

# Entity crisis, halo effect and loyalty

## Crisis de la entidad, efecto halo y lealtad

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### Abstract:

*Taking as reference the period of deep financial and economic crisis suffered at global level, with special incidence in the Spanish financial industry, this paper examines the effect of entity crisis on consumer loyalty, studying the halo effect on trust, brand image and social norms. A causal model is proposed and contrasted with a sample of 500 bank customers and structural equation models were used to verify the hypothesized relationships. The contribution of this research is related to the analysis of the model proposed from a theoretical and empirical perspective. The general model establishes the consumption habits of customers during an entity crisis. It can be seen that the most important antecedent of loyalty are social norms, followed by trust and then brand image. However, the intensity of the crisis in each entity changes the results. The findings suggest that loyalty is an anti-cyclic strategy for firms. Investing in building customer loyalty in boom years generates positive credit towards the firm from customers who are unwilling to abandon it even when it is in crisis. The halo effect is fulfilled in the sense that customers' general opinion of the entity and the more emotional variable determines and moderates negative news from the environment which attempts to influence consumers' beliefs.*

### Keywords:

*Entity crisis, halo effect, loyalty, services, crisis.*

### Resumen:

*Tomando como referencia el periodo de profunda crisis financiera y económica sufrida a nivel global, con especial incidencia en el sector financiero español, este artículo examina el efecto que la crisis de una entidad bancaria tiene en la lealtad del consumidor, estudiando el efecto halo en la confianza, la imagen de marca y las normas sociales. Se propone un modelo causal contrastado en una muestra de 500 clientes de entidades bancarias utilizando modelos de ecuaciones estructurales. La contribución de esta investigación está relacionada con el análisis del modelo propuesto desde una perspectiva teórica y empírica. En el modelo general, que establece los hábitos de consumo de los clientes durante un momento de crisis para la entidad, se observa que el principal antecedente de la lealtad son las normas sociales, el segundo es la confianza y el tercero la imagen de marca. Sin embargo, la intensidad de la crisis en cada entidad afecta a los resultados. Los hallazgos sugieren que la*

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*lealtad es anti-cíclica para las empresas. Invertir en la fidelización de los clientes en años de auge genera un crédito positivo hacia la empresa por parte de éstos, que no están dispuestos a abandonarla, incluso cuando está en crisis. El efecto halo se cumpliría, pues la opinión de los clientes sobre la entidad y la variable más emocional determina y modera las noticias negativas del entorno que intentan influir en las creencias de los consumidores.*

**Palabras clave:**

*Crisis de la entidad, efecto halo, lealtad, servicios, crisis.*

## **1. INTRODUCTION**

The economic crisis that started in 2008, which European economists have begun referring to as the Great Recession, has filled thousands of pages of news and comments in the mainstream and social media. The macroeconomy has entered into daily debate, due to a critical financial situation that has particularly affected countries in the Euro zone (Monferrer et al. 2016; Moliner et al. 2018). Although many sectors have suffered the effects of the crisis, the European banking industry, especially in southern European countries, has become of great concern to EU authorities and clearly illustrative of the situation.

In addition to the macroeconomic effects, each firm has had to deal with its own crisis and manage it as well as possible. Entity crisis is a very serious threat to a brand's reputation and value (Cleeren et al. 2017). This analysis had not received so much mainstream media attention, with the exception of certain very large or significant entities. However, in this present crisis a new channel of communication has become available for reporting negative news, namely the social media. This scenario of microeconomic turbulence and negative e-WOM must be studied in order to learn from analyzing different ways of managing an entity crisis (Eaddy and Jin 2018).

This study presents an analysis of the effect of entity crisis on consumer loyalty. After several boom years, when banks were consolidating customer loyalty, the outbreak of such a severe crisis has had a direct impact on customer churn. Pre-crisis studies claimed that the main antecedent of loyalty is trust (Morgan and Hunt 1994), but few situations have tested this maxim as seriously as the crisis that began in 2008. The theoretical framework for this study is the situation crisis communication theory (SCCT), which considers that attribution of responsibility for a crisis will depend, among other aspects, on the organization's response, its crisis history, and its stability (Eaddy and Jin 2018). In this vein, following a review of the product crisis literature, Cleeren et al. (2017) identified a need to extend the basis of empirical knowledge.

A key aspect in the study of a microeconomic scenario of entity crisis is the halo effect. Entity crisis clashes with customers' preconceived opinions and may make them begin to doubt the strength of their beliefs and attitudes (Bagozzi 1996). That is, the general attitude toward the entity can have a moderating influence on consumers' perceptions of negative news, which may eventually affect loyalty in some consumers, whereas others remain more immune.

This study focuses on the Spanish banking sector, undoubtedly one of the most severely affected by the crisis in the Euro zone (Bandrés 2016). A single statistic serves to support this claim: in October 2011 Spanish banks received a bailout from the European Union for up to 100 billion euros (Sanchis 2013). However, the situation in each bank has not been identical, with banks that received no payment from the bailout coexisting alongside others that received up to 35 billion euros. A case-by-case study may provide significant conclusions on consumer behavior in a time of crisis.

The objective of this paper is to examine the effect of entity crisis on consumer loyalty, studying the halo effect in trust, brand image and social norms. A causal model is proposed and tested on a sample of customers of different banks.

## **2. HALO EFFECT, ENTITY CRISIS AND LOYALTY**

Since Wells (1907) and Thorndike (1920), hundreds of papers have been published or presented addressing the halo effect (Balzer and Sulsky 1992; Liu and Mattila 2016; Cleeren et al. 2017). In their review of the state of the art, Balzer and Sulsky (1992) distinguish two different types of halo: general impression halo and dimensional similarity halo. General impression halo can be defined as a general impression bias whereby a rater's overall evaluation or impression of a rate leads the rater to evaluate all aspects of performance in a manner consistent with this general evaluation or impression. This definition is similar to that given in the seminal work by Thorndike (1920) and is the most widely accepted conceptual definition of halo. Dimensional similarity is a rater's tendency to rate similarly dimensions he or she perceives as conceptually similar or logically related (Guilford 1936). This second definition coincides with the definition of halo error and refers to the operational definition of halo.

Within the framework of attitude theory, Bagozzi (1996) defines the halo effect as the influence of one's attitude toward an action on beliefs about the perceived consequences of the action. Attitude theory (Ajzen 1985) considers that attitudes are formed on the basis of behavioral beliefs, whereas the halo effect assumes that attitudes in turn influence behavioral beliefs. That is, the halo counteracts or supplants the influence of rational thinking as reflected in beliefs and their evaluations, and their influence on action.

Bagozzi (1996) found that halo occurred for positive and negative beliefs and could be influenced through the induction of emotional arousal. Arousal is a general term used to denote a global state of activity ranging from low (e.g. sleep) to high (e.g. extreme excitement) on a continuum (Bagozzi 1991). Arousal has also been defined in terms of the changes that occur along a continuum in the whole body (psychological and physiological state) as emotions shift from calmness to high activation (Thayer 1989). Under normal or low arousal states, when asked to respond to belief items the person lacks motivation for extensive retrieval and elaboration or deep on-line cognitive processing, but instead reacts more or less automatically with whatever feeling that comes to mind. There is a stronger connection between one's general attitude and negative beliefs than between one's general attitude and positive beliefs (which are connected to learned, second-order emotional reactions such as self-esteem or pride). Positive beliefs also tend to be associated with affect at a lower level of intensity than the negative beliefs under low arousal conditions. Thus the halo effect introduces an emotional distortion into rational arguments that generate general attitude (expectancy-value judgments), which depends on the level of arousal and the sign of the belief (positive or negative).

The halo effect has been used to study the effect of a business crisis on a firm's performance (Coombs and Holladay 2006; Liu and Mattila 2016; Cleeren et al. 2017; Eaddy and Jin 2018). Entity crisis has been defined by a range of researchers from different perspectives (Deb and Chavali 2010; Cleeren et al. 2017). First, crisis involves a wide range of stakeholders; second, there are time pressures requiring an urgent response; third, a crisis usually results from a surprise to the organization; fourth, there is a high degree of ambiguity, in which cause and effects are unclear; and fifth, a crisis creates a significant threat to an organization's strategic goals. In short, an organizational crisis is a negative incident that has the potential to disrupt organizational operations and potentially destroy

the organization (Barton 2001; Coombs 1999; Eaddy and Jin 2018). At a more specific level, Cleeren et al. (2017) define product-harm crisis as a discreet event in which products are defective and may be dangerous for at least some of the firm's customers. These are therefore episodic incidents that bring a brand's value into question.

The situation crisis communication theory (SCCT), grounded in attribution theory, holds that stakeholders attribute varying degrees of responsibility to a firm or brand depending on the nature of the crisis, the crisis history in the organization, and the stability of the firm (Eaddy and Jin 2018). Firms therefore start off with 'credit' (the halo effect) that they may lose in a crisis depending on a range of factors (Cleeren et al. 2017). Favorable reputation may create a halo effect that protects an organization's reputation from any reputation loss (Caruana 1997; Ulmer 2001; Liu and Mattila 2016; Eaddy and Jin 2018). Corporate social responsibility is another source of the halo effect studied in the literature (Assiouras et al. 2013; Chernew and Blair 2015; Liu and Mattila 2016). Assiouras et al. (2013) conclude that in a product-crisis situation in the food industry, corporate social responsibility has a halo effect on responsibility attribution, brand evaluation and purchase intention that mitigates negative impact. Cleeren et al. (2017) consider that in a product-crisis situation, the halo effect is stronger for dominant brands and among brands from the same country, and is greater when the firm makes its apologies through advertising. These authors describe how the brand acts as a buffer that mitigates the negative consequences of the crisis, but they also show that the firm's most loyal customers may feel their trust has been betrayed and react more negatively as a result.

There are two possible explanations for a reputation halo effect in a crisis: a) halo as benefit of the doubt, and b) halo as shield (Coombs and Holladay 2006). In the halo as benefit of doubt explanation, the holistic evaluation of a person or organization is assumed to affect specific judgments about the person or organization (O'Donnell and Schultz 2005). If a stakeholder holds a generally favorable view of the organization, this positive reputation (halo) will affect how the stakeholder attributes responsibility for a crisis. The halo as shield explanation is part of the larger psychological phenomenon of expectancy confirmation. Research suggests people are reluctant to revise initial expectations even when confronted with clear disconfirming evidence (Traut et al. 2004). For favorable reputations, stakeholders may be inclined to discount or ignore negative information about the organization (Eaddy and Jin 2018). However, if no proactive recall strategy is adopted, based on compensation and a vigorous communication campaign, stakeholders' responses will be more negative (Cleeren et al. 2017). The halo as shield explanation argues that stakeholders will focus on the positive aspects of the organization and ignore the recent negative information created by the crisis, but how this attitude evolves over time will depend on the firm's response (Eaddy and Jin 2018). Stakeholders are temporarily biased when processing new information to support previous conclusions/beliefs (Dean 2004).

Dick and Basu (1994) proposed loyalty as the key to the relationship between relative attitude toward an entity and patronage behavior. Relative attitude refers to the fact that it is not sufficient for a consumer to have a favorable attitude to a brand; it must also be more intense in relation to other competing brands. Consumer loyalty may be defined in terms of repeat purchase behavior or as a consumer attitude to the brand or firm (Kumar et al. 2013; Kamran et al. 2017; Moliner et al. 2018). Although repeat purchase is the most practical way to consider loyalty, from a methodological point of view it is problematic because

it explains past behavior in terms of psychological variables measured after the fact. Moreover, according to Dick and Basu (1994), repeat purchase may not reflect real loyalty (Kamran et al. 2017). Therefore, from the psychological and methodological perspective it is more appropriate to use attitudinal loyalty, which allows data to be collected in the same moment and, according to Fishbein and Ajzen (1975), attitude is the most reliable predictor of future behavior. Attitudinal loyalty reflects the consumer's psychological predisposition toward a brand or firm (Roy et al. 2014).

In this vein, Oliver (1999) defined loyalty as a deep commitment to repurchase or repeat purchase behavior for a consistently preferred product or service in the future, which causes repeat purchase of the same brand or set of brands despite situational influences and marketing efforts that have the potential to bring about changes in behavior. Loyalty is thus related to the likelihood that customers will generate positive word-of-mouth and repurchasing intentions (Al-Hawari et al. 2009; Dagger and David 2012; Kumar et al. 2013; Ha et al. 2014; Roy et al. 2014; Monferrer et al. 2016; Moliner et al. 2018).

Loyalty intentions are now a prominent field in marketing research, particularly in light of findings that demonstrate the considerable benefits to firms of retaining a single customer as opposed to attracting a new one (Harris and Ezhe, 2008; Monferrer et al. 2016; Kamran et al. 2017; Moliner et al. 2018). Therefore, banking professionals are seeking out the most influential determinants of customer loyalty (Ha et al. 2014; Kaura et al. 2015; Monferrer et al. 2016). Pritchard et al. (1999, p. 333) postulate that, "understanding how or why a sense of loyalty develops in customers remains one of the crucial management issues of our day".

During an entity crisis, negative news about a firm diffused through off- and online channels generates doubts about the brand's solvency and solidity, which negatively affects consumer loyalty and determines whether a positive attitude becomes a purchase behavior. There are, however, two elements that determine the magnitude of the erosion of loyalty: the firm's marketing efforts and the halo effect. Firstly, in a crisis situation, the firm will devise a contingency plan to counteract negative news on its situation. It will try to use all the tools available to improve its brand image. Furthermore, it will be favored temporarily by the halo effect, which means that relative attitude toward an entity will affect the antecedents of relative attitude, reducing the effect of negative news.

Thus in a context of entity crisis, the theoretical framework establishes a complex system of interactions between consumer loyalty and its antecedents. In order to analyze the situation, a model was designed for this study to contemplate three antecedents of loyalty: trust (affective), brand image (cognitive) and social norms (social).

### **3. THE ANTECEDENTS OF LOYALTY**

#### **3.1. Trust**

Trust is a key variable for explaining consumer loyalty. El-Manstrly et al. (2011) define trust as a function of the perceived reliability and integrity of a brand or service provider. Consumer trust implies consumer familiarity and comfort with a service provider that should reduce the consumer's feelings of anxiety. It is inversely related to the

provider's opportunistic behaviors and combines moral considerations (integrity, honesty, benevolence, deontology, ethics, etc.) with calculated judgments such as ability to meet expectations, competence or know how (Aurier and N'Goala 2010).

Trust is a prediction consumers make about a company's ability to satisfy their expectations in the future (Aurier and N'Goala 2010; Guenzi et al. 2009; Kaura et al. 2015; Guinaliu and Jordán 2016; Van Esterik and Van Raaij 2017). Trust can be based on cognition when individuals are looking for a rational reason to rely on the other party (McAllister 1995). But trust can also be based on emotion when it involves emotional bonds between individuals. These two dimensions of trust can be linked together. A relationship between two parties may begin with an expression of cognitive trust, and after a while, based on accumulated experience, it may become affective trust (McAllister 1995).

Consumer trust is a key element in enabling suppliers to maintain long-term relationships (Dick and Basu 1994; Morgan and Hunt 1994; Aurier and N'Goala 2010; Kantsperger and Kunz 2010; Kaura et al. 2015; Monferrer et al. 2016). In a context of business crisis, where consumers receive negative news about a brand, consumer trust in the brand is dented and consequently relative attitude toward an entity decreases. However, the halo effect originating from the emotions generated by experience with the brand (Dick and Basu 1994) can be a powerful brake on the erosion of trust and loyalty. That is, in a context of entity crisis two forces come into conflict in the consumer's mind: the positive emotional arguments (halo effect) that favor remaining in the relationship, and the negative cognitive and social arguments in favor of leaving the relationship. The halo effect will be important if the emotional component takes precedence over the cognitive state and so trust in entities in crisis will continue to be a fundamental pillar of consumer loyalty. In our view, however, in a context of entity crisis trust can be predicted to have less influence on loyalty than cognitive and social variables. That is, when an entity is in crisis, rational and social arguments take precedence over emotional ones and so trust will lose influence in relation to cognitive and social variables. For that reason, loyalty toward these entities is seriously threatened because in the absence of trust, customer loyalty would not be sustained in the medium to long term (Bove and Johnson 2006; Monferrer et al. 2016).

*H<sub>1</sub>: In a context of an entity crisis, trust has a direct influence on loyalty but with lower intensity than cognitive and social variables.*

### 3.2. Brand image

Brand image is considered an important antecedent of loyalty (Fredericks and Salter 1995; Bigné et al. 2001; Eskildsen et al. 2004; Faullant et al. 2008; Mittal 2016). Brand image is a summary of an organization's identity and is generated by consumers' experiences with the brand, the firm's marketing campaigns and news in the mass media and social media. Brand image and beliefs are cognitive antecedents of relative attitude toward an entity (Dick and Basu 1994). The strength of the association between an attitude object and its evaluation influences the accessibility of attitude that can be easily retrieved from memory. An automatically activated attitude is more likely to guide behavior than one that must be deliberately retrieved (Yen et al. 2018). A more favorable and intense brand image determines attitude accessibility better and leads to attitudinal loyalty (Rahi 2016).

Various studies have found a direct relationship between entity crisis and brand image. Souiden and Pons (2009) find that the recalls contested by manufacturers have a significant negative impact on their image, as well as on consumers' loyalty. Fombrun and van Riel (2003) argue that a favorable reputation may create a halo effect that protects an organization's reputation from any reputation loss. Coombs and Holladay (2010) define reputation as stakeholders' aggregated evaluation, based on past behaviors, of how well an organization is meeting their expectations. If a customer holds a generally favorable view of the organization, this positive brand image will affect how the customer attributes responsibility for a crisis. For favorable brand image, customers may be inclined to discount or ignore negative information about the organization. The halo as shield explanation argues that customers will focus on the positive aspects of the organization and ignore recent negative information created by the crisis. In his study of the halo effect Bagozzi (1996) states that in a context of entity crisis, rational variables take precedence over emotional ones and so negative news on a crisis situation will erode the brand's positive image. Therefore halo effects as benefit of the doubt and halo as shield would lose influence in a context of entity crisis.

*H<sub>2</sub>: In a context of entity crisis, brand image has a direct influence on loyalty but with greater intensity than emotional variables.*

### 3.3. Social norms

The theory of planned behavior (TPB) put forward by Ajzen (1985, 1991) helps us to understand the way in which individuals' deliberate behavior can change (Fang et al. 2017). In sum, the TPB postulates that this behavior depends on three factors: (1) attitude to the behavior, associated with beliefs about the likely consequences of the behavior, which determine whether attitudes to it will be more or less favorable; (2) subjective norms regarding the behavior, associated with beliefs about the normative expectations of others, which gives rise to the perception of social pressure to adopt a given behavior; and (3) perceived behavioral control, associated with beliefs about the presence of factors that may facilitate or impede performance of the behavior.

The subjective norm stems from reference group influence, suggesting that one or more people can influence another person's values, norms or perspectives (Fang et al. 2017; Kashif et al. 2018; Villarejo et al. 2018). However, few TPB studies explore subjective norms with consumer behavior and customer loyalty (Lee et al. 2009). On this basis, our study focuses on a derived construct, namely social norms, referring to a shared understanding of what is considered "normal" behavior (Olsen and Grunert 2010; Burchell et al. 2013; Schuster et al. 2016; Fang et al. 2017; Janmaimool 2017). Specifically, social norms are intended to measure the influence of the social environment, and are operationalized in the literature in essentially two complementary ways. The first of these takes into account Cialdini et al. (1990) proposal that social norms comprise: (1) descriptive norms, an individual's perceptions of what are the most appropriate ways to behave shown by others; and (2) injunctive norms, an individual's beliefs about which behaviors others approve or disprove of from a moral standpoint. The second way social norms are operationalized draws on the work of Fornara et al. (2011), and conceives of them from a consideration of: (1)



local norms, associated with people who are not emotionally important to the individual, but with whom they share certain common circumstances (for example, the organization to which they belong); and (2) subjective norms, generated by people with an emotional meaning for the individual such as relatives, friends or colleagues. We retain “social norm” in our conceptual framework as an integrated term.

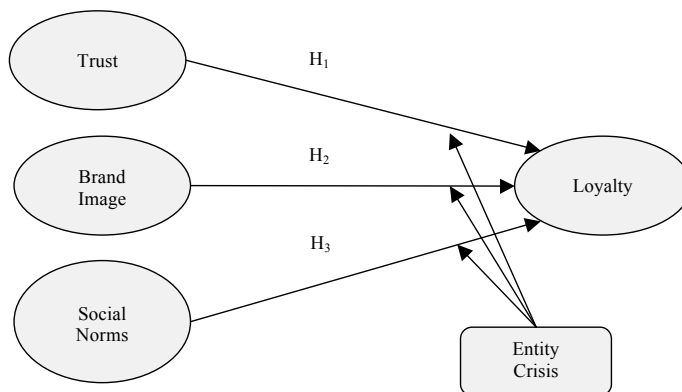
In a context of entity crisis, consumers’ reference groups and social media reflect negative news and create a state of opinion that influences consumer loyalty. The halo effect predicts that in a context of entity crisis consumers’ rationality takes over from emotion. However, it does not establish a clear role for social norms. TPB considers that social norms influence behavior intention, moderating the role of relative attitude toward an entity (Fang et al. 2017). As we exposed above, social norms are generated from normative beliefs, which are concerned with the likelihood that important referent individuals or groups approve or disapprove of performing a given behavior (Ajzen 1991; Kashif et al. 2018). Although we have not found any empirical evidence, we predict that social norms will prevail over cognitive and affective variables because of their normative character and may therefore determine attitude-behavior consistency.

*H<sub>3</sub>: In a context of entity crisis, social norms have a direct influence on loyalty but with a greater intensity than other cognitive and affective variables.*

Figure 1 shows the causal model derived from the theoretical framework explained earlier. Specifically, the model examines the consumer patterns of bank customers in a context of entity crisis by comparing a complex system of interactions between the customer’s loyalty and a range of different antecedents of loyalty to evaluate the halo effect on each one: trust (affective), brand image (cognitive) and social norms (social).

Figure 1

**Causal model**



Source: Own elaboration.

## 4. METHOD

This study focuses on the Spanish banking industry. The 2008 financial crisis hit the southern part of the European Union especially hard, and particularly the banks in Spain, which in October 2011 received a bailout from the European Union for one hundred billion euros. The enormous volume of negative news on this sector has severely eroded citizens' trust in banks since 2008. Over these years customers were in a very active physiological and psychological state and were highly receptive to stimuli from the environment that reached them in the form of news and comments from their reference groups. Sanchis (2013) provides some figures that illustrate the concern over the financial situation. For instance, in January 2011 the risk premium for Spanish government debt was 269 and in August the same year it reached a differential of 388 with German bonds. Prior to that date the Spanish government had undertaken two restructurings of the banks, based on merging savings banks, which at the time represented 50% of bank deposits. In March 2011, Moody's downgraded the long-term debt for 30 Spanish banks and savings banks. This concern also transferred to Spanish savers as much of the media in Spain and Europe was debating these issues and commenting on the possibility that Spain might limit availability of bank accounts, with a guaranteed maximum of 100,000 euros for Spanish savers. Another statistic that shows the negativity of the time is that in 2010 net investment in Spain had a positive balance of 27.5 billion euros, whereas by 2011 there was a negative balance of 97.8 billion euros. This shows that investors took their assets out of the country in view of the general deterioration of the economy and the financial sector in particular. It is therefore possible to speak of a generalized high state of arousal stemming from the constant presence in the mainstream and social media of negative news that could affect Spanish consumers' personal finances. Taking into account that this research analyzes the degree to which the halo effect can help companies to maintain a favorable attitude among their customers in times of crisis, the crisis period that ran from 2008 to 2014 in Spain offers an ideal scenario to test our study hypotheses. Specifically, in 2011, the year in which our fieldwork took place, the Spanish banking sector was undergoing a critical moment in the crisis and consumer mistrust had reached its highest point.

### 4.1. Measurement instrument

The questionnaire was designed using scales from previous research, adapting some of the items to the specific characteristics of this study. In all the scales, we sought a perfect correspondence with the definition used in the conceptualization of the constructs. Social norms were measured with the scale devised by Lee et al. (2009); brand image with Martínez et al. (2008) scale; trust was measured with the scale by Ganesan (1994); finally, loyalty was measured with Caruana's (2004) scale. Each one of these scales comprised three items, evaluated on a 5-point Likert scale where 1 = Totally Disagree and 5 = Totally Agree. The scales used are presented in Table 2.

Prior to the field work, and to ensure the quality of the questionnaires, the original version of the questionnaire, in English, was adapted for banking and translated to Spanish using the inverse translation method (Brislin 1970). The process takes place in three stages; in the first, the original is translated into Spanish; in the second, the adapted version is

translated back into English, and finally, any divergences between the two English versions (the original and the back translation) are reviewed and analyzed. Three linguists took part in the overall process. Moreover, following the recommendations of Ye et al. (2007) on questionnaire design, careful attention was paid to the question order and the use of terminology and language that respondents would easily understand. Care was also taken not to present the constructs in the order set out in our hypotheses (antecedents → mediating variables → consequences). Finally, the questionnaire items were examined by experts from the sphere of banking and pre-tested through 110 personal interviews with users of bank services in February 2011. We performed a series of correlation analyses, reliability tests and exploratory factor analyses for each construct. This procedure helped to improve the wording of some of the questionnaire items, ensuring that the form, layout, sequence difficulty, length of the questionnaires and completion time were appropriate.

#### 4.2. Data collection and sample

The fieldwork was carried out by means of personal interviews conducted by independent professional interviewers between March and April 2011. The self-completion technique was not used so as to avoid erroneous interpretations of the questions, to ensure that the interviews would follow a standard structure, and to guarantee that respondents understood the exact meaning of all the questions. Additionally, to prevent any significant interviewer effect in the results, following Hox (1994) and Kish (1962) we used the intraclass correlation coefficient (ICC), with results close to 0.031, as recommended by the literature for face-to-face surveys (Groves 2004; Davis et al. 2010).

Negative news about the Spanish economy in general and the financial sector in particular had a daily impact on bank customers. In the public opinion survey by the Spanish Sociological Research Centre in March 2011, 80% of the Spanish population rated the economic situation as bad or very bad. Economic problems concerned 51% of the population and were the second concern of Spanish citizens after unemployment, a symptom of high involvement and arousal in customers of financial entities. In the context of the negative global scenario in Spain in 2011, however, not all entities engaged in the same practices or strategies to deal with the crisis. Taking as a reference the top five entities by volume of deposits, three different cases can be distinguished, with different strategies and an orientation that can be considered as a differentiating factor (see Table 1).

Table 1

##### Bank cases

	<b>Legal nature</b>	<b>Origin</b>	<b>Purpose</b>	<b>Orientation/ Implementation</b>
Bank1	Saving bank	Regional	Social good	National
Bank2	Commercial bank	National	Business	International
Bank3	Saving bank	Regional	Social good	National

Source: Own elaboration.

Bank1 is a savings bank that was the result of the merger of two regional savings banks which were in a delicate financial situation and a lot of negative news was generated around them. Its solvency was seriously questioned by experts and the mass media due to a policy of ruinous investments as shown by the credit default rate of the entity resulting from the merger, which rose from 5.3% to 6.4% in the first few months of 2011. Negative news also included scandals and fraudulent advice to savers and collusion with politicians. Moody's rating in 2011 was average at Baa1, but the entity was given junk bond status (Ba2) in 2012, the year when it was nationalized and bailed out to the tune of 35 billion euros by the EU.

Bank2 groups two banks, which by volume of deposits and capitalization are in the top five in the Euro zone. Although they also experienced difficulties, the group's multinational character enabled it to finance domestic problems and solve them with its own resources. There was some involvement in fraudulent activity, such as the sub-prime crisis, which generated negative news. However, some ratios showed the severity of the situation. For example, in the early months of 2011 the credit default rate had risen to 6.75%, the highest of all the banks. Moody's rating in 2011 was Aa2 and a year later it was downgraded to Baa2/Baa3.

Bank3 was also in Spain's top five by volume of deposits and represents the case of a regional savings bank that managed the crisis and generated very little negative news, although it experienced the effects of the debts generated in the finance industry. The credit default rate was 4.3% in the first few months of 2011. Moody's rating in 2011 was Aa2 and a year later, the crisis took its toll and the bank was downgraded to Baa3<sup>2</sup>.

Then 500 valid surveys were conducted in Spain with customers of these financial entities. There were 189 surveys with customers of Bank 1, 107 of Bank 2 and 204 of Bank 3. Respondents were selected by means of a convenience sampling method, and were identified in the bank branches in each of the three financial entities and cities studied (Barcelona, Madrid and Valencia as the three largest cities in Spain). This is a non-probabilistic method and has the limitation of subjectivity in the selection of respondents. However, it is a widely used technique when randomization is impossible due to a very large population, or researchers' limited resources, time and support (Mackey and Gass 2005; Etikan and Alkassim 2016).

In addition, as we did not have access to the exact distribution of the customer portfolio of each bank, our study could not guarantee that the resulting sample of the field work carried out would be adjusted to the distribution of the customer portfolio of each bank. It represents a limitation in terms of representativeness to be taken into account in the interpretation of the results obtained in this research.

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<sup>2</sup> The default rate in Spanish banks was 6.36% in April 2011 and reached the highest level of the crisis, 13.61%, in December 2013.

## 5. ANALYSIS AND RESULTS

### 5.1. Measure reliability and validity

The data were studied using structural equation models by means of multi-group analysis, following recommendations from earlier studies for moderating effects (Hombourg and Giering 2001). The models were estimated from the matrices of variances and covariances by the maximum likelihood procedure with the EQS 6.1 statistical software application (Bentler 1995). To validate the scales we carried out a study of their dimensionality, validity and reliability.

This analysis permitted us to refine the scale, eliminating non-significant items. The items that shared the same dimensions were averaged to form composite measures for all variables (Bandalos and Finney 2001; Landis et al. 2000). The next step was to verify the invariance of the measurement instrument, in order to compare the regression coefficients of each of the two samples. Prior to this comparison, we determined the causal relationships for the whole sample in order to test hypotheses 1 to 3.

In the first phase of the analysis we studied the psychometric properties of the scales for the whole sample (Table 2). Confirmatory factor analysis provided three items each for social norm, brand image, trust and loyalty. As Table 2 shows, the probability associated with chi-squared is over 0.05, thus indicating an overall good fit of the scales (Jöreskog and Sörbom 1996). Convergent validity is demonstrated in two ways. First because the factor loadings are significant and greater than 0.7 (Bagozzi 1980; Bagozzi and Yi 1988; Hair et al. 2006) and second because the average variance extracted (AVE) for each of the factors is higher than 0.5 (Fornell and Larcker, 1981). Scale reliability is demonstrated by the composite reliability indices for all the dimensions above 0.6 (Bagozzi and Yi 1988).

Table 2

#### Analysis of scale dimensionality, reliability and validity (Fully standardized solution)

Items	Factor loading	t-value
<b>Trust (CR=0.86; AVE=0.72)</b>		
I trust the good intentions of this bank/savings bank.	0.83	13.95**
I consider the bank/savings bank behaves ethically.	0.78	14.93**
In this bank they want to keep the customer happy.	0.85	16.32**
<b>Brand image (CR=0.80; AVE=0.64)</b>		
There are good reasons for deciding on this bank and not another.	0.74	3.46**
The firm has personality.	0.73	3.58**
The firm is interesting.	0.81	3.67**
<b>Social norm (CR=0.82; AVE=0.65)</b>		
My bank is well considered at the social level.	0.71	3.48**
The people I know think it's good that I go to this bank/savings bank.	0.90	3.50**
My bank has a good reputation at the social level.	0.71	2.79**
<b>Loyalty (CR=0.85; AVE=0.70)</b>		

I will try to stay with my usual bank/savings bank in the next few years.	0.81	3.43**
If they continue to treat me as they are doing now, I doubt I will change financial entity.	0.88	3.40**
When I need a financial service I go this bank/savings bank.	0.73	3.34**

Note: Fit of the model:  $\chi^2=146.4488$ ,  $df=130$ ,  $P=0.15364$ ;  $RMSEA=0.014$ ;  $CFI=0.997$ ;  $NFI=0.973$ ;  $NNFI=0.996$ . CR= composite reliability; AVE=average variance extracted

\*  $p<0.05$ ; \*\*  $p<0.01$

Source: Own elaboration.

Table 3 shows the discriminant validity of the constructs considered, which was evaluated through AVE (Fornell and Larcker 1981). Therefore, a construct must share more variance with its indicators than with other constructs in the model. This occurs when the square root of the AVE between each pair of factors is higher than the estimated correlation between those factors, as occurs here, thereby confirming the scale's discriminant validity.

Table 3

**Discriminant validity of the scale**

	1	2	3	4
1. Trust	0.85			
2. Brand image	0.53**	0.80		
3. Social norm	0.63**	0.51**	0.81	
4. Loyalty	0.61**	0.52**	0.62**	0.83

Below the diagonal: correlation estimated between the factors.

\*  $p<0.05$ ; \*\*  $p<0.01$

Diagonal: square root of AVE.

Source: Own elaboration.

## 5.2. Hypothesis testing

To test hypotheses 1 to 3, the causal relationships are analyzed for the total sample (Table 4). This approach is appropriate because the probability of the chi-squared is higher than 0.05 (0.078), CFI (0.995) is close to unity and RMSEA is close to zero (0.025).

Table 4

**Summary results of the structural model**

Hypothesis	Path	Parameter	t-value	Results
H <sub>1</sub>	Trust → Loyalty	0.329	4.539**	Partially supported
H <sub>2</sub>	Brand image → Loyalty	0.190	3.538**	Partially supported
H <sub>3</sub>	Social norm → Loyalty	0.422	5.757**	Supported

Note: Fit of the model:  $\chi^2=59.0588$ ,  $df=45$ ,  $P=0.07788$ ;  $RMSEA=0.025$ ;  $CFI=0.995$ ;  $NNFI=0.992$ .

\*  $p<0.05$ ; \*\*  $p<0.01$

Source: Own elaboration.

In the hypothesis testing on the general model, it can be seen that trust (affective variable) has a strong influence on loyalty in the context of entity crisis ( $H_1$ :  $\lambda = 0.329$ ;  $t = 4.539$ ) and that this influence is lower than the social norm. However, brand image (cognitive variable) plays a less important role than trust ( $H_2$ :  $\lambda = 0.190$ ;  $t = 3.538$ ), contrary to our hypothesis. In contrast, the social norm is important and has the most influence on loyalty in a context of entity crisis ( $H_3$ :  $\lambda = 0.422$ ;  $t = 5.757$ ). Therefore it can be said that in a high arousal state, the halo effect is partially fulfilled because, although the social variable is the most relevant, it cannot be said that the cognitive variable (brand image) is more important than the affective one (trust).

Multi-group analysis allows us to verify the fit of the model with the data and the invariance of the factor structure in the groups studied. As recommended by Byrne (2001), this type of analysis must begin with a suitably tested fit in each of the separate samples, since it will be considered the base model with which other more restrictive models will be compared. We focus below on the invariance of the measurement instrument. This analysis is conducted prior to the verification of the differences in the parameters that are common to the study variables between the groups considered (Byrne 2006; Hair et al. 2006). The first step refers to the model considered individually for each of the samples. As Table 5 shows, separately the model fits well in the three samples, Bank1 ( $\chi^2=173.321$ ;  $df=41$ ), Bank2 ( $\chi^2=130.922$ ;  $df=41$ ) and Bank3 ( $\chi^2=111.563$ ;  $df=41$ ). The second step is the simultaneous estimation of the model in all samples, to verify that the number of factors is the same, that is, they have the same form. Again, the model also fits adequately ( $\chi^2=415.806$ ;  $df=123$ ). The third step refers to the equality of the factor loadings in the three groups (metrical invariance). When this restriction is introduced, model fit is not significantly worse than that of the previous step, as deduced from a comparison between the  $\chi^2$  of steps 2 and 3 ( $\Delta\chi^2=18.412$ ;  $\Delta df=24$ ;  $p=0.7826>0.05$ ), thereby confirming the invariance of the factor loadings.

Table 5

**Invariance measurement test**

	$\chi^2$	df	$\Delta \chi^2$	$\Delta$ df	p	RMSEA (90%IC)	SRMR	CFI	NNFI
Individual groups:									
Bank1	173.321	41				0.031 (0.011-0.051)	0.052	0.993	0.985
Bank2	130.922	41				0.044 (0.016-0.071)	0.056	0.988	0.980
Bank3	111.563	41				0.042 (0.022-0.062)	0.043	0.985	0.973
Measurement of invariance:									
Simultaneous model	415.806	123				0.043 (0.035-0.050)	0.047	0.982	0.976
Model with restricted factor loadings	434.218	147	18.412	24	0.7826	0.051 (0.045-0.057)	0.052	0.981	0.974

Source: Own elaboration.

Next, the existence of significant differences in the causal relationships is estimated (Table 6) in order to analyze the moderating effect exerted by the bank and thus complete the confirmation of the hypotheses whose relations have been accepted.

Then restrictions are added in order to calculate these significant differences between the parameters estimated, by comparing the  $\chi^2$  of the restricted structural model with the  $\chi^2$  of the unrestricted structural model, as shown in Table 6. The analysis carried out to establish the causal relationships between the variables being studied is appropriate because the probability of the chi-squared is higher than 0.05 (0.263), CFI (0.993) is close to unity and RMSEA is close to zero (0.012). Thus bank group in financial services was found to moderate the model. Table 6 shows the significant differences between bank group customers in some of the causal relationships considered in the model.

Table 6

### Moderating effects of entity crisis in the proposed relationships

Path	Bank1		Bank2		Bank3		Groups	$\Delta \chi^2$	p	Results
	Parameter	t-value	Parameter	t-value	Parameter	t-value				
Trust → Loyalty	0.506	6.17*	0.722	2.32**	0.039	0.21(n.s.)	All	6.93	0.031	Supported
							G1-G2	4.58	0.032	Supported
							G1-G3	4.07	0.043	Supported
							G2-G3	5.30	0.021	Supported
Brand image → Loyalty	0.329	3.03*	0.169	0.99(n.s.)	0.292	2.54**	All	7.08	0.029	Supported
							G1-G2	4.47	0.034	Supported
							G1-G3	0.65	0.419	Not supported
							G2-G3	4.56	0.032	Supported
Social norm → Loyalty	0.223	2.01*	0.363	2.19*	0.633	4.81*	All	7.08	0.029	Supported
							G1-G2	0.52	0.470	Not supported
							G1-G3	5.98	0.014	Supported
							G2-G3	4.11	0.042	Supported

Note: Fit of the model:  $\chi^2=161.5771$ ;  $df=151$ ;  $P=0.26332$ ;  $RMSEA=0.0124$ ;  $CFI=0.993$ ;  $NNFI=0.978$ . Simultaneously latent variables test:  $\Delta \chi^2=14.252$ ;  $\Delta df=6$ ;  $p=0.002694 < 0.05$

\*  $p < 0.05$ ; \*\*  $p < 0.0$

Source: Own elaboration.

Analysis of the particular cases includes nuances relevant to the general model. In view of the results, we can say that although the three hypotheses are partially supported by the global model, the same does not hold for the individual models. In Bank1 group, the general model continues to be confirmed and the three parameters of the variables that determine loyalty (social norm, brand image and trust) are significant. In this case, trust in the entity is the variable with the greatest impact on customer loyalty, followed by brand



image and the social norm. In the case of the large and highly internationalized Bank2 group, a non-significant parameter is obtained that measures the loading of brand image on customer loyalty. In this case loyalty is determined mainly by the trust generated by the group of entities and to a lesser extent by the social norm. In the third case of Bank3 customers, the bank that best survived the crisis, the results differ considerably from the other two cases. For the customers of this bank, the influence of trust on loyalty appears as non-significant. In this case, it is the influence of the social norm that mainly determines loyalty and, to a lesser extent, the entity's brand image.

## 6. DISCUSSION

This study is based on the supposition that in a context of entity crisis, consumers' cognitive and social variables should take precedence over emotional ones. Therefore in such a context, the halo effect would be lower than in other scenarios. In the general model that establishes the consumption behavior of customers in a situation of entity crisis it can be seen that the main antecedent of loyalty are social norms (0.422), followed by trust (0.329) and then brand image (0.190). The results of this study show that in a situation of entity crisis, the opinions of consumers' reference groups weigh more than their own accumulated experience. Negative information generated on an entity in crisis, diffused through mass communication media, social networks and word-of-mouth, is the factor that most determines loyalty. However, trust in the entity (emotional variables) continues to play an important role, although less relevant than in more economically stable environments. Brand image is a relevant antecedent but at a lower level than the other two. Therefore, generally, there is a certain halo effect because emotional variables continue to play an important role in customer loyalty.

However, the conclusions from the model should be qualified when analyzing specific cases. If account is taken of the intensity of the crisis in the entity and the characteristics of the organization itself, the results are paradoxical. The first case is a regional entity resulting from the merger of two entities with serious solvency problems, which suffered a severe crisis and generated a large amount of negative information transmitted through mass media, social media and word of mouth. The second case study involves two entities which also generated negative news but carried out a communication and marketing policy aimed at minimizing those effects, based on the solidity that comes from being a multinational conducting a large part of its business outside the country. The third case is that of a solid, well-managed regional entity which generated very little negative news and has overcome the financial crisis without any major setbacks.

In the most unfavorable case, Bank1, the negative information generated on this entity included scandals, investments in large projects with scant profitability, close collusion with the political parties in power and serious problems of solvency. The case represents a situation of continuous negative information in the mass media, social networks and word of mouth, which gave rise to a significant loss of customers (one year after this study, it was nationalized by the Spanish government). Curiously, although it was a high arousal state situation because customers' savings were at stake, the main antecedent of loyalty is trust. Although this finding confirms the existence of the halo effect, it also contradicts

the proposed hypotheses and the framing of the halo effect proposed by Bagozzi (1996) according to which cognitive variables should take precedence. In contrast, the two effects proposed by Coombs and Holladay (2006) become relevant: a) halo as benefit of the doubt and b) halo as shield. Although there was indeed customer churn towards other competitors, customers who remained faithful did so because of the halo effect. This may be explained by the fact that these customers have had a long relationship with this bank and despite the negative news, continue to trust the bank and its employees. This type of customer is undoubtedly extremely valuable to any organization because they are immune to negative news and continue to show trust in the contact staff who have served them for years. Brand image is the second most important antecedent, which is relevant because these customers are positively sensitive to communication from the entity, which favors the effectiveness of the campaign to counteract negative information. Subjective norms do have an influence but to a lesser extent than the other two antecedents. Therefore they are somewhat immune to recommendations from their reference groups.

The second case is of large multinational entities which use the solvency of global business distributed over different countries with the image of financial solidity and a significant marketing effort. Although they have also suffered problems of solvency and scandals, they have been less exposed to public pressure (one year after this study, their shares had fallen by 31%). They have powerful communication offices that have tried to counteract negative information in the mass media, social networks and word-of-mouth. As in the most unfavorable case, customers of these entities base their loyalty mainly on trust (0.722), which predominates over the influence of social norms (0.363). Curiously, brand image does not have a significant influence on loyalty attitudes, in stark contrast with the huge resources entities allocate to their communication campaigns. In this case, although the halo effect can be seen through the preponderance of the emotional variable, the halo effect theory proposed by Bagozzi (1996) is not fulfilled, given that in this context, the emotional variable is expected to have a limited effect in contrast to the supremacy of cognitive variables.

Finally, the third case represents a solvent, well-managed regional entity, which has followed orthodoxy and has not generated negative news. The crisis in the sector, however, also generated doubts over its real situation. Customers who remained loyal to this entity based their responses on social norms (0.633) above brand image (0.292), with trust having no significant influence. These results are certainly surprising as the halo effect cannot be seen because the emotional variable is not significant.

In this last case, social norms may be more influential because of the economic and financial crisis in which the sector is immersed. As the bank is solvent, and has a positive reputation, customers see their loyalty reinforced by the opinion of their most important reference groups. They feel their decision is appropriate because their family, friends or opinion leaders ratify their choice. Brand image reinforces this decision, voiding the role of trust. An additional explanation is that this bank has become a refuge for customers fleeing from banks with problems in search of one that can keep their savings safe.

We can conclude that the halo effect is demonstrated in the sense that customers' general opinion of the entity and the most emotional variable determines and moderates negative news from the environment that attempts to influence consumer beliefs. Social norms are also relevant. Lee et al. (2009) provide an explanation of the importance of social norms. In

high involvement situations, changing supplier can involve high switching costs, which in this case take the form of the loss of the customer-employee relationship maintained over many years and with implicit psychological costs.

Various managerial implications arise from this study. Firstly, the findings suggest that loyalty is an anti-cyclic strategy for firms. Investing in building customer loyalty in boom years generates positive credit towards the firm from customers who are unwilling to abandon it even when it is in crisis. Therefore, in contrast to the positive short-term effects that loyalty provides for a firm (repurchase, positive word-of-mouth, crossed sales, recommendation) there is a new long-term effect: the halo effect. Secondly, in a situation of severe crisis, firms should mount a communication campaign, taking into account the fact that customer trust becomes increasingly important in relation to the severity of the crisis. Reference groups play a significant role in all cases, but are particularly relevant in entities which, in a general crisis, are in a better position. In this regard, social media can be a key tool for crisis management. Therefore, in an entity crisis, rational arguments play a secondary role and firms should base their strategies on generating and retaining customer trust and in generating a state of positive opinion in reference groups and experts.

## **7. LIMITATIONS AND FUTURE RESEARCH**

As with any research study, it is important to note limitations and directions for future research. The main limitation is due to the study methodology. The first of them is linked to the existence of a temporary gap between the year of collection of the data and the current moment. In this line, although the Spanish banking industry can be considered a prime example of a sector in crisis in the period that European economists are now referring to as the Great Recession, the conclusions are limited by the geographical, sectoral, economic and cultural context in which the data were collected. In order to improve the generalizability of our results, future studies should compare our conclusions in other countries, service sectors, and more current, less turbulent economic contexts. Furthermore, given the specific scope of this study, the three Spanish cities with the highest population density, there is a possibility that the results could have improved by increasing the number of locations in the fieldwork, which may have raised their generalizability.

In addition, the period analyzed was the beginning of 2011. During that year, although the crisis in the Spanish financial system was extremely serious, it did not reach its most critical point until the following year. On this point, the difficulty of predicting the best moment to carry out the fieldwork should be borne in mind. Gathering the data during the second half of 2012 would have enhanced the conclusions drawn from the study, since the results for the impact of the halo effect might have been even stronger at this moment, once this effect had fully developed.

Studies such as this one can provide a stimulus and a reference for future studies taking a comparative and/or complementary approach to explore in depth how the impact of the effects raised here might evolve in a post-crisis context such as the present moment immediately following this study. This approach would help to further understanding of the cyclical influence of the factors analyzed in accordance with the market context at a particular moment.

Furthermore, the use of transversal data, as is the case here, may be seen as a limitation when drawing causal inferences. To rectify this limitation, future studies could explore the effects on the loyalty variable posited in our research using longitudinal data. Similarly, there is a need for new qualitative and quantitative studies at different levels taking into account the responses of agents from different levels of the bank service chain, in general terms, bank service staff and customers.

Another limitation is the use of non-probabilistic methods in data collection. In a case such as the one we are dealing with, where we aim to find a specific sample of customers of certain financial entities, the use of purely probabilistic techniques such as random sampling is particularly complicated. Moreover, a further limitation concerns the lack of access to the exact distribution of the customer portfolio of each bank in order to guarantee the proportionality of the resulting sample. Contrasting the model in other situations where probabilistic methods could be applied would guarantee the representativeness of the sample analyzed.

Finally, we believe the research would be more accurate if it had included a subjective scale to measure consumer arousal state and perception of the crisis in each entity. Although the objective data are fairly illustrative of the general situation in the banking industry studied and of the evident differences between the three cases, interviewees were still customers of the analyzed entities and so the results only deal with part of the issue. In this line it would be very interesting to replicate the study with customers who have changed bank, so the results would supplement this study and also provide useful findings for the industry.

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