

## ОРГАНІЗАЦІЙНА ПСИХОЛОГІЯ; ЕКОНОМІЧНА ПСИХОЛОГІЯ

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### THE PHENOMENON OF LOYALTY: GENERAL PSYCHOLOGICAL AND ECONOMIC-PSYCHOLOGICAL ASPECTS

### ФЕНОМЕН ЛОЯЛЬНОСТІ: ЗАГАЛЬНОПСИХОЛОГІЧНИЙ ТА ЕКОНОМІКОПСИХОЛОГІЧНИЙ АСПЕКТИ

The examination of loyalty is of considerable significance from psychological and economic viewpoints. Loyalty is a deep and diverse term. The topics to be examined encompass both emotional dimensions, such as connection, and intellectual dimensions, including economic judgments grounded upon meticulous calculations. Loyalty is essential for sustaining stability within social groups, such as organizations and business entities.

Loyalty, in a psychological context, is founded on a sense of attachment and ethical obligation that an individual experiences toward a person, group, or institution. In 2007, scholars J. Haidt and C. Joseph proposed that loyalty promotes social cohesion among communities and functions as a fundamental moral principle. Loyalty compels individuals to behave in the group's interests, even at the expense of their personal benefits. Emotional attachment is the root cause of the tendency to prioritize the group's needs over individual interests, which explains why loyalty frequently endures in difficult circumstances.

The core demographic responsible for the majority of revenue generation is loyal customers, which is why loyalty is essential in the economy and company. Retaining existing consumers is significantly less expensive than acquiring new ones. In a competitive market, cultivating loyal relationships is a crucial factor in formulating business strategies.

Loyalty is essential in influencing consumer behavior and building enduring relationships between a firm and its clientele. By comprehending the psychological underpinnings of loyalty and integrating this insight into business strategy, one may establish robust commercial ventures and cultivate resilient, profitable brands.

**Key words:** Group identification, emotional attachment, customer relationship management, NPS.

І в психологічному, і в економічному аспектах вивчення лояльності має вагоме значення. Феномен лояльності є багатограним і складним конструктом. До спектру проблем для вивчення тут належать як емоційні (емоційна прив'язаність та ін.), так і раціональні (економічні рішення засновані на числових розрахунках) аспекти. Лояльність – це один з ключових чинників, що здійснюють вагомий вплив на збереження стабільності в соціальних групах (в тому числі у різного роду організаціях і бізнес структурах).

У загальнопсихологічному розумінні лояльність – це конструкт основою, якого є відчуття прив'язаності і моральних зобов'язань, які людина відчуває стосовно іншого суб'єкта взаємовідносин (іншої людини, групи людей, організації та ін.). Дослідники Дж. Хайт і С. Джозеф у 2007 році стверджували, що лояльність забезпечує соціальну згуртованість у групі і є ключовою моральною засадою. Саме відчуття лояльності спонукає людей діяти відповідно до інтересів групи до якої вони самі себе відносять, навіть якщо це суперечить їх особистим інтересам. Винесення потреб групи вище в ієрархії над особистими інтересами є результатом емоційної прив'язаності. Саме цим можна пояснити лояльність групі навіть у складних ситуаціях.

Для економіки, а зокрема для бізнесу, лояльність має особливе значення, оскільки лояльні клієнти утворюють корядро аудиторії споживачів, які забезпечують більшу частину прибутку. Витрати на їх утримання є вагомо меншими, ніж на залучення нових. Врахування аспектів розбудови лояльних відносин в умовах жорсткої конкуренції є одним з центральних питань при розробці стратегій розвитку бізнес систем.

Лояльність – це важливий чинник, що впливає на споживчу поведінку, забезпечує довгострокові відносини між компанією та її клієнтами. Розуміння психологічних основ цього феномену та імплементація таких знань у стратегії розвитку бізнесу дозволяє створювати стабільні бізнес проекти і успішні сильні бренди.

**Ключові слова:** ідентифікація з групою, емоційна прив'язаність, управління взаємозв'язками з клієнтами, NPS.

**Introduction.** Sophocles and Confucius underscored the importance of fidelity to family and country [1; 14]. Loyalty is a fundamental element of human existence; nonetheless, its concept is insufficiently understood, hindering the formulation of a definitive definition. A core question centers on whether loyalty should be seen as a deed or an attitude. Loyalty is frequently conflated with connection or commitment, resulting in additional misconceptions [21; 33].

Contemporary society and enterprises are undergoing upheaval, as traditional social norms have demonstrated their insufficiency, while new norms are yet in development. In this age of swift technological progress, globalization, and turmoil, loyalty is essential for maintaining ties and connections. As demonstrated by numerous studies in social and economic psychology [17; 20], loyalty fosters cohesion, strengthens social connections, and facilitates the formation of group identity. Compan-

ies in a constrained market prioritize retaining current clients over acquiring new ones to enhance profitability, which is why loyalty is crucial in the competitive business environment. Research demonstrates that 80% of an organization's revenue originates from only 20% of repeat customers [36], highlighting the necessity of developing and implementing successful customer retention and loyalty strategies. This study intends to conduct a theoretical examination of the origins of the concept of loyalty and to contrast its interpretation within the frameworks of general and economic psychology.

Objectives: i) to perform a theoretical examination of loyalty theories and notions; ii) to investigate the notion of loyalty via the lenses of general and economic psychology paradigms.

**Presentation of the main material.** Loyalty is crucial for comprehending both individual and group behavior. The establishment of enduring relationships is crucial across several social contexts, including personal, organizational, and economic spheres. Consumer loyalty is a multifaceted concept situated at the intersection of economics and psychology, incorporating both cognitive and emotional aspects of human behavior.

Loyalty is generally associated with social identity and moral beliefs, according to psychological experts [16; 23]. These scholars assert that loyalty is a fundamental component of group dynamics, as it fosters stability and cohesion within a group.

In contrast, economists and marketers frequently focus on consumer behavior, with the goal of retaining existing customers and attracting new ones. According to professionals in this field, loyalty is essential for the sustainable expansion of organizations, as well as their profitability and competitiveness [35]. In the past, marketers have considered brand loyalty and recurrent purchases to be the primary indicators of loyalty. The Net Promoter Score (NPS) is a critical metric for evaluating this, as it evaluates the probability of consumers recommending products or services to others [36].

The objective of the subsequent theoretical analysis is to conduct a comprehensive analysis of the history and structure of the loyalty phenomenon. It aims to identify and characterize the psychological and economic preconditions that support the development of loyalty within society, with a particular emphasis on economic relationships.

**Loyalty as a psychological phenomenon in the paradigm of general psychology.** The concept of "loyalty" was first introduced by A. Hirschman (1970) to describe employees' reactions to issues and failures within an organization [21]. However, his development of the concept was insufficient [2; 30; 43], as he sometimes defined loyalty as behavior and at other times as an attitude. Hirschman defines loyalty as a construct that profoundly affects an employee's subsequent decisions: either to depart or to express their grievances.

The concept of loyalty as an attitude has been examined by scholars like J. Graham et al. (2011), J. Hildreth, F. Gino, & M. Bazerman (2016), and M. van Vugt & C. Hart (2004) [13; 20; 42]. Meanwhile, it has been examined as behavior by R. Liden & G. Graen (1980),

C. Rusbult (1988), R. Liden & J. Maslyn (1998) [31; 38; 32]. These researchers define loyalty by focusing on different, and sometimes opposing, types of behavior.

Certain academics have analyzed loyalty from a moral perspective [4; 6; 28; 13; 16; 20; 34; 37]. Loyalty is defined in multiple ways: as the inclination to eschew opportunism [6]; as a dedication to a cause that emphasizes collective interests over individual ones [39]; and as a principle of object bias, which includes behaviors such as self-sacrifice, dependability, and prosociality [20].

It is important to emphasize the relevance of Moral Foundations Theory, which was developed by Haidt and his colleagues, when examining the ethical aspect of loyalty [11; 12; 13; 17]. Loyalty is regarded as one of numerous essential factors, including justice, damage, authority, purity, and freedom.

Authors occasionally analyze loyalty within the framework of cognitive dissonance. Cognitive dissonance may arise when individuals strive to resolve internal contradictions between their actions and convictions. L. Festinger's (1957) theory of cognitive dissonance asserts that individuals may want to reduce discomfort by maintaining firm beliefs, even when faced with circumstances that oppose their interests. Individuals, motivated by devotion to the group, endeavor to evade cognitive dissonance or guilt in the face of adverse events or situations [8]. Loyalty functions as a mechanism of self-preservation, enabling the individual to sustain cognitive consistency by upholding earlier beliefs [19]. Consequently, long-term loyalty can be elucidated through the notion of cognitive dissonance, even in instances where the conditions are objectively detrimental for the individual.

The term "loyalty" is often used by authors to refer to constructs that are, in our opinion, similar but not equivalent. These include identification with an object (such as a group or organization) [10; 40; 44], leader-member exchange (LMX) [3], commitment [33], and trust and confidence [29].

Loyalty, defined as the dedication to an entity, constitutes a moral imperative to prioritize that entity's interests, even when they conflict with the individual's own goals. The individual intellectually recognizes this idea as ethical and valid, and they behave accordingly.

Loyalty is essential in several facets of social life, encompassing interpersonal relationships and corporate settings.

**Economic and psychological aspects of loyalty.**

In economic and business contexts, loyalty is a key factor in establishing long-term, mutually beneficial relationships between organizations and their customers. In a highly competitive market, organizations with higher levels of loyalty enjoy several advantages, such as increased revenue from repeat purchases (through upselling and cross-selling) and lower costs associated with acquiring new customers, as loyal customers tend to stay (resulting in a reduced churn rate). Economic psychology asserts that loyalty is a combination of the consumer's rational decision-making and emotional attachment.

The concept of loyalty has a complex and extensive history, with its understanding always developing, par-

ticularly in the economic sphere. Fred Reichheld was one of the first researchers to examine loyalty from an economic perspective. Loyalty is described as the readiness of a consumer (or individual) to invest or make personal sacrifices to enhance their relationship with a firm. In his initial research, Reichheld concentrated on the correlation between loyalty and revenue. His book, *The Loyalty Effect*, published in 1996, argues that companies that invest in retaining customers by enhancing and developing their relationships can increase their profits without incurring the costs of acquiring new customers [35]. In this study, he claimed that retaining just 5% of customers could boost an organization's profits by 25–95%. This study established a foundation for additional investigation into the loyalty phenomena in economic research.

In 2003, Fred Reichheld developed the Net Promoter Score (NPS) statistic to evaluate customer loyalty, which quickly gained popularity among customer-centric organizations due to its simplicity. The notion is based on a unique question: "What is the probability that you would recommend our product or service to friends or colleagues?" The primary advantage of this statistic is its user-friendliness, while still providing a pretty accurate depiction of client loyalty. The NPS index provides firms with critical insights for continuous business enhancement derived from customer feedback and acts as a metric for assessing the effects of executed modifications. Reichheld contended that a significant association exists between NPS and corporate growth [36].

In their 1994 work, Dick and Basu, along with Fred Reichheld, argued that loyalty significantly influences customers' decisions to make repeat purchases. Customers exhibiting strong loyalty are more inclined to persist in utilizing the services or purchasing products of a specific firm, even in the presence of superior alternatives. This notion illustrates the interaction between the emotional and cognitive dimensions of loyalty. The emotional aspect of loyalty arises from the bond formed via favorable sentiments and experiences. The emotional side of loyalty stems from the emotional attachment created through positive feelings and experiences associated with a specific organization (subject). In contrast, the rational side of loyalty is based on a relatively objective assessment of emotional benefits, such as price [5; 7].

The importance of loyalty in evaluating brand value cannot be overstated, since companies can only cultivate a significant base of loyal customers by maintaining high competitiveness and an exemplary reputation. This is illustrated by companies like Apple, Starbucks, and Tesla, who have successfully forged strong emotional bonds with their customers through outstanding service, distinctive products and services, and inventive solution [9].

**Discussion and conclusions.** The review and analysis of scientific literature addressing both the general psychological and economic-psychological aspects of the loyalty phenomenon reveal that this construct has a complex, multi-layered structure encompassing two primary components of human behavior: emotional and rational. From a psychological perspective, loyalty is a key element of social relationships. It enhances emotional attachment, fosters group identity, and helps

establish moral obligations [17; 23]. In complex and unpredictable situations, loyalty serves as a moral principle that guides individuals in making the "right" choice between group and personal interests [15]. Furthermore, loyalty is essential for maintaining stability within a group, whether in a community, organization, or other social settings.

From an economic and psychological standpoint, loyalty is often regarded as a crucial factor in consumer behavior. It is widely believed that organizations that systematically cultivate customer loyalty to their products and services gain significant advantages. A higher level of loyalty can lead to an increased frequency of repeat purchases, which in turn allows organizations to reduce the costs associated with attracting new customers while maintaining or even increasing their net profits [36]. The key, and perhaps the most widely used, metric for measuring loyalty in business is the Net Promoter Score (NPS), introduced by Reichheld in 2003. Despite its limitations, this tool provides a satisfactory level of accuracy for assessing customer loyalty in a business context and enables organizations to adjust both their strategic plans and tactical actions based on these data.

The rational and emotional aspects of loyalty [5] represent two fundamental dialectical structures that balance consumer behavior, creating a more harmonious decision-making process. The emotional aspect of consumer loyalty is closely tied to trust and emotional attachment, while the rational aspect focuses on objective financial benefits [5]. Customers who primarily exhibit rational loyalty are more likely to switch their preferences to competitors offering better terms. In contrast, customers driven by emotional loyalty are less influenced by rational market conditions, as their loyalty to the organization has become ingrained to some extent.

Therefore, based on the preceding discussion and the author's earlier work [26; 27], we hypothesize that loyalty is primarily an attitude rooted in emotional attachment, individual experience, and perceived benefits. This attitude can influence specific consumer intentions and drive certain behaviors (loyalty behavior). However, not all loyal customers will consistently demonstrate their loyalty through actions, especially if those actions do not align with social expectations or if they entail costs that exceed what the individual considers acceptable, which has been shaped by their life experiences. Additionally, not all actions that appear to be loyal are necessarily motivated by loyalty; they may instead be influenced by social norms, legal obligations, or personal commitments.

Despite its popularity in the business sector, the phenomenon of loyalty remains insufficiently explored. Various authors have broadly and generally described the structure of this construct and the mechanisms behind its formation at different times. Therefore, **there is significant potential for further research** in the areas of economic psychology and behavioral economics. For organizations, it is essential to clearly define and articulate the psychological and economic-psychological foundations of loyalty. This understanding will enable them to better meet their customers' needs and build a customer-oriented business model.

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