Relationship between Corporate Reputation and Customer Loyalty on Nigerian Food and Beverages Industry: PLS Approach

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ABSTRACT:
This study used the partial least squares (PLS) approach to examine the effect of corporate reputation on the customer loyalty of the Food and Beverages Industry in Nigeria. The data for this study were collected from the customers in Kano State Nigeria. Out of 250 distributed questionnaires, 212 usable questionnaires were returned. Before examining the effect of corporate reputation on the customer loyalty of Food and Beverages Industries, the validity and reliability of the measurement, outer, model was investigated and confirmed in line with the standardized reporting style of PLS structural equation modeling. The results of the study concerning to the impact of corporate reputation on the customer loyalty of Food and Beverages Industries was confirmed in line with the premises of the theory of planned behavior that looks intention could be the best determinant of an individual’s behavior. The last section of the study discusses the findings and provides further insights into the future research were also discussed.

Keywords: Corporate reputation, Customer loyalty, Food and beverages, PLS and Nigeria

INTRODUCTION
In management and marketing research construct of corporate reputation is deemed as an imperative elusive asset and competitive advantage of the firm (Fombrun 1996; Helm et al., 2010). It may be defined as stakeholders’ overall evaluation of a company over time (Fombrun 1996; Gotsi and Wilson 2001; Helm et al., 2010). Reputation serves as a point of reference when judging the firm’s contribution to stakeholders’ own and the public’s welfare. Therefore, it is decisive for stakeholders’ contributions to the firm (Lewis, 2001). In order to manage reputation, it seems important to analyze its behavioral effects. Customers are believed to be more loyal to the products of firms with a good reputation (Morley, 2002). However, empirical evidence on the effect of reputation in the formation of customer satisfaction and loyalty is scarce (Andreassen and Lindestad, 1999) and led to divergent findings (Anderson and Sullivan, 1993; Yoon et al., 1993; Andreassen and Lindestad, 1999; Abdullah et al., 2000).

Furthermore, corporate reputation has received unprecedented attention from both academics and business community (Zhang, 2009; Jeng, 2011). However, a piece of successful experience in corporate reputation management in one country or area could hardly been replicated in another place due to its culture

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and environment-dependent characteristic, thus good corporate reputation is of great importance in corporate core competence (Zhang, 2009; Jeng, 2011). Corporate behaviors and corporate social responsibilities has been always the central point of corporate reputation (Zhang, 2009). Therefore if corporate reputation exerts impact on customer loyalty and if yes, what is the interaction mechanism between them has been an interesting and meaningful research topic (Zhang, 2009). Some scholars think that on one hand good corporate reputation benefit the company from attracting potential customers, saving the time for establishing business relationship with customers, reducing the transaction cost and create premium revenue, additionally, are critical marketing activities for the successful marketing of a service, in that reputation reflects the history of a company’s actions and thereby affects buyers’ choices (Jeng, 2011).

Moreover, strong reputation may induce positive customer attitudes towards the company’s products (Brown and Dacin, 1997; Erdem and Swait, 2004; Jeng, 2011) and higher buying intentions for new services (Yoon et al., 1993; Jeng, 2011). Loyalty management could profit from an investigation of another determinant of the construct. Altogether, if corporation is having strong reputation within the consumers and they are also satisfied with the quality of services provided by the corporations, it would ultimately lead them to adopt loyal behavior to that corporation. Therefore, current study emphasizes on corporate reputation which is mainly associated with consumer behavior towards corporation. The study is conducted in the context of food and beverages industry; if food and beverages has a strong corporate reputation and higher level of consumer satisfaction and loyalty are more important than other industries. The study has particularly focused the food and beverages industry in Nigeria. Therefore, we take this gap in the literature as a starting point.

Previous research on reputation mainly focused on reputation as an essential condition of market exchange because customers evaluate a firm’s reputation before entering into a business relationship. How reputation affects already established relationships, has not been investigated in detail, though. Partial Least Squares (PLS) is a competing estimation approach for structural equation models. Using PLS, one can directly assess the strength of relationships among the variables. The paper investigates the interplay of corporate reputation, and loyalty. The research objective of the paper is:

To discuss and assess the hypotheses on the relationships between the two constructs using partial least squares.

Literature Review

An Overview of the Nigerian Food and Beverages Industry

Nigerian food and beverages industry bears an attractive responsibility of feeding a populous and developing nation (Gorondutse and Hilman, 2013f). The industry has shown strong growth over the last 15 years (Cadbury Nigerian Plc, Annual Report, 2008), largely as a result of the relatively stable economy climate. The industry’s products are fast becoming an essential part of the nation’s diet, particularly in urban areas. Similarly, the industry is at the forefront of manufacturing dairy products, hot beverages, pasta and noodles, etc. The demand for the industry’s products from Nigerian consumers is estimated to now be in excess of $500 billion per annum ($ ¼ naira, the Nigerian currency) (Cadbury Nigerian Plc, Annual Report, 2008). It is one of the most globally competitive industries dominated by multinational companies, the leading manufacturers of food and beverage products in Nigeria being mostly subsidiaries of major global players. The target population is quite large and then is fears that the demand for products will outdo the capacity of companies to satisfy it. This is also the fear of the some indigenous company, the Dangote Group, BUA companies etc, which is the fastest growing business in both Nigeria and Africa. This means that there is a need to enhance the corporate of reputation in order to maintain their customer loyalty.

Corporate Reputation

Corporate reputation refers to the global perception of the extent to which a company may be held in high esteem or regard (Weiss et al., 1999; Jeng, 2011). Corporate reputation summarizes the company’s past and present behaviors. Furthermore, good reputation
perceptions have been linked to positive customer attitudes towards the company’s products (Brown and Dacin, 1997; Erdem and Swait, 2004; Jeng, 2011), enhanced buying intentions (Yoon et al., 1993), higher customer loyalty (Andreassen and Lindenstad, 1998; Saxton, 1998; Jeng, 2011), higher cross-buying intentions (Jeng, 2008), greater competitive advantage (Fombrun and Shanley, 1990; McMillan and Joshi, 1997), and lower transaction costs (Compe’s Lo’pez and Poole, 1998).

Economic models suggest that corporate reputation serves as a credible market signal when consumers face imperfect information (Fombrun and Shanley, 1990; Kirmani and Rao, 2000; Martin and Camarero, 2005). Developing a good reputation requires significant investments (Kirmani and Rao, 2000), so companies are reluctant to jeopardize their reputations by acting opportunistically (Doney and Cannon, 1997). Service marketers also recognize that corporate reputations and brand names provide quality signals (Bolton et al., 2004; Jeng, 2011).

Customer Loyalty
Customer loyalty also referred as service loyalty means customer’s authenticity to precise brand in the service industry. Therefore customers maintains a series of loyalties to the organizations whose service they usually consumer. Their faithfulness level with corporations also determines their purchasing behavior. Researchers therefore, measure the loyalty level of consumers with organizations with their buying behavior. Controversy existed regarding consumer loyalty for a long span of time, few researchers considered loyalty as behavior whereas some also viewed consumer loyalty as attitude. Dick and Basu (1994) resolved this conspiracy by conceptualizing consumer loyalty as a composite construct. Dick and Basu (1994) defined consumer loyalty as strength of the attitude towards the target relative to available alternates and patronage behavior.

Furthermore, previous researches also confirm strong relationship between positive corporate reputation and consumer loyalty. For instance Jeng (2008) asserted that good corporate reputation results in higher market share of firms and better financial performance. Porter (1985); Yoon et al. (1993); Robertson (1993); and Andreassen and Lindestad (1998) suggests that good reputation help firms building stronger relationships with customer. Nguyen and Leblanc (2001) hold that degree of consumer loyalty is perceived to be higher when consumer is having strong and favorable perceptions regarding corporation reputation. Helm et al. (2010) Zhang (2009) declared corporate reputation as antecedents of customer satisfaction and customer loyalty, and is consistent with result of Ali et al. (2012) who reveals highly significant and positive association between consumer satisfaction and consumer loyalty.

Later researchers developed the metrics of loyalty and found that ‘true loyalty’ can only be achieved when strong positive relative attitudes are associated with high levels of repeated patronage. Therefore, base on this discussion this study posits the hypotheses in the context of Nigerian food and beverages industry:

**HI:** Consumer loyalty to corporation is positively influenced by corporate reputation

**Underpinning Theory**
This study used theory of planned behavior (TPB), which asserts that customer loyalty was measured by behavioral intention in terms of repurchasing intention, word-of-mouth and first-in-mind. These measures were proven to be useful in previous research (Taylor and Baker, 1994). Therefore, the theory of planned behavior would be of use in supporting the research framework for understanding customer loyalty. The theory of planned behavior by (Ajzen, 1975) postulates that intention could be the best determinant of an individual’s behavior. Thus, an individual who has a strong intention is more likely to engage in the behavior than one with low intention. In this context, the theory of planned behavior posits that the relationship between corporate reputation and customer loyalty (Gorondutse and Hilman, (2013f), and see figure 1 for research model.

**RESEARCH METHOD**
**Sampling and Data Collection**
The data used for this study was collected employing the survey questionnaire research design. The questionnaire as the tool of the data collection was distributed to the customer, in
line with the general rule, the minimum number of respondents or sample size is five-to-one ratio of the number of independent variables to be examined.

Conversely, Hair et al. (2010) proposed that the acceptable ratio is ten-to-one. Therefore, Non probability purposive sampling was used in this study. Given that we could not get a list of all the elements of the population, we used a non-probability sampling of purposive sampling whereby only customers along the streets were chosen and those who were not involved were excluded from the sample. Out of 250 questionnaires distributed, 212 usable questionnaires were returned and used for the statistical data analysis and hypothesis testing, representing 84.8% responses rate which is superb.

Variables and Measurements

Corporate Reputation

The measure of the corporate reputation variable was derived from the literature. Specifically, the variables used to measure the corporate reputation were adapted from the work of Petrick, (2002). Corporate reputation is joint representations of business long-ago activities and potential prospects that explain how key resource providers interpret a business initiatives and assess its ability to deliver valued customers (Petrick, 2002). Dodds et al. (1991) refer it as the prestige or status of a product or service as perceived by the purchaser based on the image of the supplier. Similarly Lai et al. (2010) sees corporate reputation as the general intuition dazzling the perception of a combined stakeholder group. Therefore, in the present study we refer corporate reputation as the general impression reflecting the key stakeholder perception about the business initiatives particularly on the social responsibility issue and the assessments about the business product or services. Five items were adapted from Petrick (2002) to measure the construct, and was tested by Gorondutse and Hilman (2013d); Hsu (2012) and has an acceptable range of internal consistence reliability and convergent validity (Hair et al., 2010).

Customer Loyalty

For measuring the customer loyalty, Bloemer et al. (1998) suggested that operationalization of service loyalty would consider behavioral, attitudinal and cognitive aspects in the development of a composite index, whereas, Gremlar and Brown (1996) categorized service loyalty into three specific components, namely the purchase, attitude and cognition. They also defined customer loyalty as the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service exists (Gremlar and Brown, 1996). Therefore the Service Loyalty measure in this study was measured through behavioral, attitudinal and cognitive aspects. Four items were adapted (Jun and Cai, 2003; Yang and Fang, 2004; Ndubisi et al., 2009) by using the seven-point Likert scale (1–strongly disagree to 7–strongly agree) to measure Customer Loyalty and has an acceptable range of internal consistence reliability and convergent validity (Hair et al., 2010).
Analysis and Results

As discussed earlier, this study aims to study the relationship between corporate reputation and customer loyalty. In order to obtain valid and reliable results, this study followed the two steps approach as suggested by (Chin, 1998). Therefore, the process was to confirm the construct validity before proceeding to test the hypothesis.

The Measurement, Outer, Model

The goodness of measurement, outer, model has been established through the content validity and the construct validity.

The Content Validity

Construct validity testifies to how well the results obtained from the use of the measure fit the theories around which the test is designed (Sekaran and Bougie, 2010). In line with Hair et al. (2010) and Chin (1998), factor loading of the items could be used to confirm the content validity of the measurement model. Further, all the items meant to measure a particular construct should load highly on the construct they were designed to measure. If some items load on some other factors higher than their respective construct, these items will be candidate for deletion. In addition, all the measures of the construct should be significantly loaded on their respective construct. As illustrated in (table 1), all the items load highly and significantly on the constructs they were designed to measure. Thus, the content validity of the measurement, outer, model was confirmed, for example, this study used a cutoff value for loadings at 0.5 as significant (Hair et al., 2010). Composite reliability values (table 2), present that composite reliability value of all the constructs exceeded the cutoff value of 0.7 and all the values of AVEs are more than 0.5. Thus, one can corroborate that the measurement, outer, model possesses a sufficient degree of convergent validity and all valid measures of their respective constructs based on their parameter estimates and statistical significance (Chow and Chan, 2008).

Convergent validity

Convergent validity which is the extent to which multiple items to measure the same conceptions are in agreement. In line with recommendation of Hair et al. (2010) we used the factor loadings, composite reliability and average variance extracted to appraise convergence validity. The loadings for all items are all above the yardstick value of 0.5 (Hair et al., 2010). Composite reliability values (table 2), which present that composite reliability value of all the constructs exceeded the cutoff value of 0.7 and all the values of AVEs are more than 0.5. Therefore, if any items which has a loading of higher than 0.5 on two or more factors then they will be deemed to be having significant cross loadings. From Table 1 we can observe that all the items measuring a particular construct loaded highly on that construct and loaded lower on the other constructs thus confirming construct validity. In addition, this study employed Harman’s one-factor test of common method bias (Podsakoff et al., 2003) and acquire a number of different factors from among the variables. In addition, the correlation matrix (table 3) does not signify any extremely correlated variables; common method bias frequently results in tremendously high correlations ($r$, 0.90) (Bagozzi et al., 1991). Consequently, we may assumed that common method variance bias is not a problem, and the results corroborate the tenability of the proposed measurement model.

The Discriminant Validity

The discriminant validity of the measures (the degree to which items differentiate among constructs or measure distinct concepts) was appraised by examining the correlations between the measures of potentially overlapping constructs. This means that the shared variance between between each construct and its measures is greater than the variance shared among distinct constructs (Compeau et al., 1999). In order to assess the discriminant validity of the measurement model, this study used the criterion suggested by Fornell and Larcker (1981). As in correlation matrix illustrated in table 3 below, the diagonal elements are the square root of the average variance extracted of all the latent variables. The discriminant validity is assumed if the diagonal elements are greater than other off-diagonal elements in their rows and columns. This situation is apparently the case in the correlation matrix and thus the discriminant validity is confirmed. Having established the validity and the reliability of the measurement model, the next step was to test the hypothesized relationship by running PLS algorithm and Bootstrapping algorithm in Smart PLS 2.0.
Table 1: Outer Model (Loadings)

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Loyalty</th>
<th>Reputation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CL1</td>
<td>0.940343</td>
<td></td>
</tr>
<tr>
<td>CL3</td>
<td>0.720509</td>
<td></td>
</tr>
<tr>
<td>CL4</td>
<td>0.957067</td>
<td></td>
</tr>
<tr>
<td>RT2</td>
<td></td>
<td>0.958305</td>
</tr>
<tr>
<td>RT3</td>
<td></td>
<td>0.850831</td>
</tr>
<tr>
<td>RT4</td>
<td></td>
<td>0.963537</td>
</tr>
<tr>
<td>RT5</td>
<td></td>
<td>0.851332</td>
</tr>
</tbody>
</table>

Table 2: Results of measurement model

<table>
<thead>
<tr>
<th>Model Constructs</th>
<th>Measurement items</th>
<th>Loadings</th>
<th>Cronbach alpha</th>
<th>CR</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td>CL1</td>
<td>0.940343</td>
<td>0.76</td>
<td>0.85</td>
<td>0.63</td>
</tr>
<tr>
<td></td>
<td>CL3</td>
<td>0.720509</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CL4</td>
<td>0.957067</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reputation</td>
<td>RT2</td>
<td>0.958305</td>
<td>0.89</td>
<td>0.93</td>
<td>0.75</td>
</tr>
<tr>
<td></td>
<td>RT3</td>
<td>0.850831</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>RT4</td>
<td>0.963537</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>RT5</td>
<td>0.851332</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Composite reliability (CR) = (square of the summation of the factor loadings) /{(square of the summation of the factor loadings) ? (Square of the summation of the error variances)}
b. Average variance extracted (AVE) = (summation of the square of the factor loadings) /{(summation of the square of the factor loadings) ? (Summation of the error variances)}

Table 3: Correlations among constructs and discriminant validity

<table>
<thead>
<tr>
<th>Construct</th>
<th>1</th>
<th>2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty(1)</td>
<td>0.795</td>
<td></td>
</tr>
<tr>
<td>Reputation (2)</td>
<td>0.747</td>
<td>0.868</td>
</tr>
</tbody>
</table>
As presented in (figures 2 and 3 and table 4), the path coefficient between Corporate Reputation and the Customer loyalty was found to be significant at the 0.001 level of significance ($\beta=0.897$, $t=74.560$, $p<0.001$). This result showed the significance of corporate reputation for an improved customer to be loyal to food and beverages industry in Kano state, Nigeria. Hence, hypotheses H1 is supported for this study.

**Predictive Relevance of the Model**

Another important of the structural model can be accessed through R2 which indicates the variance in the dependent variable that is explained by the independent variables. Based on the results reported in (table 5), the R2 was found to be 0.80 indicating that corporate reputation can account for 80% of the variance in the customer loyalty. In line with the assessment criterion suggested by Cohen (1988), 0.26 substantial, 0.13 moderate and 0.02 weak;
therefore, in this study R2 here is considered substantial indicating the power of corporate reputation in explaining the customer loyalty. Similarly, another criterion to assess the quality of the model is using the Blindfolding procedure to generate the cross-validate communality and cross-validated redundancy. Blindfolding procedures is designed to remove amount of the data and handle them as missing values to estimate the model parameters. These parameters are used later to reconstruct the assumed missing data. Based on that, the comparison will be held to assess how close the real from the implied results and the Q2 values will be calculated.

A cross-validated communality Q2 is obtained when the data points are predicted using the underlying latent variable scores. Whereas, if the prediction of the data points is obtained by the LVs that predict the block in question, then a cross-validated redundancy Q2 is the output.

In line with recommendations by Fornell and Cha (1994), the model will have predictive quality if the cross-redundancy value was found to be more than 0, otherwise the predictive relevance of the model cannot be concluded. Based on the Smart PLS 2.0 results, the obtained cross validated redundancy was found to be 0.603. This result supports the claim that the model has an adequate prediction quality and see (figure 4).

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path Coefficient</th>
<th>Standard Error</th>
<th>T Statistic</th>
<th>P Value</th>
<th>Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation -&gt; Loyalty</td>
<td>0.897</td>
<td>0.012</td>
<td>74.560</td>
<td>0.0001</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Table 5: Prediction relevance of the model

<table>
<thead>
<tr>
<th>Dependent variable</th>
<th>R Square</th>
<th>Cross-Validated Redundancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td>0.805</td>
<td>0.603</td>
</tr>
</tbody>
</table>

Figure 4: Cross–validated redundancy
Goodness of Fit (GoF) of the Model

Unlike the CBSEM approach; PLS Structural Equation Modeling has only one measure of goodness of fit which was defined by Tenenhaus et al. (2005) as the global fit measure (GoF). This measure is the geometric mean of the average variance extracted and the average R² for the endogenous variables. GoF is calculated by the following formula:

\[
\text{GOF} = \sqrt{R^2 + \text{AverageCommunality(ÂVE)}}
\]

\[
\text{GOF} = \sqrt{0.690 \times 0.805} = 0.745
\]

In line with the results obtained, the GoF value was 0.745 which was calculated as in the following. The comparison was made with the baseline values of GoF as suggested by Wetzels et al. (2009) (small =0.1, medium =0.25, large =0.36). The results showed that the model goodness of fit measure is large an adequate of global PLS model validity.

DISCUSSION AND CONCLUSION

The results of this study have established the significant effect of corporate reputation on the Customer loyalty. Particularly, corporate reputation has confirmed to have a significant positive effect of the customer loyalty (β=0.897, t=74.560, p<0.001) at the 0.001 level of significance. In other word, corporate reputation can account for 80% of the variance in the customer loyalty. This result confirmed the importance of corporate reputation to the customer loyalty as extensively recognized in the accessible literature (see for instance Nguyen and Leblanc, 2001; Zhang, 2009; Helm et al., 2010; Jeng, 2011; Ali et al., 2012). Hence, the need for food and beverages industry to be reputedly actions, and be able to response fast and quickly to the unexpected changing of the business environment. Without the ability of organizations, including food and beverages industry, to revolve around their customers and satisfy them anyway, it is impossible for them to grow or even to survive (Dess et al., 1999).

Furthermore, this study also examines the goodness of measure which is assessed by looking at the validity and reliability of the measures carried out using the PLS approach. The results showed that the measures used exhibited both convergent and discriminant validity. Next we proceeded to assess the reliability of the measures by looking at the Cronbach alpha values and composite reliability values. Both the Cronbach alpha values and composite reliability values were at par with the criteria set up by other established researchers. As such the measures in the model were shown to be reliable. In addition, using the PLS approach, statistical analysis of the data established generally accepted views that corporate reputation influence customer loyalty among food and beverages industries. As we have already said earlier although this is generally true, the hypothesis has not been tested in an area like Kano state, Nigeria to the best knowledge of the researcher. This adds to the body of knowledge in terms of the applicability in Kano state, Nigeria. This study hence provides useful insights and information regarding the factors and areas that policy makers, food and beverages industries associations and other leaders need to consider to enhance corporate reputation.

One major limitation of this study was related to research design that is based on examining the relationship between corporate reputation and customer loyalty at one point of time. This type of relationship might be clearer if examined on the long run. In addition to that, Future studies could perhaps identify and examine specific relationships in another sector so that the issue of variance in the extent of customer loyalty among them could be better understood. And finally, further research could enhancement these measures with more qualitative methodologies, such as conducting in-depth interviews with respondents. Additional insights from such interpretive research might provide a more affluent considerate of the process by which corporate reputation influence customers. For example, what interpretations do customers attach to the word ‘good reputation’ or ‘bad reputation’? Do those interpretations vary across different purchase behaviors'?
REFERENCES


