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INFLUENCES OF E-RETAILER SPONSORED VIRTUAL COMMUNITY ON CONSUMER LOYALTY: AN EXPLORATION OF UNDERLYING MECHANISMS

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Abstract

An e-retailer sponsored virtual community (ESVC), as the backyard of an e-commerce website, provides consumers with an online platform to play with each other. Different from transactional e-commerce platform, ESVC assembles consumers together to fulfil their social needs. In recent years, with the popular of Web 2.0 information and communication technologies (ICTs), e-retailers also start to integrate social media within ESVC. This greatly increases consumers’ online community participation, as social media facilitate information sharing and interactions among community members with a social flavour. Moreover, social media provide a variety of IT artefacts to visualize the interactions between consumers and e-retailer, which reshapes the relationship between e-retailer and customer as a triad model. However, in this new context, the influences of ESVC characteristics and IT artefacts on e-retailer-customer relationship were not well investigated. Some researchers have made effort to open the “black box” between ESVC with social media investment and customer loyalty, but still lack theoretical foundations. This research explores the underlying mechanisms from a new perspective, and proposes a theoretical framework based on reciprocal theory.

Keywords: e-retailer sponsored virtual community, social media, reciprocal theory, IS success model, theoretical framework
1 INTRODUCTION

As an online information sharing and socializing platform, virtual community is also a good channel for e-retailers to generate business value. More and more e-retailers start to build their own online community, which has been called e-retailer sponsored virtual community (ESVC), e-retailer built online community, or vendor-sponsored/built virtual community (Shang et al., 2006). By using ESVC, e-retailer could distribute product information among virtual community participants; provide suggestions and help product troubleshooting for current customers; react to customer complaints in a timely fashion and collect feedback and comments on products among community users. Also, users’ continuous participation in ESVC also brings long-term benefits to e-retailers, because these loyal virtual community participants may be transferred to loyal customers. According to Anderson & Mittal (2000), loyal customers would be less likely to switch to competitors, more likely to spread positive word-of-mouth information, and exhibit lower sensitivity to price and higher endurance to customer-service mishaps.

Moreover, social media become popular in recent years. Blogs, micro-blogs, content sharing websites, video sharing websites, social network sites provide online platforms for users to create and share information, to participate and socialize. Until 2010, Facebook has more than 500 million active users. Until the end of December 2011, Facebook has 845 million monthly active users (Facebook, 2011). Twitter since 2006 when it was launched, and by the end of 2011, there are more than 300 million users, generating over 300 million tweets\(^1\) and 1.6 billion search queries per day (Wikipedia, 2012). The fast and in-time information spreading, the broad connections of online network, and its nature of openness also shed light on ESVC development. Pioneers among e-retailers attempt to keep up with the pace of trend and integrate these Web 2.0 technologies within their traditional ESVCs.

Online community building has been proved to play an important role in customer relationship management in computer-mediated environment. Researches in this area have accumulated evidence that online community building had impact on customer loyalty, but they did not elaborate “why” and “how”. On one hand, they suggested that vendors should build online community in order to better manage the relationship with customers; on the other hand, they did not provide feasible practical solutions. The relationship between online community building and customer loyalty was taken as a “black box” and still needed further exploration. “How and why does ESVC nurture consumer loyalty?” is still unclear. Some researchers have made effort on revealing the underlying mechanisms, such as the work done by Sumeet et al. (2006) and Lu et al. (2010). They have given us valuable insights on this problem, but still lack solid theoretical foundations. Thus this research will try to uncover the “black box” of the relationship between customers’ participation in ESVC and their loyalty toward e-retailers. A theoretical model will be proposed based on reciprocal theory.

2 LITERATURE REVIEW

2.1 ESVC with Social Media

Social media facilitate interpersonal network formulation and have help individuals build their own social networks in a virtual environment. Kane et al. (2009) analyzed the capabilities of social media and proposed four important features embedded in these technologies which were different from earlier-generation online communities. First, they could help build deeper, richer, and multifaceted relationships among community members. Second, they appreciate agility, which allows fast formation and organization of online groups. Third, they could aggregate valuable user-generated contents and facilitate knowledge sharing without geographical boundary. Fourth, with the broad social network established in the community, social media aid on information filtering. As the goal of social media is to facilitate the social interactions among people, they greatly capture the key features of “community”.

\(^1\) Tweets: the text-based messages generated in the Twitter.
E-retailer sponsored virtual community is similar to the concept of company online community (Antikainen, 2007), which has been defined as “maintained by a company sharing a common interest and interacting via information and communications technologies.” (p.33). It is also a particular application of brand community (Muniz & O'Guinn, 2001) and the creator of an ESVC is e-retailer rather than consumer. In recent development of e-retailer sponsored virtual community, more and more social media are being integrated in the online platform. For example, the largest apparel e-retailer in China, Vancl, built a Vancl Star Community (VSC) in 2011. It allows users to create their own webpages, showcase products bought from Vancl, send in-site messages, comment on personal pages and connect with each other as “friends”. Until December 2012, there are more than four thousand active members in the community and about sixty percent are loyal customers of Vancl. Moreover, according to the report on May 23, 2012 by Vancl, More than one thousand showcase were published in VSC and this community has brought 5% cash flow to its e-commerce website. Thus in this research, ESVC specifically refers to the modern online community created by e-retailers, in which the social media applications are integrated. It is defined as the online community, initiated, sponsored, built or maintained by the e-retailer, in which the communications among members are mediated by information and communication technologies, especially the social media applications.

2.2 ESVC and Customer Loyalty

Customer loyalty has been taken as one of the important long-term benefits to e-retailers. ESVC mainly focuses on the relational exchange development between customers and e-retailers. Thus how to utilize ESVC to “nurture” loyal customers attracts researchers’ interests. Srinivasan et al. (2002) constructed a comprehensive framework to study customer loyalty in a B2B website and found that online community is an important factor to foster customer loyalty. They claimed that communities facilitated product information sharing among customers, which might increase customer’s repurchase rate. Consumers might retain to an e-retailer because they enjoyed participating in the community, or because they developed long-lasting social relationship with other participants, or because they appreciate e-retailer’s way of doing business based on their interactions with the e-retailer in online communities. Koh & Kim (2004) examined the relationship between online community outcome and loyalty toward the virtual community provider with empirical data. They also found the positive influence on users’ loyalty from online community participation and promotion. Andersen (2006) also tested the impact of consumers’ activities in web-enhanced brand community and their loyalty to e-retailers in a business-to-business (B2C) e-commerce context. He found that relationship involvement generated from users’ interactions in online brand community increased consumers’ loyalty to re-tailor. Other researchers built on these studies and tried to move on by investigating the underlying mechanism about how online community enhance consumer loyalty. Sumeet et al., (2006), based on conditioning theory, proposed that customer loyalty to vendor could be increased by improving participants’ favorable attitude toward the community. They explained that if a vendor devoted efforts to facilitate the discussion among users in a virtual community, customers might have favorable attitude toward the vendor, which helped members associate the community with the vendor, because the favorable “discussions would act as unconditioned/natural stimulus” (p.776). Following the idea of Tung et al. (2001), who found community members with higher involvement had higher trust intention toward e-retailers, Lu et al. (2010) empirically found partial mediation effect of trust in consumers’ community participation and their purchase intention. The latest review about antecedents and outcomes of online brand community participation by Madupu & Cooley (2010) elaborated that the consciousness of kind, shared rituals and traditions, and moral responsibility were the consequences of online community participation and the direct factors which influence consumer’s sustainable and oppositional brand loyalty.
3 RECIPROCITY THEORY

Reciprocity theory is rooted in social exchange theory. It states that people’s perception and behaviors performed for others always depend on what they receive from others. According to Emerson (1976), social exchange includes a series of interactions between specific actors and can generate obligations. Reciprocity, as the interpersonal construct, has been taken as a driver of relational exchange (Pervan et al., 2007). According in reciprocity theory, when an individual receives benefits from others, the receiver should respond in kind, and an obligation is generated (Gouldner, 1960). The indebtedness generated by the norm of reciprocity obligates individual to give favors back and repay the benefits to the counterparts in the relationship in order to have an enduring supportive exchange relationship in the future (Brownell & Shumaker, 1984). During the receiving and giving process there is a time that the person who owns the debt is “morally constrained to manifest their gratitude toward, or at least to maintain peace with, their benefactors” (Gouldner, 1960) (p. 174).

Bagozzi (1995) and Kang & Ridgway (1996) found that consumers had the tendency to keep loyalty to retailers and felt obligations to repay retailers’ kindness. Based on the reciprocity theory, De Wulf (2001) proposed that consumer’s perceptions about retailer’s relationship investments could generate kind of psychological ties which might motivate the consumer to engage in reciprocal intentions in order to sustain their relationship. The perceived relationship investment includes time, money, effort and also other resources and the results of the reciprocal intentions may be consumer’s loyalty and repurchasing behavior. Carr (2006) also utilized this theory to study the phenomenon in IS field. He construct a model to explain the relationship between information service quality and users’ relationship between the information systems department as he argued “IS departmental actions will be evaluated and reciprocated by IS users based on evaluations of what they receive from the IS department.” Lund (2010) investigated reciprocity in relational marketing in his dissertation and elaborated the important role of reciprocity theory in this area.

Specifically, Palmatier (2009) argues that feelings of gratitude, as the psychological core of reciprocity, plays an important role in mediating the relationship between perceived relational investment and reciprocal behaviors. Gratitude-based reciprocal intention has been proved to be an important variable on consumer loyalty, such as the work done by Raggio & Folse (2009), Walker (2009) and Palmatier et al., (2009). The latest review on loyalty programs done by Henderson & Beck (2011) also suggested that the programs which could help generate gratitude resulting in reciprocation should be designed to build strong relationship between consumers and retailers.
Based on the literature review a comprehensive framework is proposed as Figure 1. The proposed mediators (perceived relational investment by e-retailer and feelings of gratitude to e-retailer) and moderator (personal reciprocity) are assumed to play an important role in bridging consumers’ participation in e-retailer sponsored virtual community and customer loyalty.

4.1 Satisfaction with ESVC, Community Commitment and Customer Loyalty

Adapted from Gustafsson (2005), satisfaction with ESVC in this study is defined as positive affective condition resulting from a global evaluation of performance in the relationships with both member-to-member interactions and member-to-e-retailer interactions. Literature in virtual community participation suggested that members’ satisfaction with the community would lead to their emotional bond with the community (Mohr & Spekman, 1994), which is the community commitment. The significant relationship between satisfaction and commitment has been empirically tested by (Bateman et al., 2011; Cheung & Lee, 2009). Moreover, previous studies, no matter cross-sectional or longitudinal, have found supportive evidence on the relationship between customer satisfaction and customer loyalty in the context of ecommerce, such as the work done by Anderson & Srinivasan (2003), Lin & Wang (2006), Tsai et al. (2006), Eid (2011), and Anderson & Swaminathan (2011). Generally, commitment refers to an individual’s desire to develop and maintain a stable relationship with others, even short-term sacrifices are needed (Anderson & Weitz, 1992). In organizational behavior studies, commitment to a company or organizational commitment has been defined as a psychological bond between an individual and an organization, which drives the individual’s decisions to continue or discontinue the relationship with the organization (Meyer & Allen, 1991). This research defines community commitment as a member’s affective and emotional attachment to a virtual community, desire to maintain the relationship, feelings of sense of belongings with normative obligations. Community commitment has been considered as an important factor in customer relationship management for building customer loyalty (Hur et al., 2011).

Customer loyalty to an e-retailer is defined as a favorable attitude to the online vendor, resulting in repurchasing behavior in this study. Researchers have found that consumers’ participation in online community influenced their community commitment and loyalty. Shang et al. (2006) argued that customers’ engagement in online community increase their involvement with a brand which helped develop brand loyalty. Gupta et al. (2010) proposed that community members’ favorable attitude toward the community could be transformed into customer loyalty and repurchase intentions, through the commitment to community build up during the interactions. Similarly, Hur et al. (2011) examined the
relationship between brand community affect, trust, commitment and repurchase intentions of the brand. They found that community members’ positive attitude and affective attachment to a brand community positively influenced their repurchase intentions. Thus we assume that the relationships among satisfaction with ESVC, community commitment and customer loyalty to e-retailer are as follows:

**H1** An ESVC member’s satisfaction with ESVC will have a positive effect on his or her community commitment.

**H2** An ESVC member’s satisfaction with ESVC will have a positive effect on his or her loyalty to e-retailer.

**H3** An ESVC member’s community commitment will have a positive effect on his or her loyalty to e-retailer.

### 4.2 Mediators

Perceived relationship investment has been defined as “a consumer’s perception of the extent to which a retailer devotes resources, efforts, and attention aimed at maintaining or enhancing relationships with regular customers that do not have outside value and cannot be recovered if these relationships are terminated” (De Wulf et al., 2001). As an external service, ESVC could be perceived by consumers as extra efforts made by the e-retailer who intends to establish a long-term relationship with customer. By fulfilling consumers’ informational and social needs, ESVC bring joyful experience for consumers’ online participation, which in turn, could help consumers create positive perception of the company’s efforts to enhance the relationship with them. Moreover, the perceived relational investment will activate a series of emotional and behavioral reactions of consumers. Smith & Barclay (1997) mentioned, the resources, such as time, money and labor, invested in a relationship would create psychological bonding. Customers may be motivated to maintain the relationship with e-retailer for reciprocation, which would result in thankfulness and re-purchase intentions. According to reciprocity theory, the perceived “benevolence” received from one party in a relationship could morally drive their gratitude toward the benefactor. If customers are aware of the benefits devoted by e-retailer, they should feel grateful and be more likely to buy from the e-retailer (Palmatier et al., 2009).

In an exchange relationship, consumers were proved to have general understanding about their patronage as an outcome expected by sellers (Friestad & Wright, 1994). Feelings of gratitude plays an important role in transforming the awareness into actual behaviors. It shares the similar meaning with feelings of gratefulness, thankfulness, and appreciation. McAdams & Bauer (2004) described it as an “emotion with an attribution” (p.88) and (Becker, 1986) took it as the emotional core of reciprocity. Feelings of gratitude could encourage individuals to contribute to the welfare of the giver. It consisted of a series of emotional changes, which would generate obligations for the receiver to reward the benefactor (McCullough et al., 2001). Palmatier et al. (2009) proposed that customers’ feelings of gratitude would result in various gratitude-based reciprocal behaviors, which could positively influence consumer purchase intentions and sales performance. They conducted two empirical studies and validated the causal relationship between gratitude and benefits brought to sellers. Thus in this study we assume that consumers’ perceived relationship investment by e-retailers and their feelings of gratitude would mediate the relationship between their participation in ESVC and loyalty toward e-retailer.

**H4** An ESVC member’s satisfaction with ESVC will have a positive effect on his or her perceived relational investment by the e-retailer.

**H5** An ESVC member’s community commitment will have a positive effect on his or her perceived relational investment by the e-retailer.

**H6** An ESVC member’s perceived relational investment by the e-retailer will have a positive effect on his or her feelings of gratitude to the e-retailer.

**H7** An ESVC member’s feelings of gratitude to the e-retailer will have a positive effect on his or her loyalty toward the e-retailer.
5 RESEARCH DESIGN

In order to test the research model from different perspectives, mixed methods will be adopted for further investigation. Both of qualitative and quantitative studies will be conducted to test the research framework. According to Teddlie & Tashakkori (2009), in mixed-method approach, shortages of qualitative and quantitative method could be compensated by each other. Further, mixed-method approach enables researchers to gain divergent views about the phenomenon and achieve the complementarity, completeness, expansion, compensation, and diversity (Venkatesh et al., 2013) (p.5). Thus, ethnography will be used to collect qualitative data and online survey will be utilized to collect quantitative data.

As the extension of ethnography, netnography requires researchers to immerse themselves in the online environment and collect data based on observations, fieldnotes, and user-generated contents. As suggested by Cova & Pace (2006), netnography is very useful to study the virtual communities which are directly formed through computer-mediated communications. Wei et al. (2011) adopted this method to study Internet group purchasing behavior in e-commerce context and followed the non-participation approach. In this research, netnography will be conducted following the instructions of Kozinets (2002) and Bartl et al. (2009). Detailed procedures are summarized in Figure 2. Starting from the research question, online observation in selected ESVC websites will be conducted. Different types of data will be collected at the same time. Then these two types of data were analyzed iteratively and insights were gained based on content analysis. As data analysis and findings went hand in hand, insights generated during the data analysis also informed further data collection and analysis, after checking whether the findings helped answer research questions. Thus in Figure 2, the dashed line represented the iteration process during the netnographic study.

![Figure 2 Procedures in netnographic study (---- dashed line represents iteration)](image)

While the netnography was performed, online survey will be designed to quantitatively test the theoretical framework from another perspective. It compensates for the lack of generalizability and controllability by examining variable relationships in a wide variety of sample. As suggested by Creswell (2008), survey is very useful when variables are well defined and the relationships between variables are clearly specified. Thus it powers on increasing the confidence of validating research model with a representative sample. In this study, measurement items will be developed based on previous literature and validated in pre-test. Then large-scale sampling will be conducted and statistical analysis, such as structural equation modeling technique, will be adopted for data analysis. Procedures are illustrated in Figure 3.
6 DISCUSSION AND CONCLUSION

This study investigates the underlying mechanisms of how e-retailer sponsored virtual community nurtures customer loyalty. Commitment-trust theory (Morgan & Hunt, 1994) is a widely accepted model in relational marketing literature, but it loses power when the actors interact with each other spanning over two contexts. Online community may be built for different reasons, such as product and service support, information delivering, interests sharing among consumers, and social networking. Interpersonal interactions in these communities may be largely customer-to-customer engagement rather than e-retailer-to-customer communications. How is the relationship building in this platform transferred to the marketplace to increase customers repurchase rate cannot be simply explained by the trust-commitment theory. Moreover, previous studies neglected the characteristics of online community which might be a critical factor in the transferring process. Jang et al. (2008) found members in customer-initiated online community perceived more accurate information, better system quality than members in company-initiated community. The explanation for this phenomenon was that due to different funders, people participated in online communities with different motivations. Consumers might voluntarily contribute to the customer-initiated community but mandatorily join company-initiated community in order to receive specific services. However, if this is the truth, e-vendors should promote their business on a third-party platform rather than building their own online community. But this strategy is not appropriate for nurturing loyal customers for a long run. In the customer-initiated community, it is hard for e-retailers to receive direct feedback of consumers’ opinion on products and services, collect consumers’ word-of-mouth, and manage customer relationship.

We propose a framework to explain the above phenomenon from a perspective of consumer’s reciprocal behaviors. Based on the reciprocity theory, a customer’s perceived relational investment by e-retailers and his or her feelings of gratitude play a mediating role by converting satisfactory ESVC participants to loyal customer. Though empirical testing is still needed, this theoretical framework proposes promising explanations for “How and why does ESVC nurture consumer loyalty?” Moreover, it provides insights on how to better manage online communities which are built by e-retailers. Future work should collect empirical data to further test the model.
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