groups were conducted focusing on consumers' attitudes towards financial services instruments and firms. In particular consumer loyalty/commitment to firms and individual employees and how their attitudes differed between types of financial instrument was explored. To help the interviewer focus on these issues an outline discussion guide were provided and this, together with a transcript of the interviews, is contained in Appendix : 1. The purpose of the qualitative study was to check that the attitudes identified in the theoretical work were actually important to consumers in the context of financial services.

5.3.1 Selection Criteria for Qualitative Groups

To undertake the qualitative research two groups of individuals, approximately twelve in each, were recruited and invited into Bournemouth University to take part in the discussions. Individuals were approached in central Bournemouth and Poole and asked if they would be prepared to take part in a discussion on financial services. In order to help focus the group discussions, individuals who had agreed to take part were contacted by phone and asked if they had children and if they described them selves as loyal or non-loyal to financial services providers. Using this information the respondents were then split into four groups and invited in on different days and times. Those dates and times are shown below, with the type of respondent interviewed in each session.

10th November 1995

7.00 pm Loyal Customers/Dependent Children

8.30 pm Non-loyal Customers/No or Independent Children

24th November 1995

7.00 pm Loyal Customers/No or Independent Children

8.30 pm Non-loyal Customers/Dependent Children

Loyal customers were defined as those who had not changed their general insurance during the past year and non-loyal were those who had. By dividing customers on the basis of loyalty, an attempt was made to identify whether attitudes and beliefs differed between the two groups.

In using children as discriminators the research sought to identify if significant variations in behaviour emerged through family life stage. Respondents recruited had purchased financial instruments through a variety of different channels, either direct from insurance companies, through financial brokers, or industrial sales staff or through banks and building societies. Each of the groups contained individuals who had purchased using these alternative distribution channels. Moreover, all those recruited described themselves as the 'family financial decision maker'.

5.3.2 Analysing Qualitative Data

To effectively analyse the data collected through the qualitative interviews it was necessary to reduce the information into a manageable form. Data reduction is a form of preliminary analysis which focuses, simplifies and transforms the data into a useable form. The process of data reduction occurred continuously throughout the research process as the interviewers selected informants and conducted the interviews. The very act of focusing the discussion into certain areas excluded some areas of investigation and developed others and in this way the data was reduced. All associates of the research were issued with an interview protocol which identified those areas of discussion that the researcher wanted to focus upon. That protocol was drawn from the theoretical work that had been previously undertaken. In this way the theoretical work informed the interviewers where to concentrate their investigations and the results of those investigations were then incorporated into the theoretical discussion. A development loop was thus created, that linked theory with the qualitative research, via the protocol. The protocol was organised around the five identified antecedents to transaction relationships and loyalty/commitment namely: involvement, consumer confidence, identity, trust and satisfaction.

Once the transcripts had been prepared from the tape recordings, the next phase of data reduction was conducted in two stages. The first stage involved the identification of major and clearly articulated themes. The researcher reviewed the transcripts and sought to identify themes with the interviewer. This process was repeated by an independent researcher, not familiar with the research project or the interviewer protocol. This process sought to provide an independent analysis of the transcripts and to ensure that any themes identified were objectively based on the content of the interviews. As a result of this verification process *the following results were identified:*

Involvement

Generally interviewees displayed low levels of involvement with financial instruments. They found them dull and uninteresting, but had to purchase them in order to obtain other goods and services. Some interviewees recognised the importance of certain financial instruments, experience of burglary for example raised the involvement in house contents insurance and some respondents expressed some interest in investment instruments. An interesting development was the impact of direct distributors. As individuals became more aware of the price advantages to be gained in switching between financial providers, so involvement in the actual purchase decision increased. However, once the purchase was completed, involvement rapidly declined.

Perceived Uncertainty

The degree of confidence consumers displayed was contingent on the type of financial instrument they purchased and the level of their switching behaviour. Confidence was high in respect of general financial instruments, where interviewees believed they were capable of making informed choices. That confidence fell when they purchased investment instruments because they recognised the uncertainties inherent within them.

Identity

The importance of identity varied according to the type of instrument and interviewee. In respect of general instruments identity was not considered important, because of the high levels of consumer confidence associated with these instruments. In terms of investment instruments, however, identity was seen as important, because the identity of the individual or firm had a direct bearing on the quality of advice received. For those respondents who tended to remain with a single financial services provider, the role of identity was far more important and had a direct influence on loyalty. For those respondents who switched, identity was not important because they expected the various elements associated with a financial instrument, such as the quality of service for example, to remain constant.

Trust

All respondents believed that trust was important when purchasing financial instruments. Although some interviewees indicated that financial services firms could not be trusted, the broad consensus was that they are trustworthy. Rather interestingly, few individuals believed that firms trusted them and to support this assertion a number of respondents cited the attitude of firms when dealing with insurance claims. The need for trust was considered relatively more important when investing funds with financial services firms or individuals and some respondents clearly indicated that in these instances they did not trust financial services firms and preferred very simple forms of instrument such as basic deposits and savings. These respondents conformed to the no-purchase ideal-type of behaviour, in not trusting and thus not using certain types of financial instrument.

Satisfaction

Interviewees overall were satisfied with their financial instruments, although the level of satisfaction was very directly and significantly affected by their recent past experiences. Those respondents who had not enforced a contract or had not had cause to make a claim or, in the case of investment instruments, receive payment found it difficult to comment on how much satisfaction they experienced. There was general agreement that it was necessary to experience the enforcement of a contract or a firm's claims handling before commenting on the level of satisfaction. Some individuals who had purchased investment instruments did seek to measure the relative success of those instruments, but satisfaction did not appear to affect the incidence of repeat or non-repeat purchasing. There appeared to be no link between satisfied customers and repeat purchasing, especially in respect of general instruments. The incidence of repeat purchasing seemed to be driven largely by price, inertia and relationships, rather than satisfaction.

The general attitudes identified in the qualitative study are fairly consistent with the theoretical discussions in the earlier chapters, particularly involvement and consumer confidence. The primary purpose of the qualitative study was, therefore, to identify themes or attitudes that the quantitative approach could test for generalizability across a much wider population. If particular attitudes were identified as statistically significant, it would be possible to draw on the qualitative data to develop a more in-depth understanding of the results. It is suggested that an interaction between the two methods of data collection could result in a composite, more detailed picture of consumer attitudes and behaviour.

5.4 Quantitative Analysis

Having used a qualitative approach to identify attitudes that were consistent with the earlier theorising, the next stage was to test those attitudes across a wider population using quantitative analysis. The advantage of quantitative analysis is that it generates information in a form that can be tested for levels of significance. This allows researchers to identify variables which are statistically significant across a larger population. In the context of this study the intention was to identify those attitudes which played a key role in determining consumer behaviour in financial services. Such an approach also provided an opportunity to undertake multivariate tests using discriminant analysis and provided the basis for ascertaining the predictive power of the theory.

5.4.1 Questionnaire Development

Given the research hypotheses, the context in which the research was to be undertaken, the constraints on resources and the need to gather a sufficiently large sample to undertake statistical analysis, a survey questionnaire method of data collection was used. The advantage of a questionnaire is that as a research device it generates large amounts of structured information that can be processed using statistical techniques. Such information can be rather 'sparse' in that responses are 'forced' into the prescribed agree/disagree alternatives contained within the questionnaire. It is therefore, important to combine the quantitative information with that drawn from the qualitative study when drawing any form of conclusion.

When using questionnaires there are basically two forms of question that can be used, open and closed ended. In this study closed - ended questions were utilised, following the example of earlier studies (Morgan and Hunt 1994; Rusbult 1980a, b). Open - ended questions demand a far greater time investment, motivation and attentiveness from the respondent and can lead to poor response rates. Fixed, close-ended questions can be applied far more directly to a hypothesis, the questionnaire is designed around hypotheses which allow data to be reduced to a common dimension. This question format allows the respondent to answer items by checking categories or by providing a list of possible responses. Where the main goal of the research is to classify or rank an individual's attitudes or behaviour on a concern that is well understood, and which would have a common frame of reference to respondents, the closed - style questions are generally regarded as an appropriate format, (Adams & Schvaneveldt 1985). Moreover, Bailey (1978) suggests some respondents may have a difficult time writing an answer that reflects their feelings even if they are motivated and willing to participate; hence the need for close - ended questions. There are a number of other advantages in using close ended questions:-

1. Ease of completing the questions.
2. Brevity of response.
3. Specification of the frame of reference for the subject.
4. Promotion of objectivity.
5. Ease in scoring, coding, and tabulation.

Although using close-ended questions reduces the sensitivity of the questionnaire, it makes handling and analysis of the data far easier. Answers can be codified and inputted easily into a computer for further analysis. A further reason for using close-ended questions was that in the instance of respondents not returning the questionnaires they were contacted and asked to complete their questionnaires over the telephone. Completing an open-ended questionnaire over the telephone presents great difficulties and is unlikely to generate high quality results.

The first key consideration was to investigate the difference in behaviour between rational/discrete and relational/dependent ideal-types. Ideally respondents would have been asked directly within the questionnaire about how they altered their behaviour depending on the form of financial instrument being purchased. However, as the general public would not recognise these terms and given the constraints of using a close-ended questionnaire, it was decided that a proxy should be used to represent these forms of behaviour. Thus, the purchasing of general instruments was used to represent rational/discrete behaviour and the purchase of investment instrument was used to represent relational/dependent ideal-types. This was considered acceptable given observed behaviour: consumers are increasingly prepared to purchase general instruments over the phone, whereas investment instruments are still predominately sold through personal contacts. This observed behaviour, combined with the theoretical discussion in Chapter Three, suggests that the form of financial instruments can be used as proxies for the consumer behaviour ideal-types.

Secondly, it was considered important to be able to identify loyal and non-loyal respondents from the questionnaire. The questionnaire was separated into three parts; the first contained questions relating to general insurance instruments, the second related to investment instruments and the third sought to identify those respondents who were loyal/committed to a financial services provider of a particular type. In this context the questionnaire was seeking to identify loyalty/commitment, as the basis of relational contracting. From this information a loyalty/commitment index was created and within it polar extremes of loyal and non-loyal respondents are identified.

Defining loyalty/commitment is always difficult as it requires the researcher to examine and understand an individual's emotions and attitudes, feelings to which they themselves may never have given a great deal of thought. Ideally a study of loyalty/commitment would be undertaken through a large number of un-structured interviews that allowed the interviewer to explore loyalty/commitment in detail. However, in this case, the research was limited in terms of time and resources so a structured questionnaire approach was used.

In drafting the questionnaire, the overriding consideration was to generate information that addressed the three hypotheses articulated in Chapter Four. Those hypotheses rest upon the factors of involvement, consumer confidence, trust, identity and satisfaction and the questionnaire sought to identify respondents' attitudes to these factors. This meant that the questions had to be structured to elicit the respondent's attitude to these factors without necessarily asking a direct question. This was because respondents might not understand the underlying concepts involved and might also provide answers which they believed the researcher was looking for.

An initial questionnaire was developed by the researcher and tested amongst colleagues at the University. This pilot questionnaire failed to generate the required information, as it was not possible to separate out respondents into two groups: loyal and non-loyal. The pilot indicated a need to strengthen the questions relating to respondents' general attitudes in regard to loyalty. A number of the questions also contained ambiguities which needed to be addressed. This questionnaire was extensively revised and on the basis of the initial results and experiences, a second pilot questionnaire developed. This was sent to a number of randomly selected respondents in the Bournemouth and Poole area, some fifty seven questionnaire were sent out and twenty six were returned, a response rate of 45 percent.

These results were analysed and from that work it was found that the questionnaire was able to separate respondents into the loyal and non-loyal groups. Respondents varied their purchasing and contracting behaviour depending on the financial instrument they were purchasing and personal loyalty or commitment was positively correlated with relational contracting. Some parts of the initial questionnaire were not completed by a number of respondents, particularly the part which related to investments. This was because it failed to make clear exactly which financial instruments were included in this category and this confused respondents. The ambiguity surrounding investment instruments was reduced a list of 'investments' was included at the beginning of the second part of the revised questionnaire and respondents were asked to tick which investments they owned. An alternative to this would have been to focus on one particular financial instrument, such as a pension for example. Such an approach would have the advantage of comparing respondent behaviour across a single financial instrument. The major problem with this approach, however, would have been a far lower response rate, as respondents would understandably not complete questionnaires in instances were they did not own the particular instrument. The revised questionnaire format also enabled the researcher to identify which financial instruments respondents owned and analyse the results according to general and investment instruments.

In addition to the above considerations the revised pilot study was also carefully analysed to identify if patterns of responses could be identified between the two sections (general and investment). In particular the questionnaire was examined to ascertain whether any of the questions were unnecessarily repetitive. Some questions were found to produce very consistent reply patterns and it was also felt that certain questions were repetitive. Accordingly, the questionnaire was reviewed and a number of questions removed. This reduced the size of the questionnaire, but helped to focus the remaining questions more clearly on the research hypotheses and encouraged respondents to think more carefully about their responses. A copy of the final version of the questionnaire is contained in Appendix : 2.

5.4.2 Population.

In identifying a suitable study population, two factors imposed key imperatives: resources, and the need for nationally generalizable results. Due to the limited resources of the researcher, conducting the research beyond the boundaries of the local Bournemouth and Poole environment was impossible. Therefore, the research had to identify a suitable population in that area which would generate results that could be applied across the nation as a whole. Ideally a series of nation-wide studies would be undertaken using the questionnaires in an interview environment. The interview environment would help the interviewer to guide respondents through the questionnaire and explain any areas of confusion. The cost of running interviews, however, was quite simply beyond the means of this research project.

To generate a nationally representative sample, the towns of Bournemouth and Poole were split into various house 'types'. The use of house type classification is wide-spread in marketing research, and is based on the premise that a number of distinctive house types can be identified which are duplicated across the nation as a whole. Moreover, the type of house that an individual actually occupies is generally perceived as effectively discriminating between different groups of individuals. As the population of the UK is spread across a number of house types, the sample was selected to reflect this national distribution. By splitting the research area into house types, which are replicated across the country and randomly selecting respondents from each, it became possible to construct a nationally random sample from a geographically small area. Use of this approach enabled the researcher to limit both the geographical spread of the research and the costs of undertaking the survey.

A total of 1200 households in the Bournemouth and Poole area were identified as falling into suitable house types. Using the telephone directory and the electoral role, addresses, telephone number and name of the head of the household were identified. This information meant that correspondence could be addressed to an individual rather than a household. From that total population of 1200, 134 completed questionnaires were initially returned, a response rate of 11%. To improve the response rate, a random selection of the targeted population was contacted by telephone and asked if they were considering taking part in the study. As a result of this effort an eventual total of 197 completed questionnaires were returned giving a total response rate of 16%.

5.5 Reliability and Validity of the Questionnaire

In attempting to measure attitudes and behaviours, it is important that the measurement device used, in this case a questionnaire, is reliable and valid and thus able to provide meaningful results.

5.5.1 Reliability

Reliability is an assessment of the consistency of behaviour. A highly reliable measure is one that gives the user consistent results over time, places and occasions. Two forms of error can occur, i.e. random error, chance events which increase the variability of scores in a non-systematic way, and systematic error, i.e. those which consistently and artificially inflate or deflate scores. These errors can affect the measures sensitivity to detecting differences between different groups of respondent.

Reliability is checked in two general ways: stability and equivalence. Stability is normally assessed by the 'test retest method': checking the relationship between two applications of the measure at different times. The higher the correlation, the greater the reliability.

Equivalence checks of reliability are limited to multiple-item scale measures, the underlying idea being to examine the relationship between the items. If items correlate highly they are equivalent measures of the underlying concept and the overall measure is therefore reliable.

5.5.2 Reliability Test

An alternative approach to the test retest method and the equivalence checks is to examine the relationships among all items simultaneously. Cronbach's Alpha is the most frequently used consistency measure, which is an internal consistency measure of reliability determining the average covariance among pairs of items in the scale. The higher this average, the more items correlate with one another and the greater the internal consistency and reliability.

Cronbach's Alpha was run on the data in the study and the results are shown in Table : 3. The description of the questions in Table : 3 are abbreviated from those contained in the questionnaire (refer to Appendix : 2 for the full questions).

Table 3 : Cronbach's Alpha Reliability Test

Involvement

Questionnaire question Nos 1.02/1.03/1.04/1.05 and 2.02/2.03/2.04/2.05

Analysis of individual scale items

		Alpha if item deleted
1.02	shopping and choosing	.78
1.03	Insurances say a lot about me	.79
1.04	I keep an eye on the market	.78
1.05	General insurances are important	.78
2.02	shopping and choosing	.78
2.03	Insurances say a lot about me	.79
2.04	I keep an eye on the market	.79
2.05	Investment insurances are important	.78

Consumer confidence

Questionnaire question Nos 1.06/1.07/1.08/1.09 and 2.06/2.07/2.08/2.09

Analysis of individual scale items

1.06	Important to spend a lot of time choosing	.79
1.07	I always feel unsure when buying general insurance	.80
1.08	General insurances differ greatly in quality	.78
1.09	Firms selling insurances differ greatly in quality	.79
2.06	Important to spend a lot of time choosing	.79
2.07	I always feel unsure when buying investment instru.	.80
2.08	Investment instruments differ greatly in quality	.79
2.09	Firms selling insurances differ greatly in quality	.79

Identity

Questionnaire question Nos 1.10/1.11/1.12 and 2.10/2.11/2.12

Analysis of individual scale items

1.10	Important to deal with a person face to face	.79
1.11	Important that I know the person	.78
1.12	I would rather use well known firms	.79
2.10	Important to deal with a person face to face	.79
2.11	Important that I know the person	.78
2.12	I would rather use well known firms	.79

Trust

Questionnaire questions Nos 1.13/1.14/1.15 and 2.13/2.14/2.15

Analysis of individual scale items

1.13	I buy on price so trust is not important to me	.82
1.14	I am prepared to hand over decision-making	.80
1.15	When buying general insur. price/trust is the most...	.82
2.13	I buy on price so trust is not important to me	.82
2.14	I am prepared to hand over decision-making	.80
2.15	When buying general insur. price/trust is the most...	.81

Satisfaction

Questionnaire question Nos 1.16/1.17 and 2.16/2.17

Analysis of individual scale items

1.16	I am usually satisfied with the quality of my general insur.	.79
1.17	The quality of my insurances will improve in the future	.82
2.16	I am usually satisfied with the quality of my general insur.	.79
2.17	The quality of my insurances will improve in the future	.79

The results of the Cronbach's Alpha test indicated that the measures used in the study and the individual questions were reasonably reliable. It is generally accepted that if the results are below .70 they are not internally reliable. The results generated here are all above .70 and were, therefore, used in the analysis.

5.5.3 Validity

Having tested the reliability of the measure or questionnaire, the next step was to examine its validity. A valid measure is one which reflects or captures the concepts of interest to the researcher.

Theoretical validity, sometimes referred to as 'face and content validity', is a matter of judgement and is checked during the course of the research. To examine socially or personally sensitive issues it may be necessary for a researcher to use questions with 'low face validity'. Low-face validity describes questions that do not relate directly to the matter or, in this case, attitude being considered. This is because the questions focus on socially sensitive issues, such as an individual's income and attitude towards finance. Consequently, they may be reluctant to respond and direct questioning could result in a low response rate. Indirect questioning, could however, affect the validity of the questionnaire, if the questions fail to capture the information required by the researcher. In the study questionnaire used here, a decision was taken to address the financial affairs of respondents very directly. Such an approach avoided or reduced the problems of ambiguity and response rates from the pilot survey suggested that low response rates would not be a significant problem.

Content validity deals with the thoroughness or completeness of the measurement device. In this respect representativeness is crucial; the empirical approach used in this study was a close-ended questionnaire, to measuring a particular construct or hypothesis which needs to be defined in a theoretically logical manner. Thus, the content of the questionnaire should spring naturally from the theoretical discussion and the hypotheses generated from that discussion. In this study a number of factors were hypothesised as antecedents to loyalty/commitment and these factors were used as the foundation for the development of the questionnaire. Building the questionnaire around the factors in this way strengthens content validity. The linkage between individual questions and the factors they seek to describe or capture is examined below.

Involvement

Questions 1.02/2.02

I find shopping for and choosing general/investment instruments interesting.

Respondents that find general and investment instruments interesting are highly likely to be involved with them and probably take care in selecting the correct form of instrument or seek external advice.

Questions 1.03/2.03

The general/investment instruments I buy say a lot about me as a person.

An importance source of involvement is the degree to which products and services are a reflection of an individual's personality. Motor cars for some individuals are seen as a reflection of themselves. This questions accordingly seeks to identify if similar forms of attitudes are held toward financial services instruments.

Questions 1.04/2.04

From time to time I like to keep an eye on the market for general/ investment Instruments.

Maintaining an interest in a product or service after it has been purchased is perceived as a proxy for involvement. Only if consumers maintain a degree of interest in the product or service do they continue to monitor its performance. Using motor cars as an example, existing studies indicate that those who pay the most attention to car advertising are either those who are about to make a purchase or those that have recently purchased, suggesting that levels of involvement in the motor car are maintained after purchase.

Questions 1.05/2.05

General/investment instruments are an important part of my life.

Products and services that are perceived to be an important part of an individual's life are likely to result in high levels of involvement. This question seeks to address that issue.

Perceived Uncertainty

Questions 1.06/2.06

It is important to spend a lot of time choosing the right general/investment instrument.

If respondents believe that it is important to take time in selecting the correct form of financial instrument, this could suggest that they have low levels of confidence when buying financial instruments; whereas if respondents suggest that they believe it is not necessary to spend a lot of time choosing financial instruments, this is taken to be indicative of high levels of confidence.

Questions 1.07/2.07

I always feel very unsure when buying general/investment instruments

This question relates very directly to the consumer's confidence when purchasing financial instruments.

Questions 1.08/2.08

General/investment instruments differ greatly in quality

If respondents believe that forms of financial instrument differ greatly in quality, then it is assumed that this will affect their confidence when purchasing such instruments. Where differences in perceived quality are minimal, confidence is anticipated to be high; consumers will be confident in making their own purchase decisions. Conversely, where variations in perceived quality are high, consumer confidence is likely to be low.

Questions 1.09/2.09

Firms selling general/investment instruments vary greatly in quality.

If respondents believe that financial firms vary greatly in quality, their confidence is likely to be low. Conversely if they believe that the quality of firms does not vary, confidence will be higher and respondents are more likely to take on the responsibility of decision-making.

Identity

Questions 1.10/2.10

When buying general/investment instruments it is important to deal with a person face to face.

In exploring issues of identity the questionnaire seeks to measure how important human contacts are in the interactions between the trading parties. The expectation is that in relation to highly complex financial instruments, a higher value will be placed on inter-personal interactions and vice versa for simple forms of financial instrument.

Questions 1.11/2.11

When buying general/investment instruments it is important that I know the person from whom I am buying.

Identity embraces more than human interaction, it also relates to knowing the individual and through knowing the person building up bonds of loyalty/commitment. This questions seeks to develop the earlier questions by exploring the importance of knowing an individual when buying financial instruments. As with the earlier question (1.10/2.10) the expectation is that the more complex the financial instrument the more important knowledge of the individual will be.

Questions 1.12/2.12

When buying general/investment instruments I would rather use well known firms, than firms I have not heard of.

The concept of identity can also be extended to brand image and loyalty/commitment. In this instance knowledge of the brand replaces knowledge of an individual and these questions seeks to identify if knowledge of brands as a form of identity is important. Again the importance of identity in the form of brands is expected to increase with the complexity and/or uncertainty of the financial instrument.

Trust

Questions 1.13/2.13

I buy general/investment instruments on price so trust is not important to me.

Here trust is positioned against price so that respondent can indicate, according to the type of financial instrument, whether they believe price or trust to be the more important.

Questions 1.14/2.14

When buying general/investment instruments I am prepared to hand over decision-making to another person.

In this question trust is conceived in terms of handing over decision-making to another party. The more likely respondents are to hand over decision-making, the greater is their level of trust. The expectation is that the greater the complexity/uncertainty of the financial instrument, the more important is trust and the greater the need for respondents to accept guidance from other parties.

Questions 1.15/2.15

When buying general/investment instruments - price/trust is the most important factor

This question continues to explore the price/trust interaction. Where respondents believe price is the single most important factor, the inference drawn is that they are confident in making decisions and are able to differentiate between high and low quality financial instruments. In consequence they focus on price, rather than trust. The expectation is that their perception of the importance of price/trust will vary according to the form of financial instrument.

Satisfaction

Questions 1.16/2.16

I am usually satisfied with the quality of my general/investment instruments

This question seeks to explore how respondents feel about their existing financial services instruments.

Questions 1.17/2.17

The quality of service from my insurance firm will improve in the future

Here the questionnaire explores the individual's attitudes to future levels of satisfaction. The linkage between satisfaction and loyalty/commitment is based on the belief that satisfied customers are more likely to be loyal/committed and that future expectations of satisfaction will serve to further strengthen that linkage.

The linkages between the questions and the underlying factors is critical if the measurement instrument, (the questionnaire) is to be successful in generating meaningful and valid results.

Finally, an additional form of validity needs to be considered; criterion validity. Criterion validity examines the relationship between the questions and the factor and a strong relationship between these two elements increases confidence in the validity of the measure. In a sense it is an extension of content validity in that the linkage between the questions and the underlying factors are checked statistically rather than theoretically. Testing criterion validity is undertaken using Bivariate analysis, which in this study necessitated observing the chi-squared results. These results were generally consistent with the hypotheses that linked the factors to particular questions. The overall results, therefore, showed a predictable pattern, suggesting that the questions were relevant to the factors and hypotheses that generated those factors.

5.6 Analysis Techniques

The selection of testing techniques needs to reflect both the hypotheses being addressed and the nature of the data collected. It was critical that the techniques of analysis had been identified before the questionnaires were actually sent out. In this way the researcher could ensure that the data collected was appropriate for the statistical techniques to be used in the analysis and that the information generated through these tests was capable of addressing the hypotheses.

Having examined the data for reliability and validity, an approach was then devised to structure the investigation of that data. Following the recommendation of Kervin (1992) this approach used three distinct phases; Bivariate, statistical significance test and multivariate analysis.

The first stage used Bivariate techniques, cross-tabs and chi-squared analysis to identify the overall patterns in the data through inspection. This type of analysis provided preliminary confirmation that the relationships hypothesised had been identified in the data. The second step was to use statistical significance testing to identify if the observed patterns in the data were statistically significant. To undertake this analysis a two sample Kolmogorov-Smirnov test was used. This test is appropriate because it is sensitive to differences in samples drawn from a single population and enables the researcher to compare different groups of respondents and highlight the differences or similarities between them. Significance testing was undertaken in two stages. The first stage identified differences between general and investment instruments in terms of the hypothesised factors and demographic factors. In the second stage the loyal/committed and non-loyal/non-committed groups were compared with each other and against behaviourally loyal/committed and non-loyal/non-committed. Differences between the groups were highlighted based on the hypothesised factors. Finally in the third stage, a multivariate approach was adopted, which allowed the researcher to control for certain variables while examining the effects of others. In this study discriminant analysis was used to test how effective the hypothesised factors where at predicting loyalty/commitment. This form of multivariate test also enabled the researcher to highlight the particular effects of the hypothesised factors in determining loyalty/commitment.

5.7 Bivariate Analysis

The cross-tab and chi-squared results are not reproduced here because of their considerable size. However, these results were extensively examined and the potentially important relationships within them highlighted. The Bivariate analysis provided an initial analysis of the data on which the statistical significance testing then builds.

5.7.1 Statistical Significance Testing

Tests for Independence Between General and Investment Groups

Having identified the important potential relationships within the data, attention was focused on a comparison between general and investment instruments on the basis of respondents' attitudes. The Bivariate analysis indicated that these attitudes differed and the significance testing highlighted the extent and importance of these differences. The theoretical nature of the linkage between consumer behaviour and the type of financial instrument being purchased was explored in Chapters Two and Three and resulted in the formulation of the following hypothesis.

H : 1 Differences exist in terms of respondents' attitudes between rational (general) and relational (investment) contracting contexts

In identifying differences in attitudes the purpose was to examine the nature of the linkage between the type of financial instrument and individual's purchasing/contracting behaviour. The theoretical nature of that linkage was explored in Chapters Two and Three and from that discussion general instruments were postulated as being associated with more rational forms of purchasing/contracting and investments instruments associated with relational forms of purchasing/contracting behaviour.

To achieve the comparison of groups a two sample Kolmogorov-Smirnov test was used. The Kolmogorov-Smirnov test is a non-parametric test that compares two independently drawn sample from a single population. Because it is a non-parametric test no assumptions have to be made concerning the distribution of the underlying population. Such a test was considered appropriate as it is sensitive to any kind of difference in the distributions, due to central tendency, dispersion or skewness. Given that the two samples are drawn from the same population distribution, the cumulative distributions of both samples may be expected to be fairly close to each other and should only display random deviations from the common population distribution. If the two sample cumulative distributions are 'too far apart' at any point, this would suggest typically that the samples come from different populations and that they are therefore independent.

The procedure in using the Kolmogorov-Smirnov test can be summarised thus:

1) The scores of the two groups are arranged into a cumulative frequency distribution using the same intervals for both distributions.

2) By a process of subtraction the difference between the two sample cumulative distribution at each listed point is determined.

3) The largest of the differences is determined, Dm,n.

Finally the significance of Dm,n is observed. The results of the Kolmogorov-Smirnov test are shown in the following tables.

Table 4: Tests for Independence Between General and Investment Groups

	D	M	N	D Squared	MN	Chi-Squared 4Dsqmn/m+n	Significance at 0.01	Significance at 0.05
Involvement	0.34	194	175	0.12	33950	44.4	*	*
Confidence	0.26	193	175	0.69	33775	25.5	*	*
Identity	0.25	143	174	0.06	33582	23.0	*	*
Trust	0.06	193	174	0.00	33582	1.43		
Satisfaction	0.15	193	173	0.02	33389	2.06		

D = absolute deviation
M = no. of cases in sample 1 (general)
N = no. of cases in sample 2 (investments)

These results indicate that for certain factors there are highly significant differences between investment and general instruments. Having identified where statistically significant differences existed, the next stage was to examine these differences for each question using cross-tab and frequency table results. By examining these tests it was possible to identify the direction and context of the differences between investment and general instruments. The results of that investigation are discussed in more detail in the following chapter.

5.8 Tests for Independence Between Emotionally Loyal and Non-loyal Groups

H : 2 Differences in attitudes exist between loyal and non-loyal respondents

Creating Polar Extremes Between Loyal/committed and Non-loyal/non-Committed Groups

The second stage of the research sought to separate respondents into loyal/committed and non-loyal/non-committed groups so that a comparative study would be possible. To develop a measure of loyalty/commitment the results from the third stage of the questionnaire were used. A loyal/committed 'scale' or frequency was created by placing values against the answers provided by respondents, the following scoring system was used:

strongly agree	1
agree	3
disagree	5
strongly disagree	7

For a loyalty/commitment question phrased in a negative form, the ranking system is reversed. This generated the following frequency table.

Table 5 : Ranking Loyalty Answers from the Questionnaire

Value	Frequency	Percent	Cumulative Percent
7	1	0.5	0.5
11	2	1.0	1.5
12	1	0.5	2.0
13	9	4.6	6.6
15	35	17.8	24.5
17	52	26.5	51.0
19	28	14.2	65.3
21	30	15.2	80.6
23	9	4.6	85.2
25	12	6.1	91.3
27	5	2.5	93.8
29	6	3.1	96.9
31	6	3.1	100.0
Total	197		

From this frequency it was then possible to form two groups: those who could be confidently labelled loyal/committed and those who could be labelled non-loyal/non-committed. This method of separation, creating a dichotomy and using only those who fall into the extreme definitions of loyal and non-loyal, is termed the polar-extremes approach. It is a particularly useful method when no 'true' dichotomy within the data exists. This is done by excluding a number of cases from the middle of the distribution and results in two frequency distributions, which are shown below.

Table 6 : Creating Polar Extremes between Loyal/Committed and Non-Loyal/Non-Committed Groups

Loyal/committed respondents

Value	Frequency	Percent	Cumulative Percent
7	1	2.1	2.1
11	2	4.2	6.3
12	1	2.1	8.3
13	9	18.8	27.1
15	35	72.9	100
Total	48		

Mean 14.229
Mode 15
Standard deviation 1.547

Non-loyal/Committed respondents

Value	Frequency	Percent	Cumulative Percent
21	30	44.1	44.1
23	9	13.2	57.4
25	12	17.6	75.0
27	5	7.4	82.4
29	6	8.8	91.2
31	6	8.8	100.0
Total	68		

Mean 24
Mode 21
Standard deviation 3.412

Table : 6 indicates the significant differences between the means and standard deviations of the two groups. This suggests that the groups are significantly different and that therefore it is acceptable to use this separation to test the ability of the hypothesised independent variables to differentiate between the two groups. If the dependent variable could not be separated into two groups, there would be little point in attempting to discriminate between them. In this particular instance although the overall distribution approximates to a normal distribution, the individual groups are quite distinct.

Creating a dichotomy in this manner is a perfectly acceptable research approach (see Hair, Anderson, and Tatham 1987), even though a number of respondents are necessarily excluded from the analysis, thereby potentially reducing the overall strength of the results. The point at which the dichotomy is created, in this instance, the exclusion of those respondents scoring 17 and 19 is arbitrary and reflects the lack of a clear dichotomy in the data. In creating the dichotomy the researcher sought to reconcile two constraints: firstly, to limit the number of cases excluded from the analysis; and, secondly, to create two clearly delineated groups for the purpose of analysis. In excluding the 17 and 19 groups, 58 respondents were excluded from the analysis, i.e. 29% of the total sample. This exclusion, however, was judged to be acceptable given the reasonably high initial sample size and the resulting improvement in the results.

Having created two polar extreme groups, loyal and non-loyal, the research sought to identify if differences existed between the two groups. These differences were identified by testing if the two groups were independent, on the basis of the hypothesised factors, namely, involvement, perceived uncertainty, trust, satisfaction, identity and personal characteristics, age, marital status and gender. If the groups were independent it would be possible to conclude that the attitudes and personal characteristics of the two groups were significantly different from one another and this would indicate that the measurement of emotional loyalty and non-loyalty used in the questionnaire was sensitive at differentiating between the two groups. Tests for independence were repeated in the research for both general and investment financial instruments. This recognised that the respondents answered separate elements of the questionnaire and that their attitudes and beliefs might differ between the instruments, on the assumption that personal characteristics remain constant. As was done previously, the analysis was undertaken using a two sample Kolmogorov-Smirnov test with a chi-squared approximation. This test is effective at testing for independence of groups selected from a single population.

Table 7 : Tests for Independence between Loyal and Non-loyal Groups

	D	M	N	D Squared	MN	Chi - Squared 4Dsqmn/m+n	Significance at 0.01	Significance at 0.05
Age	0.20	48	68	0.04	3264	4.33		
Tax	0.08	48	68	0.01	3264	0.76		
Hours	0.19	48	68	0.04	3264	4.17		
Marital status	0.13	48	68	0.02	3264	0.15		
Gender	0.04	48	68	0.00	3264	0.15		
General								
Involvement	0.27	48	68	0.07	3264	8.03		*
Confidence	0.34	48	68	0.11	3264	12.88	*	*
Identity	0.26	48	68	0.07	3264	7.45		*
Trust	0.20	48	68	0.04	3264	4.33		
Satisfaction	0.13	48	68	0.02	3264	1.94		
Investments								
Involvement	0.46	47	54	0.22	2538	21.73	*	*
Confidence	0.44	47	54	0.19	2538	19.45	*	*
Identity	0.37	47	53	0.13	2491	13.44	*	*
Trust	0.19	47	53	0.04	2491	3.69		
Satisfaction	0.30	46	53	0.09	2438	9.10		*

D = absolute deviation
M = no. of cases in sample 1 (loyal)
N = no. of cases in sample 2 (non-loyal)

These results (shown in Table : 7) indicate differences in attitudes between emotionally loyal and non-loyal respondents. The implications of these results, however, are discussed in detail in the following chapter. To cross-check these results the emotionally loyal and non-loyal groups were compared with behaviourally loyal and non-loyal groups. Behavioural loyalty was defined as the purchasing of two or more financial services instruments from a single source, such as a provider, retailer or broker and this definition was applied to both general and investment instruments. Where respondents express attitudes which are consistent with loyalty/commitment and make repeated purchases from a single provider, this is taken as sufficient evidence that a transaction relationship exists and that parties are committed to it. It is important that attitudinal and behavioural factors are combined in this manner, as consumers may express attitudes of loyalty to a provider and yet purchase from a competitor and vice versa. It is the combination of these two factors which is significant in suggesting that consumers are loyal or committed.

A potential weakness in this approach is in the creation of behaviourally and emotionally loyal/committed groups. The method of separating the groups could be criticised, on the basis that both behavioural and emotional groups contain the same individuals and yet they are treated as independent in the statistical testing. Accordingly a critic could argue that the statistical testing is bound to find no significant differences between behavioural and emotional loyal/committed groups. However, treating emotional and behavioural groups as independent and making comparisons between them is acceptable (even though some respondents will appear in both groups) because the methods of creating these groups, are independent of one another (Siegel and Castellan 1988). Using unrelated selection techniques results in groups that are 'independent', even though they may share common membership of individuals and display similar characteristics. If the selection of the groups were related, however, and they contained shared common membership, they could not be treated as independent.

In testing for the differences between emotionally and behaviourally loyal and non-loyal groups the following results were obtained (see Tables : 8 and 9).

Table 8 : Emotionally Loyal/Committed Groups Compared with Behaviourally Loyal/Committed Groups

General financial instruments

	D	M	N	D Squared	MN	Chi - Squared 4Dsqmn/m+n	Significance at 0.01	Significance at 0.05
Age	0.18	35	48	0.03	1680	2.55		
Tax	0.20	35	48	0.04	1680	3.28		
Hours	0.05	35	48	0.00	1680	0.22		
Marital status	0.03	35	48	0.00	1680	0.09		
Gender	0.01	35	48	0.00	1680	0.01		
Involvement	0.12	35	48	0.02	1680	1.23		
Confidence	0.11	35	48	0.01	1680	0.98		
Identity	0.09	35	48	0.01	1680	0.65		
Trust	0.14	35	48	0.02	1680	1.62		
Satisfaction	0.04	35	48	0.00	1680	0.13		

Investment financial instruments

	D	M	N	D Squared	MN	Chi - Squared 4Dsqmn/m+n	Significance at 0.01	Significance at 0.05
Age	0.20	46	52	0.04	2392	3.96		
Tax	0.06	46	52	0.00	2392	0.37		
Hours	0.17	46	52	0.03	2392	2.98		
Marital status	0.05	46	52	0.00	2392	0.23		
Gender	0.02	46	52	0.00	2392	0.05		
Involvement	0.18	46	52	0.03	2392	3.07		
Confidence	0.08	46	52	0.01	2392	0.57		
Identity	0.08	46	52	0.01	2392	0.64		
Trust	0.08	46	52	0.01	2392	0.65		
Satisfaction	0.12	46	52	0.01	2392	1.34		

D = absolute deviation
M = no. of cases in sample 1 (behaviourally loyal)
N = no. of cases in sample 2 (emotionally loyal)

Table 9: Emotionally Non-Loyal/Committed Groups Compared with Behaviourally Non-loyal/Committed Groups

General financial instruments

	D	M	N	D Squared	MN	Chi-Squared 4Dsqmn/m+n	Significance at 0.01	Significance at 0.05
Age	0.20	28	68	0.04	1904	3.09		
Tax	0.31	28	68	0.10	1904	7.57		
Hours	0.16	28	68	0.03	1904	2.13		
Marital status	0.16	28	68	0.03	1904	2.13		
Gender	0.09	28	68	0.01	1904	0.65		
Involvement	0.17	28	68	0.03	1904	2.41		
Confidence	0.15	28	68	0.02	1904	1.87		
Identity	0.16	28	68	0.03	1904	2.13		
Trust	0.13	28	68	0.02	1904	1.26		
Satisfaction	0.14	28	68	0.02	1904	1.53		

Investment financial instruments

	D	M	N	D Squared	MN	Chi-Squared 4Dsqmn/m+n	Significance at 0.01	Significance at 0.05
Age	0.23	48	44	0.05	2112	4.90		
Tax	0.07	48	44	0.00	2112	0.40		
Hours	0.20	48	44	0.04	2112	3.70		
Marital status	0.05	48	44	0.00	2112	0.12		
Involvement	0.18	48	44	0.03	2112	2.85		
Confidence	0.11	48	44	0.01	2112	1.19		
Identity	0.08	48	44	0.01	2112	0.61		
Trust	0.06	48	44	0.01	2112	0.30		
Satisfaction	0.09	48	44	0.01	2112	0.79		

D = absolute deviation
M = no. of cases in sample 1 (behaviourally loyal)
N = no. of cases in sample 2 (emotionally loyal)

The results from Table : 8 and Table : 9 indicate that in terms of the underlying factors, i.e. involvement, and consumer confidence, no statistically significant differences existed between emotional and behavioural loyal/non-loyal groups. This is strong evidence to suggest that the underlying attitudes between the groups are stable and that emotional loyalty can be associated with behavioural loyalty. Such a linkage suggests that it should be possible to use the underlying factors to predict loyalty/commitment.

5.9 Multivariate Analysis : Discriminant Analysis

One of the key tests of a theory's utility is its ability to make predictions: 'the theory should provide a mechanism for predicting beyond chance' (Bacharach 1989 p.510). The testing using the Kolmogorov-Smirnov test has identified that the factors or constructs of involvement, consumer confidence and identity differ significantly between loyal/committed and non-loyal/uncommitted respondents and between the forms of financial instrument; (general and investment). Discriminant analysis was then used to examine if those factors could be used to predict 'loyal/committed' respondents. This analysis was structured around the third hypothesise identified in chapter three:

H : 3 The hypothesised determinates of loyalty/commitment can be used to predict loyaly/commitment in respondents

The primary method of analysis chosen was based on multivariate techniques. Multivariate techniques are classified on the basis of three judgements which reflect the nature and the utilisation of the data:

(i) Can the variables be divided into independent and dependent classifications based on some theory ?

(ii) If they can, how many variables are treated as dependent in a single analysis?

(iii) How are the variables measured ?

In the research study, the dependent variable is loyalty/ non-loyalty and the separation of the factors is based on the earlier theoretical discussions, which are reflected in the construction of the questionnaire. Moreover, loyalty was the single dependent variable and the collected data was in categorical, non-metric form for the dependent variables, i.e. the agree-disagree scale, and metric data form for the independent variable, 1 for loyal, 0 for non-loyal. From this examination of the variables, their classification and form of measurement etc., the most suitable method of analysis was determined as being discriminant analysis.

5.9.1 Objectives and Theory of Discriminant Analysis

Discriminant analysis is useful when seeking to understand group differences, or to correctly classify statistical units into groups or classes. Hair, Anderson and Tatham (1987) identify the objectives of discriminant analysis as:

(i) Determining if statistically significant differences exist between the average score profiles of the two (or more) *a priori* defined groups.

(ii) Establishing procedures for classifying statistical units (individuals or objects) into groups on the basis of their scores on several variables.

(iii) Determining which of the independent variables account most for the differences in the average score profiles of the two or more groups.

Discriminant analysis seeks to derive the linear combination of two independent variables that will discriminate best between the *a priori* defined groups. This is achieved using the statistical decision rule of maximising between-group variances relative to the within-groups variance and this relationship is expressed as a ratio between the two. Linear combinations for a discriminant analysis are derived from an equation that takes the following form:

Z = W1X1 + W2X2 + W3X3........

Where

Z = the discriminant score

W = the discriminant weights

X = the independent variables

Discriminant analysis tests the hypothesis that the group means of two or more groups are equal. This mean is termed a centroid and indicates the typical location of an observation within a particular group. Comparison of these centroids shows how far apart the groups are along the dimension being tested. The test for statistical significance of the discriminant function is a generalised measure of the distance between the group centroids. If the overlap between the two-groups is small, the discriminant function separates them well; but if the overlap is large, the discriminant function is a poor discriminator.

In this study these groups were loyal and non-loyal and the researcher identified which group a respondent fitted by analysing their responses in the questionnaire. One of the major problems in the study was to devise some absolute measure of a concept as complex and personal as loyalty/commitment. Repeated patterns of behaviour are relatively easy to measure, whereas loyalty is far harder. Thus, although the questions sought to separate the respondents into two groups, the way that was achieved is by no means necessarily correct or absolute. Numerous other forms of questions could have been used in preference to the ones that were eventually used. The actual discrimination of the two groups was achieved by the statistical decision rule of maximising between the group variance relative to the within groups variance and expressing it as a ratio. The group means or centroids indicated and located individuals within one of the two groups and facilitated the classification of respondents into loyal and non-loyal cases. The test for the statistical significance of the discriminant function was a generalised measure of the distance between the group centroids.

5.9.2 Method of Analysis

The methodological approach to the discriminant analysis undertaken in this study follows the methodology identified by Hair, Anderson and Tatham (1987). Which separates the analysis into three stages; derivation; validation and interpretation.

5.9.3 Stage One: Derivation

Variable selection

In applying discriminant analysis a necessary first stage is to specify which variables are independent and dependent.

Dependent Variable: Loyalty/Non-loyalty

To undertake meaningful discriminant analysis the dependent variable needs to be split into a dichotomous, mutually exclusive and exhaustive group. In this study that meant separating the respondents into loyal and non-loyal groups and the method used to make that separation was discussed earlier in this chapter. Discriminant analysis was undertaken using loyalty/commitment as a dependent variable.

Independent Variables

Definition of the independent variables was discussed in Chapter Three and draws on both existing literature in this area and on the results of the qualitative study. From this work five independent variables were identified; involvement, consumer confidence, identity, satisfaction, trust.

An important step in constructing a model of loyalty is to identify *a priori* those variables which are potentially the best at discriminating between loyal and non-loyal respondents. In selecting the variables it was essential to establish whether multicollinearity existed between the various predictor variables and to determine which, if any, of the variables should be omitted from the discriminant function. Unless this precaution is taken there could be a high degree of correlation between the variables in the function and this would reduce the reliability of the standardised coefficients as indicators of the relative importance of each predictor variable.

Multicollinearity

Multicollinearity occurs when relationships among dependent variables are very strong, it inflates the standard errors associated with estimates of slope and makes tests of significance unreliable. To diagnose the multicollinearity effect, Kervin (1992) suggests using a correlation matrix of Bivariate correlations among the independent variables. High values of 0.90 or more indicate that multicollinearity might be a problem. The highest correlation in this study sample, however, was 0.8075 indicating that multicollinearity was not a problem.

Moreover, the results indicated a high degree of consistency across the general and investment categories. This consistency in behaviour suggested that the independent variables were measuring attitudes that were stable and applicable across different purchase and contracting situations. This pattern of results also suggested that multicollinearity was not a problem in the study.

5.9.4 Sample Division

In applying the discriminant function to data, the usual procedure is to divide the sample into two random groups. One is termed the analysis sample and is used to develop the discriminant function, the second is called the holdout sample and is used to test the discriminant function. This method of testing the validity of the function is referred to as the split-half or cross-validation approach (Frank, Massey and Morrison 1965). The justification for this technique is that without it, an upward bias will occur in the prediction accuracy of the discriminant function. Classification accuracy will be higher than is valid for the discriminant function if it is used to classify a separate sample. One problem with the split-half method is that it requires at least one hundred observations in the total sample to make it worthwhile. Where sample sizes are below one hundred, discriminant analysis can be undertaken without the split-half method, but the upward bias in the predictive accuracy of the model must be acknowledged.

5.9.5 Computational Method

Two computational methods can be used in the derivation of the discriminant function: the simultaneous and stepwise methods. The simultaneous method is appropriate when the analyst wants to include all of the independent variables in the analysis; whereas the stepwise method involves entering the independent variables into the discriminant function one at a time on the basis of their discriminating power. This method is useful when the analyst wants to consider a number of independent variables for inclusion in the function. In sequentially selecting the best discriminator, variables that are not useful in discriminating between groups are eliminated and a reduced set of variables can be identified. This reduced set of variables can be as good, if not better, at predicting outcomes than the full set.

In this study the step-wise method of analysis was used to identify which of the independent variables was most effective in discriminating between the dependent variables.

5.9.6 Stage Two: Validation

The predictive ability of discriminant tests rely on the calculation of a cutting score criteria. The cutting score is a criterion against which the discriminant score of each individual can be judged. Defining the cutting score depends on the groups in the analysis and whether they are of an equal or unequal size. In this study the groups used in the analysis the definition of emotional and behavioural loyalty groups were of unequal size, so to determine the cutting score a weighted average of the centroids was calculated as follows using the SPSS package:

Zcu = critical cutting score value for unequal group sizes

Na = number in group a

Nb = number in group b

Za = centroid for group a

Zb = centroid for group b

The optimal cutting score is that which mis-classifies the fewest number of individuals in all groups. With standardised data the cutting score will be zero, and the procedure for classifying individuals is as follows:

1. Classify an individual as loyal if their discriminant score is positive

2. Classify an individual as non-loyal if their discriminant score is negative

Using the cutting score criteria, the computer program develops classification matrices. Classification matrices indicate the ability of the independent variables to discriminate between the two groups of respondents, loyal and non-loyal. Using the polar extreme definition of emotional loyalty (discussed earlier,) discriminant analysis tests were run for general and investment financial instruments, and the results revealed in Table : 11.

In interpreting the ability of the discriminant function to correctly place individuals into loyal or non-loyal groups, it must be recognised that there exists a possibility that individuals are correctly classified by chance. To allow for this it is important to calculate the proportional chance criterion. This criterion indicates the possibility of achieving a correct classification by chance. With equal group sizes that chance of correct classification is always 50%. However, with unequal group sizes, as are used here, the chance of correct classification will vary considerably. The formula used to calculate the criteria is:

Cprop = (P x P) + ((1-P) x (1-P))

Where

Cprop = the proportional chance criteria

P = Proportion of individuals in group 1

1-P = Proportion of individuals in group 2

Cprop results are included in Table : 11.

For each of the classification matrices proportional chance criteria were calculated. Table : 11 shows the classification matrices for the discriminant tests, note that using the split-half methodology two classification matrices are produced.

5.9.7 Results

The statistical significance of the estimated function is shown in Table :10. Wilk's Lambda indicates the ability of predictor variables to discriminate among the groups beyond the discrimination achieved by the earlier function, i.e., residual discrimination (Klecka 1980). As Lambda decreases in value it is indicating progressively greater discrimination. The significance of the function is tested by the chi-square.

Table 10 : Residual Discrimination and Tests of Significance

Wilks' Lambda	Chi-Square	Significance
0.7572664	226.4	.0000

The results in Table : 7 indicate that loyal and non-loyal respondents are statistically different and confirms overall that the model is able to differentiate between the two groups.

Table 11 : Emotionally Loyal/Committed Respondents

Classification of Results
(brackets denote percentages)

		Analysis Sample		Holdout Sample	
		Actual Group: No of Cases		Predicted Group: No of Cases	
		Non-Loyal	Loyal	Non-loyal	Loyal
Loyal	23	18 (78.3)	5 (21.7)	14 (60.9)	9 (39.1)
Non-loyal	29	2 (6.9)	27 (93.1)	9 (16.7)	20 (83.3)
Percentage correctly classified:			86.4%		72.34%
Cprop			39%		39%

In assessing the model's efficacy comparisons with Cprop indicate that the results are much better than those which would normally have been classified by chance. The upward drift of results in the analysis sample is very apparent; however, even in the holdout sample the model correctly classifies 72% of the respondents. This is substantially higher than the Cprop analysis, which places the percentage of classifying correctly through chance at 39%.

5.9.9 Stage Three: Interpretation

The interpretation stage involves two distinct stages. The first is to examine the discriminant functions to identify the relative importance of the independent variables in discriminating between the groups. Table: 12 shows the structure coefficients for each variable included in the estimated function. The standardised coefficients are not shown because they represent the relative discriminating power of each predictor variable given the other variables in the function. As such, they can give an inaccurate indication of the discriminatory power of each variable if there is a degree of correlation between any variables included in the function. For this reason only the within-groups correlations are shown in Table : 12. As simple Bivariate correlations, they are not affected by other variables in the function and are in some respects a better guide to the relative discriminatory power of the variables (Klecka 1980).

Table 12 : Discriminatory Power of Predictor Variables

Variables	Within-Groups	Rank
Involvement	.68400	1
Perceived uncertainty	.61123	2
Identity	.58774	3
Trust	.12471	4
Satisfaction	.07495	5

Because the results contained in Table : 12 (the residual discrimination and test of significance, using Wilks' Lambda) suggest that the overall 'fit' of the model is acceptable and because the results from Table : 11 suggest that the factors are effectively predicting loyalty/commitment, it was not considered necessary to undertake tests for multicollinearity. Only where the 'fit' of the model is poor and/or the independent variables are predicting very poorly or failing to discriminate is it usually deemed necessary to test for multicollinearity.

5.10 Conclusion

The overall purpose of this chapter has been to create a carefully structured and robust empirical methodology to operationalise the theoretical discussions in earlier chapters. This demanded the development of qualitative and quantitative research instruments that reflected the nature of those discussions and which could be structured around the three hypotheses identified in chapter three. In terms of the analysis of the data generated, a three stage approach was used; Bivariate, statistical significance testing and multivariate analysis. This separation of testing into three stages helped to identify the key relationships within the data and their relative significance. It is now possible to draw together the empirical results with the theoretical discussion and, perhaps most importantly, to develop that discussion in the light of these results. In the following chapter the results of the testing are discussed in detail and appropriate conclusions drawn.