The Dynamics of Customisation, Perceived Fairness, and Customer Loyalty within a Corporate Sustainability Framework

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Abstract

Background: Customisation, understood as tailoring products, services, or communication to individual customer preferences, is increasingly used to enhance customer satisfaction, yet its impact on customer loyalty remains complex. Businesses increasingly focus on customisation to enhance customer satisfaction, yet its impact on customer loyalty remains complex. While customisation aligns with customer-centric strategies, ensuring fairness in these practices is crucial for fostering long-term relationships. This study explores the interplay between customisation, perceived fairness of the firm, and customer loyalty within the framework of corporate sustainability, drawing on equity and social exchange theories. **Objective:** We test whether perceived firm fairness mediates the link between customisation and customer loyalty within a corporate sustainability framework. **Methods:** We surveyed customers of a Croatian card services company using systematic random sampling and analysed the data using PLS-SEM. **Results:** Customisation improves perceived firm fairness but has no direct effect on loyalty. Fairness fully mediates the relationship between customisation and loyalty. **Conclusions:** Customisation boosts loyalty only when customers experience it as fair. Design transparent, consistently applied rules and communicate the "why" behind tailored offers to align with corporate sustainability principles and sustain long-term relationships.

Keywords: customisation, customer loyalty, fairness perception, corporate sustainability, equity theory

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Introduction

The process of exchange is almost continual in human interactions. It appears to have characteristics peculiar to itself, and to generate affect, motivation, and behaviour that cannot be predicted unless exchange processes are understood (Adams, 1965). In business, customer loyalty is a crucial determinant of long-term success, significantly impacting profitability and market share (Anderson, Fornell, & Lehmann, 1994; Morris, 1998; Kumar & Shah, 2004; Gandomi & Zolfaghari, 2013). To foster customer loyalty, firms in increasingly competitive markets often adopt strategies such as product and service customisation (Chhabra, 2017; Hohenberg & Taylor, 2020; Wallström, Hjelm Lidholm, & Sundström, 2023). Customisation, defined as tailoring products or services to meet individual customer preferences, can significantly impact customer satisfaction and loyalty (Nguyen, Klaus, & Simkin, 2014; Chandra et al., 2022). However, the effectiveness of customisation in fostering loyalty is not straightforward and may be mediated by the customer's perception of fairness.

The theoretical significance of fairness perception in customisation lies in its ability to mitigate negative customer evaluations by ensuring that the time and effort invested in the customisation process align with equitable treatment and satisfactory outcomes (Scholl-Grissemann, Stokburger-Sauer, & Teichmann, 2022). Fairness is critical because it shapes how customers evaluate their interactions with service providers (Lee, 2018), especially when customisation requires significant personal effort and resources. While customisation is widely regarded as a key strategy for enhancing customer loyalty, its success is not guaranteed. If customers perceive customisation as unfair, it can lead to dissatisfaction, reduced loyalty, and negative word of mouth, underscoring the importance of fairness perception as a crucial mediating factor warranting further exploration. Adams' equity theory (1965) highlights the importance of perceived fairness in a firm to customer satisfaction and loyalty, where individuals assess fairness by comparing their contributions to the rewards they receive. When customisation is perceived as fair, it enhances customer satisfaction and loyalty, but perceived unfairness by the firm can result in negative outcomes, such as dissatisfaction and decreased loyalty (Huppertz, Arenson, & Evans, 1978). Scholars suggest that these misbehaviours often stem from customer-employee interactions (Bitner, Booms, & Tetreault, 1990; Lemmink & Mattsson, 2002; Porath, Macinnis, & Folkes, 2010).

The relationship between customisation and customer loyalty has yielded mixed findings. Some researchers argue that customisation positively influences loyalty by meeting individual needs and enhancing perceived service value (Simonson, 2005; Boulding et al., 2005; Gumussoy & Koseoglu, 2016; Pallant, Karpen & Sands, 2022). For instance, Nguyen and Simkin (2013) suggest that well-implemented customisation can foster appreciation and recognition, boosting loyalty. However, other studies highlight that customisation may lead to perceptions of unfairness if customers feel they are not receiving the same benefits or view the process as discriminatory (Xia et al., 2004; Frow et al., 2011). Negative perceptions of differential treatment can amplify feelings of unfairness (Xia et al., 2004; Nguyen, Klaus, & Simkin, 2014; Gumussoy & Koseoglu, 2016). Recent research also suggests that alignment between customised services and customer preferences is critical for enhancing firm performance (Xu, Wang, Lu, & Xiao, 2023).

The mediating role of perceived firm fairness in the relationship between customisation and loyalty is of growing interest. Jung and Seock (2017) highlight that a positive relationship with clients, built on the perceived fairness of the firm, can result in greater loyalty and profitability. Oliver (1999) highlights the crucial role that a

perceived firm's fairness plays in fostering and maintaining customer loyalty. According to his research, when customers feel that they are being treated fairly, they are more likely to develop a strong sense of trust and commitment towards a brand or service. This sense of fairness can stem from factors such as transparent pricing, honest communication, and equitable complaint resolution. As a result, businesses that prioritise fairness in their interactions with customers are more likely to enjoy long-term loyalty and positive word of mouth. Nguyen, Klaus, and Simkin (2014) further elucidate that perceived unfairness in the firm can significantly diminish customer loyalty, even when customisation is present. This suggests that perceived firm fairness may be a crucial mediator of the ultimate impact of customisation on loyalty.

This study aims to deepen our understanding of the role of perceived firm fairness in shaping customer responses to customisation, with a particular focus on its indirect influence on customer loyalty. By integrating concepts from equity and social exchange theories, this research seeks to explore the nuanced dynamics between these constructs. The findings are expected to provide valuable insights for practitioners aiming to design effective customisation strategies that foster loyalty without compromising fairness.

Customisation, fairness, and loyalty are also tied to Corporate Sustainability (CS). CS is a strategic, forward-looking approach that balances environmental, social, and economic outcomes and embeds measurable practices into core strategy (e.g., transparency, equity in access and pricing). In this sense, fair customisation signals ethical conduct toward a primary stakeholder, customers, and supports trust and loyalty (Boulding et al., 2005; Scholl-Grissemann, Stokburger-Sauer, & Teichmann, 2022). When customers understand what is tailored, for whom, and why, fairness perceptions improve, and loyalty follows (Nguyen, Klaus, & Simkin, 2014; Oliver, 1999). We test whether fairness mediates the customization–loyalty link.

In summary, while customisation is a powerful tool for enhancing customer satisfaction and loyalty, its success largely depends on customers' perceptions of fairness. The primary goal of this study is to provide a comprehensive understanding of how fairness perception mediates the relationship between customisation and customer loyalty. The study posits that customisation positively influences perceived firm fairness, which, in turn, positively impacts customer loyalty. Furthermore, it suggests that the perceived fairness of the firm mediates the relationship between customisation and customer loyalty. This study builds on existing literature to investigate the mediating effect of perceived firm fairness in the customisation-loyalty relationship, providing a comprehensive understanding of the factors that influence customer loyalty in the context of personalised services. This leads us to the main research question of this study: Does perceived firm fairness mediate the relationship between customisation and customer loyalty, and what implications does this have for businesses aiming to implement effective, ethically sound customisation strategies?

The paper is organised as follows: The literature review explores three key areas – Customisation and Customer Perceptions, Fairness Perception and Customer Loyalty, and Customisation and Loyalty Intentions, leading to the development of hypotheses. The Methodology section details the study's operationalisation, sample, data collection, and Data Analysis. This is followed by the Findings, which include the Assessment of the Measurement Model and the Assessment of the Structural Model. The paper concludes with a comprehensive Discussion and Conclusion. Consistent with prior work linking loyalty to a firm's performance (e.g., market share and profitability), this study focuses on fairness as the pathway through which customisation influences loyalty and implements a transparent item adaptation protocol with documented wording and retention criteria.

Literature review

Customisation and customer perceptions

Nguyen, Klaus, and Simkin (2014) explore how different client relationships affect fairness perceptions, concluding that negative perceptions of differential treatment increase perceived unfairness. This highlights the potential downside of customisation when it is not perceived as equitable. Differential treatment further shows a direct link with fairness perception, emphasising that customers are sensitive to perceived inequalities in how services are tailored. These perceptions can significantly affect their overall satisfaction and loyalty. Conversely, Nguyen and Simkin (2013) suggest that managing perceptions of fairness through effective tactics is crucial. By implementing strategies that are viewed as fair, firms can enhance customer satisfaction and foster long-term, quality relationships with clients. This approach underscores the importance of perceived firm fairness in customisation efforts and its impact on customer loyalty and trust, suggesting that firms must carefully design their customisation strategies to be perceived as fair and equitable (Nguyen & Simkin, 2013; Nguyen, Klaus, & Simkin, 2014). Moreover, Peppers and Rogers (1997) argue that personalisation efforts must be transparent and consistent to maintain customer trust. Transparency in customisation practices helps mitigate feelings of unfairness, thereby strengthening customer-firm relationships. Integrating fairness into customisation practices also aligns with CS principles, reflecting the firm's commitment to ethical behaviour and social equity. By ensuring fair and equitable customisation practices, firms can demonstrate their commitment to CS, thereby enhancing their reputation and fostering stronger customer loyalty. This alignment with CS principles can also mitigate potential negative perceptions associated with customisation (Xu et al., 2023).

Fairness perception and customer loyalty

Jung and Seock (2017) state that stronger client relationships lead to greater loyalty and profitability, underscoring the importance of strong customer-firm connections. Some authors identify perceived firm fairness as a crucial factor for maintaining customer loyalty, suggesting that customers who feel they are treated fairly are more likely to remain loyal to the firm (Oliver, 1999; Nguyen, Klaus & Simkin, 2014; Giovanis, Athanasopoulou & Tsoukatos, 2015). Nguyen, Klaus, and Simkin (2014) further support this by concluding that increased perceptions of unfairness significantly reduce loyalty. Their research shows that even with customised services, customer loyalty diminishes when fairness is perceived as lacking. However, they also found that trust can enhance loyalty intentions despite perceptions of unfairness, indicating that trust acts as a mitigating factor.

Giovanis, Athanasopoulou, and Tsoukatos (2015) argue that fair treatment is not only a key determinant of loyalty but also a fundamental aspect of the customer's overall satisfaction with the firm. Fairness in treatment involves just service provision, transparent communication, and fair pricing strategies, all of which contribute to a positive customer experience. This notion aligns with the principles of CS, which advocate for ethical business practices and equitable treatment of all stakeholders (especially primary ones such as customers) (Carroll, 1991). By ensuring fair treatment, firms not only build loyalty but also fulfil their CS obligations, thereby enhancing their reputation and fostering long-term customer relationships. Pratama Hafidz and Huriyahnuryi (2023) highlight that in the fast-food industry, customer satisfaction derived from product customisation significantly enhances loyalty intentions, provided that the customisation process is perceived as transparent and fair. This study

underscores the importance of a perceived firm's fairness in ensuring customer loyalty, even in sectors with highly standardised service offerings. Such insights are crucial for understanding the broader applicability of fairness principles across different industries.

Furthermore, Homburg, Koschate and Hoyer (2005) indicate that a perceived firm's fairness in pricing strategies directly influences customer satisfaction and loyalty. This suggests that firms should adopt fair pricing policies to maintain and improve customer loyalty. Incorporating fairness into all aspects of customer interaction thus becomes essential for firms aiming to achieve both high customer satisfaction and adherence to CS principles.

Customisation and loyalty intentions

Nguyen, Klaus and Simkin (2014) examine the relationship between customisation and loyalty intentions, highlighting the principle of reciprocity, which maintains that balance is achieved when exchange partners give and receive benefits. This principle suggests that when firms tailor their services to meet individual customer needs, customers feel valued and are more likely to reciprocate with loyalty. The benefits of customisation are clear, including increased satisfaction and personalised customer experiences that enhance customer loyalty (Simonson, 2005). However, the relationship between negative customisation, unfairness perceptions, and loyalty intentions requires further exploration.

Negative customisation occurs when customers perceive that tailored services are inequitable or unfair. This perception of unfairness can undermine the positive effects of customisation and reduce loyalty intentions. Xia, Monroe, and Cox (2004) suggest that perceived price unfairness can lead to negative customer reactions, which can be extended to perceived unfairness in customisation practices. Thus, firms must ensure that their customisation efforts are perceived as fair to maintain customer loyalty. By ensuring fair and equitable customisation practices, firms can demonstrate their commitment to CS, thereby enhancing their reputation and fostering stronger customer loyalty. This alignment with CS principles can also mitigate potential negative perceptions associated with customisation.

Stakeholder management, an essential aspect of CS, involves addressing the needs and concerns of all stakeholders, including customers (Freeman, 1984). When firms engage in fair customisation practices, they effectively manage stakeholder expectations and build trust. This trust is critical for sustaining long-term relationships and loyalty. Recent studies emphasise that companies with strong CS practices tend to enjoy higher customer loyalty, as customers prefer to engage with socially responsible businesses (Bhattacharya & Sen, 2004; Du, Bhattacharya, & Sen, 2010).

In conclusion, while customisation can significantly enhance customer loyalty, firms must ensure these practices are perceived as fair. Integrating CS principles into customisation strategies not only supports ethical business conduct but also strengthens stakeholder relationships and loyalty intentions. This approach underscores the importance of fairness and social responsibility in contemporary business practices.

Research model

Based on the preceding literature review, the research model proposes that firm customisation influences customer loyalty intentions through a dual mechanism: a direct effect, reflecting the perceived relevance and value of customised offerings, and an indirect effect, operating through perceived firm fairness. This structure recognises that customisation may strengthen customer relationships not only by

improving fit with individual preferences, but also by shaping customers' judgments about the fairness, transparency, and equity of the firm's treatment.

Prior research indicates that the relationship between firm customisation and customer loyalty is not unidimensional, but involves both value-enhancing and risk-inducing mechanisms. While personalised offerings can strengthen customer relationships by increasing perceived relevance and satisfaction, they may also generate perceptions of unfairness when differential treatment is not perceived as justified (Fornell et al., 1996; Bendapudi & Leone, 2003; Johnson, Herrmann & Huber, 2006; Nguyen, Klaus, & Simkin, 2014).

Building on these insights, this study conceptualises a mediated model in which firm customisation affects customer loyalty intentions both directly and indirectly through perceived firm fairness. The model is grounded in equity theory, which explains how customers evaluate exchanges based on perceived balance (Homans, 1961; Adams, 1965), and the principle of reciprocity, which emphasises that fair and balanced interactions foster positive relational outcomes (Simonson, 2005). In addition, perspectives from Corporate Sustainability and stakeholder theory highlight the ethical dimension of firm behaviour, suggesting that fairness and transparency in customer treatment are central to long-term trust and loyalty (Carroll, 1991; Freeman, 1984).

Hypothesis development

Research by Nguyen, Klaus and Simkin (2014), predicated on equity theory (Homans, 1961), clarifies the theoretical relationships between these variables, concluding that negative customisation heightens perceptions of company unfairness. Equity theory posits that inequity arises when perceived inputs are misaligned with those of a referent (Adams, 1965). While Nguyen and Klaus (2013) argue that varied treatment of clients is not inherently negative, Frow et al. (2011) contend that feelings of diminished value among clients engender perceptions of unfairness and neglect by the company. Additionally, some authors found that customers perceived firm fairness significantly mediates the relationship between service customisation and overall satisfaction, highlighting the critical role of perceived equity in customer-firm interactions (Giovanis, Athanasopoulou & Tsoukatos, 2015; Xu et al., 2023). Based on these findings, the first hypothesis is proposed:

- H1: The firm's customisation has a positive impact on the perceived firm fairness.

In his work, Oliver (1999) shows that perceived firm fairness is a key factor for maintaining client loyalty. Nguyen, Klaus, and Simkin (2014) go even further, concluding that increasing clients' perceptions of unfairness significantly reduces client loyalty. Grégoire and Fisher (2008) conclude that when perceptions of unfairness increase, their loyalty to the company decreases. Giovanis, Athanasopoulou, and Tsoukatos (2015) emphasise that the most important factor in building customer loyalty is the company's fair attitude towards customers. Xia et al. (2004) propose an affect-based concept of unfairness, in which clients perceive unfairness differently, as reflected in their emotional statements. These findings are the basis of the second hypothesis:

- H2: Perceived firm fairness has a positive impact on customer loyalty intentions.

Franke, Keinz and Steger (2003) argue that customers perceive customised products as more valuable, thereby enhancing their loyalty. Similarly, Thompson, Rindfleisch and Arsel (2006) conclude that emotional branding, bolstered through customisation, strengthens customer attachment to the brand, subsequently

increasing loyalty intentions. Conversely, Srinivasan, Anderson and Ponnavolu (2002) suggest that inadequate addressing of personal preferences in customisation can lead to customer disappointment and reduced loyalty. Customisation can occasionally foster perceptions of inequity, leading customers to believe others receive superior or more personalised treatment, thereby engendering dissatisfaction and diminished loyalty intentions (Liao & Chuang, 2004). Recent studies by Pratama Hafidz and Huriyahnuryi (2023) found that customer satisfaction derived from product customisation significantly enhances loyalty intentions, provided that the customisation process is perceived as transparent and fair. Therefore, we propose the third hypothesis:

- H3: The firm's customisation has a positive impact on customer loyalty intentions.

Homburg, Droll, and Totzek (2008) indicate that customers perceive greater fairness when they are actively involved in the customisation process and when outcomes align with their expectations. Blodgett, Hill and Tax (1997) find that fairness perceptions in service recovery substantially influence customer satisfaction and loyalty. Smith, Bolton, and Wagner (1999) demonstrate that perceived firm fairness mediates the relationships between service modifications and customer satisfaction and loyalty. Contrarily, Sharma and Patterson (1999) argue that direct satisfaction from customisation efforts is more critical in driving loyalty than perceived fairness of the firm. Additionally, Han and Hyun (2017) found that perceived firm fairness in the customisation process significantly mediates the relationship between service customisation and customer loyalty, emphasising the importance of equitable customisation practices in fostering long-term customer relationships. Finally, we propose the fourth hypothesis:

- H4: Perceived firm fairness mediates the relationship between the firm's customisation and customer loyalty intentions.

Taken together, the reviewed literature suggests that customisation should not be considered only as a customer-centric marketing tool, but also as a practice with important fairness implications. While tailored products and services may increase perceived value and strengthen loyalty, they may also create concerns about unequal or preferential treatment. Therefore, perceived firm fairness represents a central mechanism through which customisation can contribute to customer loyalty. This is particularly relevant within a corporate sustainability framework, where transparency, equity, and responsible stakeholder treatment are essential elements of long-term business relationships.

Methodology

Research instrument

The proposed research instrument was adapted from Nguyen, Klaus and Simkin (2014). To accurately measure the variables, items were carefully selected and modified from existing measures used in previous studies. The customisation construct, which involves tailoring products and services to individual preferences, was adapted from Bart et al. (2005), Nguyen and Simkin (2013), and Nguyen, Klaus and Simkin (2014). The perceived firm fairness construct, which assesses the fairness customers feel they receive from the firm, was derived from Oliver and Swan (1989) and Giovanis, Athanasopoulou and Tsoukatos (2015). Lastly, the customer loyalty construct, reflecting customers' commitment and repeated patronage, was based on the work of Giovanis,

Athanasopoulou, and Tsoukatos (2015). All constructs were measured using a five-point Likert scale.

Item Adaptation and Scale Refinement. We adapted all measurement items from established scales to fit the study context and language while preserving construct meaning. Customisation items were drawn from Bart et al. (2005), Nguyen and Simkin (2013), and Nguyen, Klaus and Simkin (2014); Perceived firm fairness from Oliver and Swan (1989), and Giovanis, Athanasopoulou and Tsoukatos (2015); Customer loyalty from Giovanis et al. (2015).

Procedure. (i) We created an initial item pool from the source scales and harmonised terminology to the card-services context. (ii) Items were translated and administered in Croatian; we employed forward–back translation by independent bilinguals, reconciled discrepancies, and conducted a panel review for conceptual equivalence. (iii) We then cognitively pretested the items with a small group of customers to check clarity, wording, and relevance; minor wording edits ensured readability without altering item meaning. (iv) A pilot test was conducted to verify the response range and survey completion time. (v) During main data collection, we evaluated items via indicator loadings, composite reliability, and AVE within the PLS-SEM framework.

Retention/Revision rules. Items with loadings ≥ 0.50 were retained if the construct's composite reliability was ≥ 0.70; when the AVE was slightly below 0.50, we followed the Fornell–Larcker rule, provided the composite reliability was acceptable. This applied to Customisation (AVE = 0.457; CR = 0.767), which we retained on theoretical grounds and because all items loaded ≥ 0.52 (Table 2). We note this as a measurement limitation and suggest future scale refinement.

Documentation. Full item wordings, sources, and any wording adjustments are provided in Appendix A (Item Wording and Adaptation Log), including a mapping from item codes (CUS1–CUS4, FAP1–FAP4, CUL1–CUL4) to their sources and final wording.

Sample and data collection

The study context is a large card services provider operating nationwide, with approximately 500,000 active clients (as of 2018). The firm offers credit/debit card issuing and processing, loyalty programs, and merchant services. To preserve confidentiality, the company is not named; descriptive characteristics are provided to aid external validity assessment.

We applied systematic random sampling to draw a probability sample from the company's client registry ($N \approx 500{,}000$). After a random start between 1 and k, we selected every k-th record, where $k = N / n \approx 500{,}000 / 12{,}000 \approx 41.7$; we operationalised $k = 42$. This approach ensured coverage across the full frame while simplifying fieldwork logistics for email delivery. Survey waves ran in May 2018 and October 2018 via Qualtrics. Of 12,000 invitations, 1,309 responses were received (10.91%), with 633 complete and usable (valid response rate 5.28%). Primary data were collected to test the hypotheses and achieve the objectives outlined for this study.

Access to the customer list was granted under a formal data-sharing agreement with the focal company, a licensed card services provider. The company extracted the sampling frame and sent survey invitations on our behalf; the research team did not receive personally identifiable information at any point. Participation was voluntary, and opt-out was available in all invitations. All responses were anonymised before analysis and handled in accordance with the General Data Protection Regulation and applicable national data protection legislation.

Systematic random sampling is appropriate when a complete, ordered frame exists, and no periodicity is expected to align with k; it offers comparable properties to simple random sampling while imposing a lower operational burden.

Table 1 provides an overview of the respondents' gender, age, and education levels. Among the 633 respondents, 54.66% were females and 45.34% were males. The most represented age group was 31-40 years (25.12%), and 65.55% of respondents had completed higher education.

Table 1
Demographic structure of respondents

Attribute	Categories	Frequency	Percentage
Gender	Male	287	45.34%
	Female	346	54.66%
Age	18-20	3	0.47%
	21-30	60	9.48%
	31-40	159	25.12%
	41-50	150	23.70%
	51-60	146	23.06%
	Over 60	115	18.17%
Education level	No formal education	2	0.32%
	Completed primary school	1	0.16%
	Incomplete secondary	6	0.95%
	Secondary school	209	33.02%
	Higher education	415	65.55%
Total respondents		633	100%

Source: Authors' work

Regarding household income, the majority of respondents (31.12%) reported a monthly net income between €665 and €1333. A total of 26.22% earned between €1334 and €2000, while 17.70% had a net income ranging from €2000 and €2667, while smaller groups reported incomes under €333 (0.63%) or between €334 and €667 (6.95%), and 0.63% indicated having no income. Regarding occupation, office workers constituted the largest group (24.17%), followed by managers (15.96%) and retirees (15.32%). Smaller proportions of respondents identified as skilled workers (8.85%), entrepreneurs or business owners (9.48%), professionals such as lawyers, doctors, and architects (8.69%), and students (2.21%). Other categories included homemakers (0.79%), unemployed individuals (1.58%), unskilled workers (0.32%), and other professions (12.63%).

Data analysis

Partial Least Squares Structural Equation Modelling (PLS-SEM) was selected for this study due to its suitability for predictive and exploratory research, particularly when the primary goal is theory development rather than strict hypothesis confirmation (Hair et al., 2017). Unlike covariance-based SEM, PLS-SEM effectively handles complex models with both reflective and formative constructs (Hair et al., 2014, p. 116), making it well-suited for this study's framework. Additionally, its ability to handle non-normal data distributions (Hair et al., 2014) aligns with the characteristics of the collected sample, providing robust results that offer deeper insights into the interplay among customisation, perceived fairness, and customer loyalty. All model estimations were performed using SmartPLS 3.0 software (Ringle, Wende, & Becker, 2015), employing the path weighting scheme prior to estimation, with 1,000 iterations used to optimise the results.

Results

Assessment of the measurement model

The evaluation of the measurement model begins with the estimation of internal consistency for the constructs that comprise the composite reliability and Cronbach's alpha. The next step is to assess convergent and discriminant validity. Convergent validity is measured through outer loadings indicators and Average Variance Extracted (AVE). The outer loadings exceed the 0.5 cut-off, indicating their reliability (Hulland, 1999). The value of the average extracted variance (AVE) should be above the cut-off value of 0.5 (Bagozzi & Yi, 1988). However, it can also be accepted at 0.4, provided the composite reliability is above 0.6, and the construct convergent validity is therefore adequate (Fornell & Larcker, 1981). Although not all AVEs exceeded the 0.5 cut-off (customisation AVE = 0.457), it is acceptable given the composite reliability (CR = 0.767). The results of this analysis are presented in Table 2.

Table 2
Measurement Model Results

Construct	Item	Outer loadings	Average variance extracted (AVE)	Composite reliability	Cronbach's alpha
Customisation	CUS1	0.811	0.457	0.767	0.768
	CUS2	0.648			
	CUS3	0.690			
	CUS4	0.523			
Perceived firm fairness	FAP1	0.749	0.528	0.817	0.817
	FAP2	0.734			
	FAP3	0.665			
	FAP4	0.755			
Customer loyalty	CUL1	0.803	0.694	0.900	0.902
	CUL2	0.761			
	CUL3	0.822			
	CUL4	0.936			

Source: Authors' work

Consistent with our a priori retention rule, we kept indicators with standardised loadings ≥ 0.50, and all items met this threshold. Although Customisation's *AVE* was 0.457, convergent validity remains acceptable given its *CR* = 0.767 and theoretical coverage, in line with Fornell and Larcker's allowance when *CR* ≥ 0.60.

Discriminant validity represents the scope in which the construct empirically differs from the other construct, and which is measured by examining cross loadings of the indicators, Fornell and Larcker criterion (Hair et al., 2014), or assessing the heterotrait-monotrait ratio (HTMT) of the correlations with a threshold value of 0.90 (Henseler, Ringle, & Sarstedt, 2015), and it is presented in Table 3.

The cross-loading pattern shows that each indicator loads highest on its intended construct, with primary loadings exceeding cross-loadings by ≥ 0.10 in all cases. This indicator-level separation supports discriminant validity despite relatively high inter-construct associations. Taken together with HTMT, the constructs can be treated as empirically distinct.

Table 3
Cross Loadings

	Customer loyalty	Customisation	Perceived firm fairness
CUL1	**0.803**	0.431	0.604
CUL2	**0.761**	0.419	0.570
CUL3	**0.822**	0.468	0.612
CUL4	**0.936**	0.497	0.706
CUS1	0.455	**0.811**	0.567
CUS2	0.339	**0.648**	0.475
CUS3	0.370	**0.690**	0.498
CUS4	0.295	**0.523**	0.364
FAP1	0.552	0.546	**0.749**
FAP2	0.545	0.529	**0.734**
FAP3	0.525	0.442	**0.665**
FAP4	0.558	0.548	**0.755**

Source: Authors' work

Although the Fornell-Larcker criterion suggests a lack of discriminant validity (Table 4), evaluating cross-loadings (Table 3) and the HTMT ratio (Table 5) confirms the discriminant validity of the constructs.

Table 4
Fornell-Larcker Criterion

	Customer loyalty	Customisation	Perceived firm fairness
Customer loyalty	**0.833**		
Customisation	0.546	**0.676**	
Perceived firm fairness	0.750	0.713	**0.727**

Source: Authors' work

Fornell–Larcker is borderline/not fully met: the correlation between Perceived firm fairness and Customer loyalty (0.750) slightly exceeds the square root of fairness's AVE (0.727), and the Customisation–Fairness correlation (0.713) approaches Customisation's √AVE (0.676). Given acceptable reliability and theory fit, we corroborate discriminant validity using HTMT (< 0.90) and the cross-loading pattern.

Table 5
HTMT Ratio

	Customer loyalty	Customisation	Perceived firm fairness
Customer loyalty			
Customisation	0.539		
Perceived firm fairness	0.746	0.705	

Source: Authors' work

All HTMT values fall below 0.90 (range 0.539–0.746), supporting discriminant validity at the construct level. Combined with the cross-loadings evidence, this indicates the three latent variables capture related but distinct concepts. While the Fornell–Larcker criterion is borderline, cross-loadings and HTMT (< 0.90) jointly support discriminant validity.

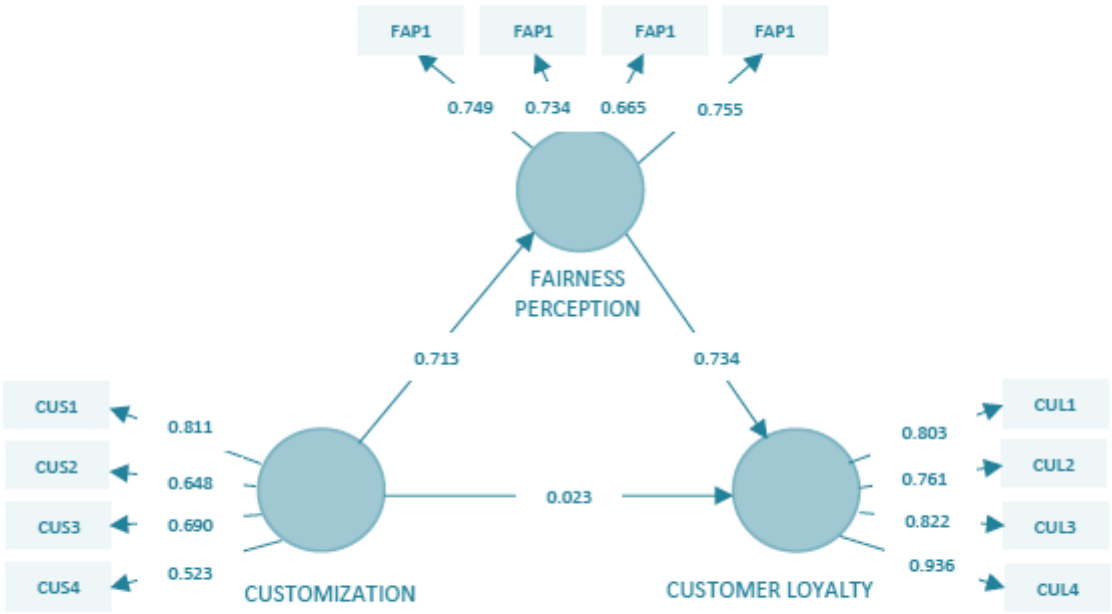
Before evaluating the hypothesised relationships within a model or its quality, it is necessary to test the structural model for potential collinearity issues by estimating

variance inflation factors (VIFs). All VIF values are below the cut-off of 5 (ranging from 1.000 to 2.031).

Assessment of the Structural Model

The structural model is illustrated in Figure 1, which depicts strong paths from Customisation to Perceived Fairness and from Perceived Fairness to Loyalty, with a weak direct path from Customisation to Loyalty, anticipating mediation.

Figure 1
Proposed Path Model, Mediating Role of Fairness Perception between Customisation and Customer Loyalty Relationship



Source: Authors' work

The quality of the model is based on its ability to predict the endogenous constructs through path coefficients, coefficient of determination (R2), Stone-Geisser's value (Q2), and the effect size (f2) (Hair et al., 2014). The coefficient of determination (R2) for each endogenous latent variable is used to assess the model's predictive power.

The coefficients of determination (Figure 1) for the constructs perceived firm fairness and customer loyalty were 0.508 and 0.563, respectively, indicating moderate levels of predictive accuracy (Hair et al., 2014; Henseler, Ringle, & Sarstedt, 2015). In the next step, we estimated effect sizes (f2) to evaluate the impact of the individual latent exogenous constructs on the endogenous constructs. Cut-off values of 0.02, 0.15, and 0.35 were used to classify the effect size as small, medium, and large, respectively (Cohen, 1988). The results of the SmartPLS 3.0 calculation show an insignificant effect size for customisation on customer loyalty (f2 = 0.001) and a large effect size for perceived firm fairness on customer loyalty (f2 = 0.606). We then examined Stone-Geisser's Q2 value (Geisser, 1974; Stone, 1974), which is obtained by using the blindfolding procedure in SmartPLS 3.0. using a cross-validated redundancy approach. Stone-Geisser's Q2 values for all endogenous constructs are well above the threshold of zero (0.306 for customer loyalty and 0.197 for perceived firm fairness), indicating that the model's predictive ability is good. Then we computed the effect

size q2 manually, which indicates weak (0.02), moderate (0.15), and strong (0.35) degrees of predictive relevance for a given endogenous construct, formally defined as follows: q^2 = [Q^2 included − Q^2 excluded] / [1 − Q^2 included].

As shown in Table 6, customisation positively and significantly affects perceived firm fairness (β = 0.713; t = 17.372), and perceived firm fairness has a strong positive, significant effect on customer loyalty (β = 0.734; t = 11.323), while the effect of customisation has a weak positive, nonsignificant impact on customer loyalty (β = 0.023; t = 0.330). Therefore, H1 and H2 are supported, whereas H3 is not, since the customisation effect on customer loyalty is positive but statistically non-significant.

Table 6
Significance Testing Results of the Structural Model Path Coefficients

	Path Coefficients	Standard Deviation	t Values	p Values	95% Confidence Intervals
Customisation -> Perceived firm fairness	0.713	0.041	17.372	< 0.0001	0.625 – 0.787
Perceived firm fairness-> Customer loyalty	0.734	0.065	11.323	< 0.0001	0.613 – 0.866
Customisation-> Customer loyalty	0.023	0.070	0.330	0.742	- 0.122 – 0.154

Source: Authors' work

As shown in Table 7, the effect size for the customisation indicates weak predictive relevance for customer loyalty, whereas the perceived firm fairness shows moderate predictive relevance. Concerning the model fit in SmartPLS, the SRMR is used with a cut-off value of 0.08 (Hu & Bentler, 1998). The SRMR value for this model is 0.05, which indicates a good model fit.

Table 7
Effect Size q^2

Exogenous variable	Endogenous variable	Q2 incl.	Q2 excl.	q2
Customisation	Customer loyalty	0.306	0.297	0.013
Perceived firm fairness	Customer loyalty	0.306	0.152	0.222

Source: Authors' work

The q^2 results indicate weak predictive relevance of Customisation for Customer loyalty (0.013) and moderate predictive relevance of Perceived firm fairness (0.222). Practically, this means fairness meaningfully improves out-of-sample prediction of loyalty. In contrast, customisation adds little predictive power unless it operates through fairness, consistent with the mediation logic we test next.

According to the results in Table 8, customisation had a weak, statistically nonsignificant (t = 0.330; p = 0.742) impact on customer loyalty, but the indirect effect was substantial and statistically significant (t = 8.545; p = < 0.0001). Following the mediation analysis procedure (Hair et al., 2017), it can be concluded that the perceived firm fairness fully mediates the relationship between customisation and customer loyalty. These results indicate that H4 is supported. Since the direct effect of customisation on customer loyalty is non-significant. In contrast, the indirect effect through perceived firm fairness is significant; it fully mediates the relationship between customisation and customer loyalty.

Table 8
Significance Analysis of the Direct and Indirect Effects

	Direct Effect	95% Confidence Interval of the Direct Effect	t Value (p-value)	Indirect Effect	95% Confidence Interval of the Indirect Effect	t Value (p-value)
Customisation -> Customer Loyalty	0.023	-0.120 – 0.155	0.330 (0.742)	0.523	0.417 – 0.658	8.545** (< 0.0001)

*Note: **Statistically significant at 5%*
Source: Authors' work

Mediation results indicate full mediation: the direct Customisation on Customer loyalty path is non-significant (β = 0.023, p = 0.742), while the indirect effect via Perceived firm fairness is substantial (t = 8.545, p < 0.0001). Thus, customisation contributes to loyalty through fairness perceptions rather than directly, aligning with equity theory expectations of fair treatment in exchanges.

Discussion

Theoretical contributions

Our central finding is simple: customisation builds loyalty only when customers experience it as fair. Customisation lifts perceived fairness; fairness, in turn, drives loyalty. In practice, customisation is not an end in itself; it is a vehicle for fair treatment.

Methodologically, employing systematic random sampling with k = 42 provides a balance between implementation feasibility and statistical rigour. The absence of known periodicity in the client registry reduces the risk of sampling bias, and the two-wave fielding in 2018 mitigates temporal idiosyncrasies. The study's integration of equity theory and social exchange theory provides a robust theoretical foundation to understand these dynamics. Equity theory posits that fairness is assessed based on the balance of inputs and outputs in comparison to others, which directly ties into how customers perceive customised services. When customers perceive customisation efforts as fair, their satisfaction and loyalty increase, aligning with findings from previous research (Oliver, 1999; Nguyen, Klaus, & Simkin, 2014). Conversely, perceptions of unfairness can lead to dissatisfaction and reduced loyalty, supporting the assertions of Huppertz, Arenson, & Evans (1978).

This study significantly advances the understanding of CS in the context of customisation and perceived fairness by demonstrating that ethical business practices, such as equitable customisation, are crucial for fostering customer loyalty. By integrating equity theory and social exchange theory, the research highlights the mediating role of perceived fairness in the relationship between customisation and loyalty, suggesting that fairness perceptions are essential for the success of customisation strategies. This underscores the necessity for firms to adopt fair and transparent customisation practices as part of their CS initiatives, thereby enhancing their ethical image and building stronger, long-term customer relationships. The findings provide empirical evidence that aligns CS principles with customer satisfaction and loyalty, offering valuable insights for businesses seeking to implement socially responsible, customer-centric practices.

Our measurement choices, retaining theoretically central customisation items despite a marginal AVE, were deliberate and transparent, and we document adaptation details to facilitate replication and future refinement.

Managerial implications

Managerial implications follow directly. First, design customisation rules that are transparent, consistently applied, and explainable to customers (what is being tailored, for whom, and why). Second, build guardrails (e.g., fairness checks in pricing, access, and service levels) to prevent favouritism or discrimination. Third, train frontline staff to frame customised offers in fairness terms ("here is how this option matches your inputs/needs"), which reduces misattributions and concerns about inequity. These practices both honour CS principles (Carroll, 1991; Scholl-Grissemann, Stokburger-Sauer, & Teichmann, 2022) and reduce the risk pathways identified in the customisation literature (Nguyen, Klaus, & Simkin, 2014), thereby strengthening reputation and trust over time.

Therefore, in practice, firms should treat fairness as a design criterion rather than a post hoc communication issue. This means that customisation decisions should be documented, auditable, and linked to clearly defined customer-relevant criteria, such as usage patterns, expressed preferences, or service needs. Such an approach reduces the risk that customers interpret tailored offers as arbitrary or preferential. It also helps managers align marketing personalisation with broader corporate sustainability commitments, especially where pricing, access, or service differentiation may affect perceptions of equity and trust.

Limitations and future research

This study has several limitations. First, the cross-sectional design restricts causal inference, so the directionality between customisation, perceived fairness, and loyalty cannot be firmly established. Longitudinal or experimental research would help to strengthen causal claims.

Second, the single-company, card-services setting limits external validity. Loyalty drivers in this industry, such as switching costs and network effects, may not generalise to other sectors or countries. Replication across industries and cultural contexts would improve generalizability.

Third, the low valid response rate (5.28%) raises concerns about potential nonresponse bias. At the same time, the use of self-reported Likert scales from a single source may involve common-method variance despite procedural remedies. Future work should combine surveys with behavioural or transactional data, such as retention or spending records, to reduce such risks.

Fourth, the Customisation construct showed an AVE slightly below the .50 threshold, indicating borderline convergent validity. While composite reliability was acceptable, refinement and testing for measurement invariance across demographic subgroups would strengthen the robustness of the findings.

Finally, the data were collected in 2018 and reflect that period's market and sustainability context. Updated replications could capture changes in customer expectations and firm practices over time.

Future studies should therefore employ longitudinal designs, broaden the industry and country scope, improve response rates, and integrate objective indicators alongside surveys to enhance validity and applicability.

Conclusion

Customisation by itself has little direct effect on loyalty. Its value emerges through perceived fairness: when customers judge tailored treatment as fair, trust grows, and loyalty follows. This aligns with equity and social exchange theories, as well as CS principles, which emphasise transparency and equitable treatment of primary stakeholders.

Managerially, fairness-integrated customisation is both good business and good citizenship: it strengthens relationships, reduces misattributions of favouritism, and supports a credible CS narrative.

From a managerial perspective, the findings provide actionable insights. Firms should prioritise fairness in their customisation practices by ensuring transparent communication, equitable treatment of customers, and constant application of customisation strategies. These measures would not only enhance perceived fairness but also mitigate the risk of negative customer perceptions. As a result, businesses can build trust, improve loyalty, and strengthen their competitive advantage while aligning with CS principles.

Future research directions for this study could include exploring cultural differences in fairness perceptions across various regions to understand how customisation strategies might need to be adapted for different markets. Additionally, conducting longitudinal studies could provide insights into how fairness perceptions evolve and their long-term impact on customer loyalty. Another potential area of investigation is testing the model across different industries to identify sector-specific factors that influence the relationship between customisation, fairness, and loyalty. This could help businesses tailor their strategies more effectively to their specific industry context.

In conclusion, this study reaffirms that fairness-integrated customisation is not just a tool for fostering customer loyalty but also a demonstration of ethical and socially responsible business practices, creating a win-win scenario for businesses and their key stakeholders, customers.

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