

DOES SUPPLIER'S WILLINGNESS TO CUSTOMIZE INFLUENCE THE BUYER'S RETENTION?

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Abstract

Since the last decade, customer retention has become the central topic in the management and marketing decisions in many companies. A 5% increase in customer retention can lead to 25-95 % increase in profits. A retained customer is the loyal one to the companies due to the attachment and commitment. This loyal customer will, recommend other customers to purchase and repurchase the companies' products and services. How we can enhance customer retention? This is one of the main challenges for most of professionals, which requires a lot of investigations. Therefore, the antecedents of customer retention required enough attention. This study explores literatures on antecedents of customer retention in Business-to-Business relationship. Based on the thorough literatures done, a theoretical framework is proposed and some possible recommendations are put forward for future researches.

Keywords: Customer retention; Supplier's willingness to customize; Supplier-buyer

1. Introduction

The main purpose of any business is to create a customer, however, keeping the customer has regarded as equally; since Dawkins and Reichheld [1] stated that a company could increase its profit margin anywhere from 25% to 95% by only increasing their customer retention by 5%. This clearly shows that a small increase in customer retention has an enormous effect in profit in the positive direction. Therefore, this finding generated an interest and research in academic and business communities specifically in buyer-supplier relationships. Buyer retention has emerged as the most desirable outcome of business-to-business marketing efforts. Buyer's retention is a reflection of its long-term orientation, which focuses on obtaining future and current goals. Based on literature, customer retention (buyer's retention) is one of the most discussed outcomes of good relations between the supplier and its customers. Buttle [2] suggested that it is more costly to attain new customers than to maintain the current ones.

One of the principal cost saving areas in dealing with existing customers is that it takes only a few calls to make a sale to an existing customer than a prospective one that in turn might not end up buying [3]. Thus, customer retention is a crucial factor in organisation's, management and marketing techniques and decisions [4]. A worldwide survey on 65% of top-level managers of firms admitted that customers were their top most priority in achieving their targeted firm performance in the next three years [5]. Also, past research showed that the main goal of a firm is to create and maintain a profitable relationship with its preferred customers [6]. Therefore, customer retention has been the corner stone of discussions [7] and the key agenda of companies for the past ten years [8]. Existing literature in marketing has studied and evaluated the various aspects of customer relationship. Whilst some studies are concerned with creating methods to model customer retention, other studies are interested in studying the antecedents of customer retention such as: satisfaction, competitors' offerings [9]. Albeit these studies help us comprehend the factors that affect customer retention, these studied in business to customer settings (B2C).

These studies do not account for important buyer-supplier relationship that could influence customer retention. In many business-to-business markets the same suppliers and buyers willing to work together repeatedly over time, therefore it is important to understand the influence factors on retention. As such, this study intends to explore customer retention and its antecedents between buyer and suppliers in Malaysia E&E sector. Accordingly, a theoretical framework is proposed and some possible recommendations are put forward for future researches.

2. Definition

2.1 Customer retention

So far, various theories emphasized the importance of customer retention; such as, Richard's conversion model [10], Sharma and Patterson's relationship model [12], Ranaweera and Neely's holistic approach [13]. These theories highlighted the list of themes and concepts, which affect customer retention. For example, satisfactions, commitment, service quality, communication, trust. However, they are not the only required factors to retain customers and also they cannot guarantee customer support for long time [13]. While these are the most important factors, the study on supply chain management in Malaysia E&E industry shows the importance of supplier's willingness to customize as one of the customer retention's antecedents. On the other hand, switching

costs also mentioned in several studies as affective factors on customer retention. Thus, in current study we evaluate the effect of these two important factors (supplier's willingness to customize and switching costs) as antecedents of customer retention.

2.2 *Switching costs*

Switching costs defined as the consumer's assessment of the suppliers and opportunities required to perform switching act [14]. Keaveney's [15] is one of the first researchers who study switching costs as the determinant of customer retention. Subsequently, Gremler and Brown [16] developed a model that included switching costs as the antecedent of customer loyalty. Although study showed that switching costs has effect on retention, most of them evaluate switching costs as the single construct in B2C context; while study on different types of switching costs as the determinants of customer retention in B2B context is lacking.

Porter [17] described the different types of switching costs for the first time but they are likely to be applicable in a consumer context only. Subsequently, Jackson [18] organized the switching costs into two major types by providing a top-down perspective of switching costs: risk (or exposure) costs and investment costs. Risk switching costs are seen as a function of uncertainty linked to the unknown or unproved options, while the investment switching costs are seen as a result of investments or linkages established with an incumbent provider.

In another approach adopted by Klemperer [19], the consequences of switching costs were focused. Based on a perception that the investment related switching costs might have a consumer choice, these costs are distinguished. In actuality, two different types of effort-related switching costs are distinguished: learning costs, which are experienced only once, for a given provider (as they are not re-incurred upon switching back to provider), and the set-up costs, which are experienced each time, the switching is made to a previously used provider. Klemperer also distinguished 'artificial switching costs' or the benefits or monetary loss, costs created by the contractual links deliberately established by the service provider. According to Klemperer, the different types of switching costs may have different consequences for consumers, and that switching costs may be created both through investments initiated by the consumer as well as through investments initiated by the supplier.

Guilinan [20] also condenses prior switching costs work by proposing a framework consisting of four types of switching costs: (1) contractual costs foregone (i.e. benefit loss costs such as the loss of cumulative volume discounts), (2) setup costs (which include learning, evaluation, monetary, search and transaction specific asses costs), (3) continuity (or risk) costs, and (4) psychological commitment costs. All of the above switching costs are categorized based on the processes by which they are experienced. Contractual costs are enforced by the service provider, setup costs are created by the investments required to initiate a transactional relationship, continuity costs are created due to asymmetry in knowledge about alternatives compared to the incumbents, and psychological commitment costs are created by the humans' desire for steadiness and acquaintance.

The last decade's economic research on switching costs was well summarized by Klemperer [19] and it was suggested that six different types of switching costs can be distinguished, based on the differences in the nature of the loss involved. These six are technological compatibility costs, transaction costs, learning costs, risk costs, conceptual costs and psychological costs. Though, Klemperer did not add any new costs to this most recent list, his work briefly discussed the types of switching costs that consumers may perceive, and it concentrated more on the distinction among the switching costs on the nature of the loss involved rather than focusing on the nature of the processes by which the loss is created.

Jones et al. [21] also proposed and confirmed a six-dimensional typology of switching costs: lost performance (lost benefits when changing a known supplier to an unknown supplier), uncertainty (perceived risk related with performance of a new and unknown supplier), pre-switching search (time and effort spent prior to switching for evaluating alternative supplier), post-switching costs (time and effort spent after switching in order to learn the new supplier's procedures), set-up costs (first-time purchase costs) and sunk costs (psychologically past expenditures) [21]. All these costs related to the time, money and effort invested in building a relationship with the current supplier, which are reinvested when buyers switch to a new supplier.

In order to provide more comprehensive typology of switching costs, Burnham et al. [22] proposed a higher-order scale of switching costs, which includes eight first-order factors (procedural switching costs-economic risk, evaluation, learning, and set-up; financial switching costs-benefit loss and monetary loss; relational switching costs-personal relationship loss and brand relationship loss). Albeit the two empirical typologies of switching costs may look alike, close assessment of the conceptualization of each dimension discloses an important difference. Economic risk costs are similar to uncertainty costs as both costs contain perceived risk related with a new supplier's performance. Pre-switching costs are also similar to evaluation costs, as both refer to the time and effort spent before switching to a new supplier. Learning costs are similar to post-purchase costs, as both refer to the time and effort spent after switching to new supplier to learn its system. Benefit loss and monetary loss costs are similar to lost performance costs; all refer to the loosing benefits upon

switching. In both typologies, set up costs are identical; they are the costs related to starting a new transaction for the first time. In Jones' typology, sunk costs do not detain the loss of established social bonds with supplier. Therefore, this study considers Burnham et al.'s typology as the most complete and the most cited typology in marketing.

So far the effect of switching costs on retention has been empirically validated in employee-to-employee relationships and Business-to-Customer relationships; however there is lack of research in evaluating switching costs in Business-to-Business relationships. Among all studies, Burnham's study is the most reliable one in terms of switching costs classification as he evaluated their effect in two different industries. With regards to the scarcity of research in B2B and also the limited studies on the downstream effects of different types of switching costs [21]. In this study, we suggest Burnham et al. [22] and Jones et al. [21] typology which identified three types of switching costs namely: procedural switching costs, financial switching costs and relational switching costs as the determinants of customer retention. Therefore, the above arguments lead us to the following hypotheses:

H1. There is a significant relationship between procedural switching costs and customer retention.

H2. There is a significant relationship between financial switching costs and customer retention.

H3. There is a significant relationship between relational switching costs and customer retention.

2.3 Supplier's willingness to customize

Suppliers might be asked to make special accommodations; these accommodations may contain a policy in response to a customer's short-term demands or developing new policies such as customizing products or services. The terms of supplier accommodation are also called as "flexibility and adaptation". Supplier flexibility determined as the extent to which the suppliers are willing to make changes. Supplier adaptation defined as the changes in process, product and procedures specifically to the needs of customer [23]. Compare to flexibility, adaptation is longer version of accommodations by supplier's investment in order to meet a particular customer's needs. Such changes contain customizing products, accepting distribution and inventory schedules, investing in tools and equipment.

In the recent growing competitive market, the demand for customized products is also growing which creates more challenges for the companies [24]. Customer's insight of supplier's willingness to customize contains the supplier's willingness to invest in particular tools or accepting specific production procedure to meet the customer's needs [25]. Generally, manufacturers prefer a generic or standardized service approach, as customizing services are challenges for them. The willingness of supplier to customize a product which fit operations for customer's demands may promote that customer to choose the supplier [26]. Therefore, markets where the need for low-volume, high-customized product is so obvious create more competitive climate for manufacturers. In this condition, quick responses to diversified customers' demands with reasonable cost make regular challenges to manufacturers.

Normally, traditional mass production models are not enough to beat these challenges, as the real production usually cannot settle investments in product development, equipment, maintenance and training. Thus, customization is the great help for manufacturers in order to offer products which can meet individual customer demands [26]. The most important aspect in customization, which should be considered most, is the fulfillment of individual customer demands. Instead of offering market-focused products, which can cause average satisfaction, organisations are offering customer focused products with a large amount of individuality [18]. By offering customized products, organisations can beat the market over their competitors. Therefore, crafting customized product or product systems is a new business innovation. On the other hand, extreme customization is not recommended as such practice causes high complication which costs in product execution [27].

Available various products in the markets can restrict customer's satisfaction which can leads to more confusion [28]. Thus, manufacturers have to offer the right product to the target market. With reference to business literature, customization's objective is to maximize producers' abilities in order to meet customers' needs in marketplace. This can be achieved by either increasing organisations' portfolio, which contains, products, services, equipment or skills according to market needs or by channeling customers to the organisations' total capacity, which can serve customers better. Companies are strategizing to offer customer focused products with a large degree of individuality [27]. This move gives a company an upper hand over its competitors and it may keep customers from switching providers.

Customization appears in the various forms; changing products/services, production procedures and also administrative process. These changes can be formal and stated in the contracts or informal to cope with an unanticipated problem. For example, suppliers can agree to decrease deliveries from what was agreed in contract for a short period in order to cope with a sale down turn for the buyer organisation or modify its own product design to address the difficulties in production procedures for the buyer. We believe that the willingness of a supplier to customize shows the supplier's willingness to make dedicated investments in a relationship to meet

the particular requirements of its buyers. Ultimately, such investment in the relationship can affect the customer's decision-making and future commitment. This study will investigate to what extent the creation of customer retention is contingent on customization. More specifically, examine the influence of a supplier's willingness to customize on the customer retention. Since the core promise of customization is the fulfillment of customer's needs, therefore this study hypothesis;

H2. Supplier's willingness to customization has a significant effect on customer retention.

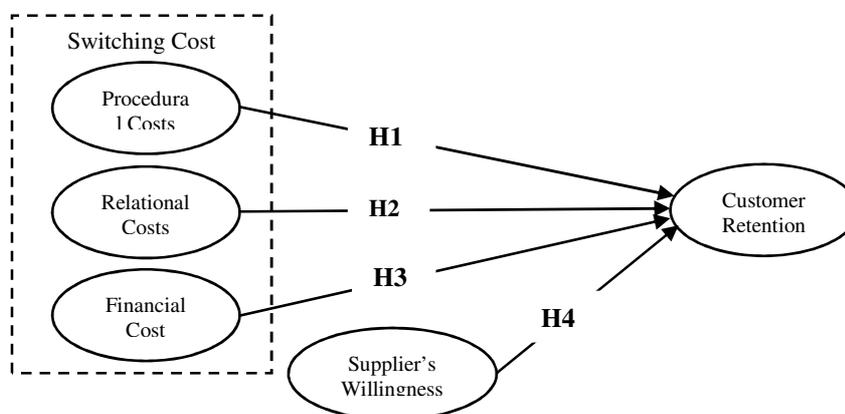


Figure 1. Conceptual framework

3. Research Method

This study dedicated on the relationship between procedural costs, relational costs, financial cost and customer retention, as well as supplier's willingness and customer retention in the area of buyer-supplier dyadic relationship. A quantitative survey in the form of a questionnaire was employed in current research. Thus, from this population a sample selected randomly between populations. Moreover, this population involved purchasing supervisors and managers in E&E sector in Malaysia. This population is limited only to the area of relationship between Malaysian electronic Manufacturers and their suppliers. Having managed the questionnaire of this research to the population, 250 questionnaires were subsequently collected and 230 of 250 were usable.

In this study, five reflective constructs formed the conceptual model. The reflective constructs included procedural costs, relational costs, financial cost and customer retention, supplier's willingness. To measure these constructs, this study adopted the items developed by Burnham [22] for switching costs and Yu-Xiang [25]. The measurement items for customer retention as an endogenous construct were adapted from Morgan and Hunt [] and Ranaweera and Prabhu [14]. The constructs are described as "reflective" because the measurement items for each construct are highly correlated with one another. The crucial criteria to conduct such an evaluation are composite reliability (CR), indicator reliability and average variance extracted (AVE), and construct reliability [29]. The loading of each indicator on its related latent variable was then checked to establish indicator reliability. A loading higher than 0.7 indicates acceptable indicator reliability [30].

4. Analysis and Results

The four hypotheses between the five factors of procedural costs, relational costs, financial cost and customer retention, supplier's willingness measures were analyzed using Partial Least Squares Structural Equation Modelling (PLS-SEM), by SmartPLS 2.0.M3 [31]. PLS-SEM assists to theory building in studies that attempt to explore causal relationships between latent variables [32].

Assessing a model using PLS entails a two-step process involving the assessment of both the measurement and structural models [30, 31]. The measurement model assessment contains an analysis of the validity and reliability of the relationships between the LVs and related manifest variables. In addition to, the assessment of the structural model is concerned with the relationships between the constructs [30, 31].

Tests of indicator reliability and construct reliability were conducted in order to establish the reliability of the reflective measurement model in structural equation modelling (SEM). In assessing indicator reliability, the loading of every item specify its association with the latent construct. This loading should be greater than 0.7 for indicator reliability to be considered acceptable [31]. Table 1 indicates that the loading of each indicator on its corresponding LV was higher than 0.8 and AVE are greater their thresholds. Thus, the Table 1 display there is no issue in composite reliability (CR). These coefficients are usually considered to estimate CR, as well as Cronbach's alpha coefficient [30, 32]. However, CR is a better estimation for PLS-SEM [31]. Table 1 indicates

that both the CR and Cronbach's alpha for all LVs in the measurement model are in their acceptable thresholds. However, these results represent that the measurement model is both internally consistent and reliable.

The validity of the reflective measurement model includes two main function of convergent and discriminant validity [31]. The AVE of the LVs should be higher than 0.5 for convergent validity to be considered acceptable [30,32]. AVE is used to measure the amount of variance in an LV as a product of its indicators [29]. Table 1 depicts that the AVE of each constructs exceeded 0.5. Thus, measurement model's convergent validity was highly acceptable.

Table 1. Results of measurement model assessment

Construct	Item	Scale	Loadings	Cronbach's Alpha	CR	AVE
Financial	Fin_1	SIM	1	1	NA	NA
Procedural	Pro_1	SIM	1	1	NA	NA
Relational	Re_1	SIM	1	1	NA	NA
Customer retention	Ret_1	Reflective	0.871	0.840	0.903	0.757
	Ret_2		0.873			
	Ret_3		0.868			
Supplier's willingness	SW_1	Reflective	0.800	0.874	0.914	0.726
	SW_2		0.843			
	SW_3		0.875			
	SW_4		0.888			

Discriminant validity refers to the extent to which measures of different constructs are truly distinct from other constructs in the model [30]. To test discriminant validity, the square root of AVE should be higher than the construct correlation [31]. A comparison of the squared root of AVE for each construct with its correlation to all other constructs indicates that the discriminant validity of the measurement model in this study was acceptable. Table 2 illustrates the discriminant validity of the model.

Table 2. Discriminant Validity

Constructs	Customer retention	Financia l	Procedura l	Relationa l	Supplier's willingness
Customer retention	0.87				
Financial	0.538	SIM			
Procedural	0.306	0.270	SIM		
Relational	-0.365	-0.596	-0.816	SIM	
Supplier's willingness	0.686	0.571	0.461	-0.608	0.852

Note: the diagonals (bolded) represent the square root of AVE

Assessment of structural model includes two tests should be completed in order to complete a preliminary assessment of the structural model and conceptual framework; namely the R-square (R²) measure of the endogenous constructs and the path coefficients [30,31]. The path coefficients must be significant; however, the R² can be variable depending depends on the research area. Chin [30] suggested values of 0.67, 0.33, and 0.19 as measures for R² to be considered substantial, moderate, and weak respectively. The R² value of customer retention as the endogenous construct of this study is 0.557. Thus, this value was considered substantial and acceptable.

The path coefficients were similarly highly significant, as shown in Table 3 and Fig. 2. Table 3 shows the empirical t-value based on direct effects.

Table 3. The results of assessment of structural model

Hypothesis	Relationships	Syd Beta	Std Error	t-value	Decision
H1	Procedural Cost → Customer Retention	0.364	0.098	3.728***	Supported
H2	Relational Cost → Customer Retention	0.558	0.117	4.773***	Supported
H3	Financial Cost→ Customer Retention	0.420	0.069	6.117***	Supported
H4	Supplier's Willingness → Customer Retention	0.618	0.043	14.252***	Supported

***P<0.01, **P<0.05

However, the hypotheses were tested by applying guidelines for Structural Equation Modelling (SEM) techniques. All paths are statistically significant at the 0.05 level. This results in the support of our four hypotheses. H1 was supported at p < .05 (see Fig. 2). As expected, Procedural Cost is positively related (standardized estimate = 0.364) to Customer Retention (H1). Relational Cost positively related (standardized estimate = 0.558) to Customer Retention (H2). Moreover, Financial Cost has a positive relationship

(standardized estimate = 0.420) with Customer Retention (H3). Finally, Supplier's Willingness has an expected positive effect (standardized estimate =0.618) on Customer Retention (H4).

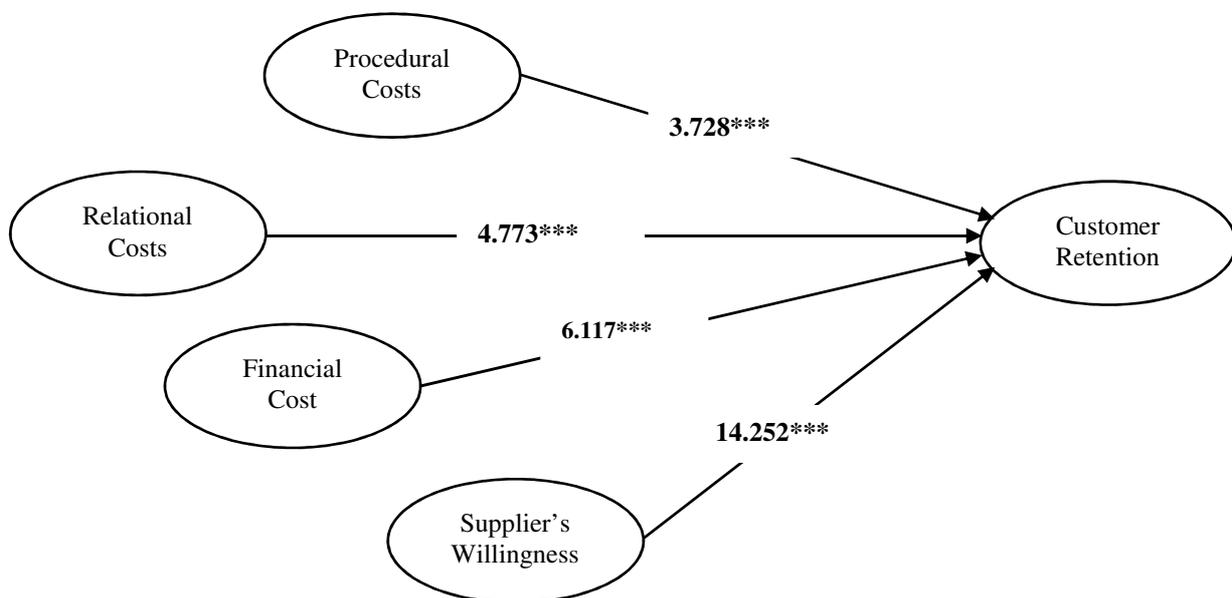


Figure 2. Theoretical framework

5. Discussion and Findings

The major conclusion, which can be derived from the conceptual framework defined by this research, is determining the antecedent of customer retention in the electronic industry in Malaysia. Although literature flourishes with theoretical claims regarding the significance of customer retention in B2B context, study on this subject has yet to achieve movement. Empirical evidence on the customer retention in B2B specifically in developing countries is still limited. Therefore, the author incorporates the role of lesser, studied drivers such as supplier's willingness to customize and switching costs. In this study, results show that a supplier's willingness to customize and switching costs have a positive effect on customer retention. Buyers are tending to stay in relationship with supplier that listen to them, identify their requirements and offers customize service and products just to fulfill those requirements. In Malaysia E&E industry, the fast paced technology creates volatile requirements for consumers; therefore, for manufacturers who have to bring the value to the consumers, the customized raw materials are the critical necessity. Thus, manufacturer will remain in the relationship with suppliers who accompany them in this journey to provide and produce up to date products/services for consumers. The findings show that financial switching costs are more effective for customer retention compare to relational and procedural switching costs. The result shows the cost of product/ services carry more value for buyers. Moreover the second most effective costs are procedural switching costs. Which prove that buyers do care about time and effort takes to use a product. Therefore, the primary role of switching costs, as far as organisations are concerned, is to induce some sort of loyalty, be it a committed or passive one, in customers. In this regard, this article will motivate managers in marketing field to work on strategies such as customization or creating switching costs as the exit barrier for their customers.

6. Conclusion

This study evaluates the effect of supplier's willingness to customize and switching costs as the antecedents of customer retention in electronic sector in Malaysia. Outcomes show the direct and positive effect of supplier's willingness to customize and switching costs on customer retention. This research suggest that suppliers in E&E sector in Malaysia to engage more in relationship with buyers by providing customized product/service. Further research may include qualitative and quantitative studies to further understand the way buyers feel about staying with supplier.

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