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THE SERVICE ENCOUNTER EVALUATION AND
OF THE MAINTENANCE/TERMINATION
DECISION**

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► **To cite this version:**

Isabelle Prim-Allaz. LONG-TERM RELATIONSHIP TERMINATION MODEL: A STUDY OF THE ANTECEDENTS OF THE SERVICE ENCOUNTER EVALUATION AND OF THE MAINTENANCE/TERMINATION DECISION. 12th EMAC Colloquium for Doctoral Students in Marketing, 1999, Berlin, Germany. halshs-00471033

HAL Id: halshs-00471033

<https://shs.hal.science/halshs-00471033>

Submitted on 7 Apr 2010

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12TH EMAC COLLOQUIUM FOR DOCTORAL STUDENTS IN MARKETING
HUMBOLDT UNIVERSITY BERLIN
MAY 9-11, 1999

LONG-TERM RELATIONSHIP TERMINATION MODEL: A STUDY OF THE ANTECEDENTS OF THE
SERVICE ENCOUNTER EVALUATION AND OF THE MAINTENANCE/TERMINATION DECISION

Under the supervision of Professors Bernard Pras (University of Paris-Dauphine, France) and
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DOCTORAL RESEARCH PROJECT ABSTRACT

This paper describes the objectives, the marketing issues, the methodology and the anticipated contribution of our doctoral research. The main focus is on identifying and understanding the antecedents of long term relationship dissolution.

The author wants to thank the FNEGE Foundation for its training (Cefag training program) and its financial support and Joya Stella for her help in reviewing the article.

The essentially social nature of service encounters, a short-term phenomenon, provides occasions in which the buyer and the seller negotiate the terms of their exchange relationship, a long-term phenomenon. Defined as the mutual recognition of special status between exchange partners, exchange relationships insure efficacy for the buyer, as they mitigate market volatility for the seller. Understanding how economic exchange is played out against a background of social exchange can yield interesting insights (Czepiel, 1990). Each purchase decision takes into account not only the immediate cost/benefit analysis but also the history of the relationship and the possible future as well (Dwyer & al. 1987; Macneil, 1980). For this reason, rather than treating each sale as a discrete transaction, companies now focus on building long-term relationships with their customers. As a result, relationship marketing is becoming increasingly important in today's competitive environment.

Despite anecdotes of costly litigation and lingering feelings of betrayal and resentment, relatively little is known about the mechanisms and processes of the dissolution of established relationships (Ping & Dwyer, 1992).

We aim, through this research, to extend the understanding of the dissolution phase (Dwyer, Schurr & Oh, 1987) of long-term buyer-seller relationships. As Dwyer & al. (1987) state, there is a theoretical gap as « *there has been no systematic study of the uncoupling of parties from highly evolved relationships* » (Dwyer, Schurr & Oh, 1987, p. 23). A great number of relationships between organizations reach the advanced stage of interdependence. Thus, the forces that fracture this interdependence are our principal focus in this study.

From a managerial perspective, it has been proven to be less expensive to develop an existing relationship than to create a new one (Reichheld and Sasser, 1990). For this reason, many firms are trying to develop new retention strategies. A better understanding of the antecedents of the dissolution process will help them to develop such strategies.

As more research has been done on consumer behavior, especially by practitioners, we have decided to implement our research into a business context. Until recently, we have been working with a bank -bank X-, which is an important bank in France even though it is not one of the 'big three'. All of the exploratory phase has been conducted with this bank. We are now negotiating with another bank -bank Y-, a smaller one on the French market. This bank is interesting for our study as it has the same profile as the first one on the SME market. As for bank X, we are only interested in its SMEs customers¹.

Literature review

Prices (Voss & *al.*, 1998) and products are widely recognized as the milestone of the consumer's choice and satisfaction (Perrien, Paradis & Bantig, 1995). Competitors², depending on their aggressiveness and on their commercial policies, also play a major role (Miller & Friesen, 1982).

However, because of the intangibility, inseparability and heterogeneity of services, the service encounter is critical to customer satisfaction and evaluation. Service encounters can be considered as moments of « truth » (Fisk & *al.*, 1993). The underlying assumption is that customers' perceptions of service encounters are important elements of customer satisfaction, perception of service quality, and long-term loyalty.

According to marketing literature, the service encounter is a complex phenomenon (a « black box ») which we are trying to analyze in greater detail. Specifically, we have been through different types of literature. Each of them furnishes an interesting point of view about the interaction phenomenon.

1 - The economic literature³ (Williamson, 1975) explains the continuity of relationships in terms of the costs and benefits of staying in the relationship versus leaving it. This type of literature therefore emphasizes switching costs, dependence on the relationship partner, and

¹ We will often speak of "customers". When doing so, we will actually refer to SME representatives.

² We refer here to the bank's competitive environment and not the SME's competitive environment.

³ We refer here to four different and complementary theoretical fields : resource-based theory, transaction cost theory, incomplete contracts theory and convention theory

the attractiveness of alternative partners. Scholars studying long-term relationships, such as Anderson & Narus (1990), use this idea of constraint-based relationship maintenance.

2 - Long-term relationships have also been well documented by **psychologists**⁴. They focus more on the affective responses to a relationship (e.g., Karney & Bradbury, 1995). These authors suggest that affective responses such as satisfaction, identification with a partner, or commitment, influence relationship partners in their decision to stay or leave the relationship.

3 - Marketing literature has developed its own consideration of long-term relationships. It suggests that environmental variables, partner variables, customer variables and interaction variables are the most important factors of customers' receptiveness to relationship maintenance (Bendapudi & Berry, 1997). It also focuses on the fact that some customers have a high relational orientation while others do not. Depending on this personality dimension, customers may have two broad types of reactions to their seller's actions.

The degree of dependence, the communication level (broadly defined as the formal as well as the informal sharing of meaningful and timely information between firms [Anderson and Narus, 1984]), and the level of trust (« *The firm's belief that another company will perform actions that will result in positive outcomes for the firm, as well as not take unexpected actions that would result in negative outcomes for the firm* » [Anderson & Narus, 1986, p.326]) are among the most important interaction variables.

In terms of retaining customers, research shows that service quality (Bitner, 1990; Boulding *et al.*, 1993), relationship quality (Crosby & *al.*, 1990; Crosby & Stephens, 1987), and overall service satisfaction (Cronin & Taylor, 1992) can improve customers' intentions to stay with a firm (Keaveney, 1995).

Another discipline within marketing that also particularly recognizes the importance of relationships is 'service marketing'. The purchase of a service, because of its intangible nature, is perceived to be a process that depends in part upon the interpersonal interaction between the service provider and its customer (Iacobucci & Ostrom, 1996).

Table 1 – Synthesis of the relationship termination antecedents identified by previous research.

Literature	Variables	Authors or theories
Economy	Level of constraint (power, asset specificity and other exit costs)	<i>e.g.</i> , Heide, 1987, Hart & Moore, 1988; Anderson & Narus, 1990
	Environmental uncertainty	<i>e.g.</i> , Pfeffer & Salancik, 1978; Donada, 1998; Gomez, 1997
	Information asymmetry, opportunism and trust	Cf. Transaction costs theory : Williamson 1975, 1985
Psychology	Benefits/costs calculation on: <ul style="list-style-type: none"> • Relationship attributes • Relationship exit barriers • Existence of attractive alternatives 	Social exchange theory: Huston & Burgess, 1979
	Relationship typology: satisfaction and stability are orthogonal dimensions ⁵	Social exchange theory: Lewis & Spanier, 1982; Behavioral theory: Thibaut & Kelley, 1959; Weiss, 1984
	Relationship quality evaluation is influenced by learning from past experiences and present interactions	Behavioral theory
	Satisfaction decline and relationship termination demonstrates a failure in crisis and problem resolution.	Crisis theory: Hill, 1949
Marketing	Bank environment: <ul style="list-style-type: none"> • Heterogeneity • Dynamism • Hostility 	Perrien <i>et al.</i> , 1995; Ricard, 1995; Miller & Friesen, 1982
	Bank characteristics: <ul style="list-style-type: none"> • Policy • Price • Products 	Perrien <i>et al.</i> , 1995; Llosa, 1996; Gensch, 1984
	Customer characteristics: <ul style="list-style-type: none"> • Relational orientation • Level of constraint 	Perrien <i>et al.</i> , 1995; Bendapudi & Berry, 1997; Ping, 1997
	Interaction (service encounter) <ul style="list-style-type: none"> • Communication • Trust • Commitment • Hierarchical level of contact • Relationship length Account manager... <ul style="list-style-type: none"> • Adaptability • Similarity • Competency • Complaints handling 	<i>e.g.</i> , Anderson & Narus, 1990; Mohr & Nevin, 1990; Morgan & Hunt, 1994; Weitz, 1981; Crosby, Evans & Cowles, 1990; Marion, 1997; Gronroos, 1990; Ping, 1997; Anderson & Weitz, 1989

⁴ Cf. The social exchange theory, the behavioral theory, or the crisis theory.

⁵ Which means that the link between satisfaction and loyalty or between dissatisfaction and relationship termination is not linear.

A few research projects are directly concerned with relationship termination. Among the first ones are two studies by Perrien & al. (1991, 1995), which identify three broad categories of relationship termination antecedents:

- Bank characteristics such as the account manager, price, products, degree of centralization, etc.;
- Customers' characteristics such as excessive financial needs, owner departure, etc.;
- Bank competitive environment such as prices, special offers, marketing strategy, etc.

These projects used the Nominal Group Technique and were quite exploratory.

Hocutt (1998), in a conceptual paper, determines the commitment level as the most important variable in the relationship termination decision. According to her, commitment antecedents are: trust, relative dependence, quality of alternatives, social bonds, closeness, duration, investment in the relationship, and satisfaction with the service provider.

4 – With regards to these interaction variables, a **lawyer**, Ian Macneil, has done very interesting work. He decomposes contracts⁶ into 9 common norms. These norms are more or less critical depending on the nature of the relationship (transactional or relational). What is very interesting in his research is that it formalizes a framework to describe the encounter (or interaction) between the seller and the buyer. Such a framework encompasses all the variables that one can find in the marketing, psychological, and economic literature, and provides a clear and precise structure. It permits the study of relationship termination through the breakdown of norms.

Relational-exchange theory uses a broad set of contracting norms to categorize customer/supplier relationships, and focuses directly on the interdependence of exchange partners. The contractual norms that embody the interdependent relationship also set expectations as to the appropriate behavior during conflict situations (Kaufman and Stern, 1992). Without this interdependence, exit or switching behaviors would be costless and conflict would not occur (Hirschman, 1970).

⁶ « By contract I mean no more and no less than the relations among parties to the process of projecting exchange into the future » (Macneil, 1980, p.4).

We distinguish relational norms from transactional norms as shown in the following Table (Table 2). Relational elements are essential to maintaining long-term relationships, whereas transactional elements are necessary for creating a contract, but are less crucial to the overall structure (Macneil, 1980).

Table 2 - Relational and transactional norms

Relational Norms		Transactional Norms	
Norms	Definition	Norms	Definition
role integrity	the parties maintain consistent patterns of behavior (competency, turnover, etc.)	mutuality	both parties gain some benefits from the exchange
communication	the parties develop two-way communication (reciprocal)	planning and consent	they provide for the implementation of planning by binding themselves to some particular action
flexibility	they provide for flexibility	harmonization of conflict	both parties resolve disputes and misunderstandings
solidarity	they have some expectations that the contract will not be broken, especially in the case of customer's economic constraint.	creation and limitation of power	they recognize the legitimacy and limits of power created by their consent
		complaint handling (linking norms)	in case of problems, the party involved in the occurrence of the problem has to repair his/her fault.

Adapted from Macneil (1980) and Paulin *et al.* (1997).

These norms have been used in a few marketing studies (*e.g.*, Kaufman & Stern, 1988; Heide & John, 1992; Paulin & *al.*, 1997). The last study, conducted by Paulin & *al.* (1997), is the only one known by the author that has been conducted on the bank service industry. All this research has adapted Macneil's norms to specific contexts. Nevertheless, a consensus emerges on the importance of three relational norms:

1. flexibility
2. information exchange
3. solidarity

Paulin & *al.* (1997) add a fourth relational norm: role integrity. This last norm has probably not been examined in other studies, mentioned above, since it requires very personal information. It is easier to ask people to discuss about their job, their company, or a business relationship than to talk about themselves. Moreover, because service encounters are true interpersonal encounters, the role integrity norm takes an especially important role in our research.

5 – Different logics of the contribution of the service encounter dimensions to the global evaluation of the relationship:

Herzberg (1966) showed that the factors of workers' satisfaction (motivating factors) may differ from those of dissatisfaction (health factors). Motivating factors are related to what the worker is doing, while health factors are directly related to his working environment.

This research is the foundation of many other studies in marketing. Authors have investigated the asymmetric and nonlinear nature of the relationship between attribute-level performance and satisfaction (Llosa, 1996; Mittal & al., 1998).

According to Mittal & al. (1998), "*consumers are more likely to render their postpurchase experiences of satisfaction at an attribute level rather than at the product level [...]. [Moreover,] an attribute-based approach enables the researcher to conceptualize commonly observed phenomena, such as consumers experiencing mixed feelings toward a product or service (p. 33)*". Mittal's & al. (1998) observations take into account that a consumer can be both satisfied and dissatisfied with different aspects of the same product (or of the same service encounter). An attribute-level approach also provides a higher level of specificity and diagnostic usefulness compared to an overall approach (La Tour & Peat, 1979). For example, SERVQUAL, developed to measure service quality (Parasuraman & al., 1988) is a tool which uses several attributes, despite the fact that such an approach remains a linear one.

Llosa (1996) develops a non-linear approach. She shows that there are four broad categories of attributes depending on their contribution to the satisfaction evaluation. These four categories are defined by two dimensions: (1) the attribute contribution to satisfaction may vary according to the performance on this attribute; (2) the attribute contribution to satisfaction may remain stable independently of the performance of this attribute. Her theory can be summarized as follows (Table 3):

Table 3 – Attribute contribution to satisfaction (Llosa, 1996)

Attribute contribution to satisfaction in a positive performance case	High	“plus”	“key”
	Low	“secondary”	“basic”
		L Low	High
		Attribute contribution to satisfaction in a negative performance case	

These approaches are interesting since they allow a better analysis of the satisfaction evaluation process. However, they may not be sufficient. Indeed, they consider that all the customers have the same evaluation process. At the very least, it would be interesting to investigate the differences between transactional and relational customers.

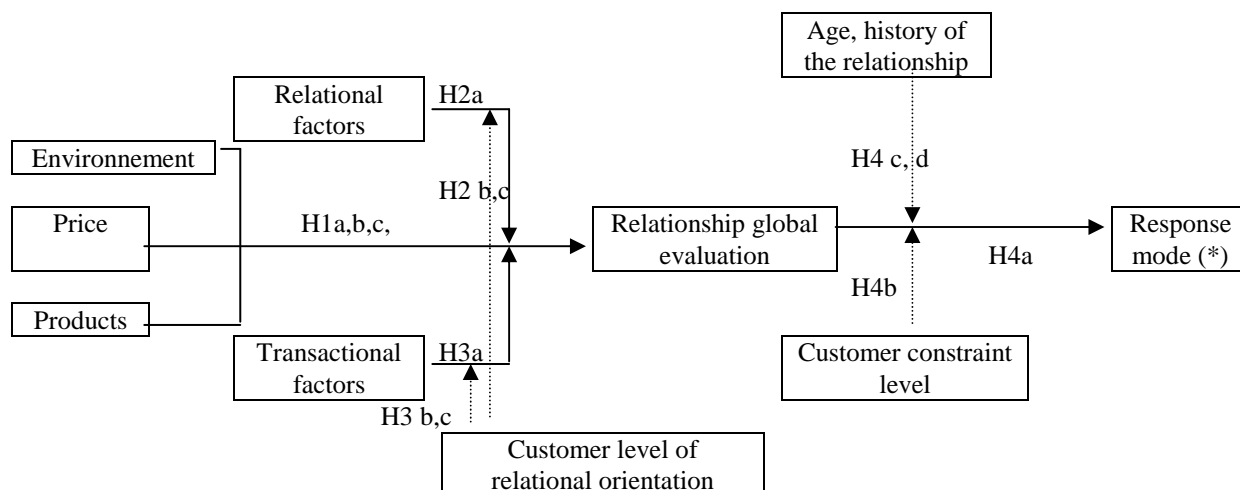
Understanding long-term relationship termination

From the literature review we are able to construct a theoretical model (it must be specified that the model has been modified after the exploratory study). The following model shows that there are three major antecedents to relationship maintenance or termination decision (environment, prices, and products). These « key » variables (Llosa, 1996) have a direct impact on the decision of relationship maintenance or termination. There can be another possibility which is increasing the number of suppliers (especially when the customer is in a constraint-based relationship).

The service encounter is decomposed, following Macneil’s framework into two subcategories: the relational characteristics and the transactional ones. The impact of the evaluation of these dimensions of the service encounter is moderated by the relational orientation of the SME representative.

The impact of the « key » variables can be moderated (or mediated) by the service encounter evaluation. Depending on his/her level of relational orientation, the customer will base his/her evaluation on the transactional or on the relational characteristics (as defined by Macneil’s work) of the service encounter.

Figure 1 - Relationship termination model



(*) Exit, loyalty or additional bank

Hypothesis

Table 4 - Hypotheses

P1		KEY VARIABLES
	H1a	The bank competitive environment is a "key" variable (<i>i.e.</i> , it is always a determining factor) in the customer evaluation of its relationship with the bank
	H1b	The level of prices is a "key" variable (<i>i.e.</i> , it is always a determining factor) in the customer evaluation of its relationship with the bank
	H1c	The product portfolio is a "key" variable (<i>i.e.</i> , it is always a determining factor) in the customer evaluation of its relationship with the bank
P2		RELATIONAL FACTORS
	H2a	The relational factors global evaluation has a moderating effect on the relationship global evaluation
	H2b	The greater the relational orientation, the more the moderating effect of the relational factors global evaluation (compared to the transactional factors moderating effect)
	H2c	For high relational oriented customers, relational factors are "plus" factors
P3		TRANSACTIONAL FACTORS
	H3a	The transactional factors global evaluation has a moderating effect on the relationship global evaluation
	H3b	The lesser the relational orientation, the more the moderating effect of the transactional factors global evaluation (compared to the relational factors moderating effect)
	H3c	For low-level relational oriented customers, transactional factors are "basic" factors
P4		RESPONSE MODE
	H4a	The relationship global evaluation has an impact on the response mode used by customers
	H4b	The response mode (termination or opening accounts at other banks), when the relationship global evaluation is negative, depends on the customer constraint degree
	H4c	The response mode (termination or opening accounts at other banks), when the relationship global evaluation is negative, depends on the age of the relationship
	H4d	The response mode (termination or opening accounts at other banks), when the relationship global evaluation is negative, depends on the relationship history

Methodology

All the variables we will need to measure are shown in the appendix as well as samples of items that will be used for the measurement. We will also mention a few references that have been useful in developing our questionnaire.

Exploratory research

A qualitative phase has been conducted. Twenty-six in-depth interviews were recorded and analyzed (13 SMEs and their bank account managers). The results were very interesting since they provided evidence for the conceptual framework and helped to improve it. These results helped to develop research hypotheses. They also provided good support for the use of Macneil's norms as a framework in analyzing the service encounter. Last, but not least, this dyadic study allowed some propositions on the bank account managers' perceptions of the relationship and the identification of systematic biases in these perceptions. This part of the exploratory research will not be used in the main field experimentation but it will be useful in the recommendations, which will be given to the bank, and in the analysis of the final results.

Main field experimentation

Firstly, we wanted to experiment a triadic methodology, interviewing 20 SMEs managers who would have closed their bank account, 20 others (chosen by pair with the first category) who would have remained patronizing the bank, and the bank account managers of these SMEs. This would have allowed us to discriminate between the two categories of firms and to better analyze systematic biases of perception of the bank accounts managers. Unfortunately, it has not been possible to find a partner for this type of work. Therefore, we will implement only the second phase of our primary methodology.

The second phase of the following description. We would like to administrate in a face-to face interview a questionnaire to about 600 SMEs. Among these 600 SMEs, one half will be newcomers (i.e., they will have opened their account less than 18 months ago) in the bank Y. They will be questioned on a former bank (either one they have left or one which made them open an additional bank account in bank Y). Following Morgan & Hunt (1994) who say that "*just as healthy and sick individuals must be studied to understand a pathology,*" we will

study different kinds of customers: loyal or non loyal and non relational and non constrained⁷, relational and constrained, relational and non constrained, non relational and constrained (even though we will focus our attention on relational customers). The other half will be constituted by SMEs which are considered as loyal customers by bank Y (*i.e.*, they will be client of the bank for more than two years and they will give a significant part of their activity to our bank. This phase should allow us to reach more general results on the impact of the different antecedents on the decision to repatronize.

The face-to-face interviews should be a better solution than mailing since the questionnaire might be too long. At present, it consists of about ten pages. One problem we have to solve is the pretest of the questionnaire. The access to the research field is tremendously difficult. We have used experts' reviews of the questionnaire. A person in charge of marketing issues in bank X has reviewed the questionnaire. A focus group has been held with two former SME account managers and with two former SME representatives. Two additional individual interviews were conducted with a SME representative and an academic expert. We have also asked to three other persons to fill out the questionnaire. The questionnaire should be administered in June.

Our methodology, however, has an certain limits. In order to get a significant sample of terminated relationships, we have to question bank Y's new customers about a former relationship. This means that we will have some heterogeneity in the banks the customers will talk about. We lose however a control mean with this sample. Up until now, it has not been possible to find a better solution. (All suggestions are welcome!)

The issue of statistical analysis has not been definitely set up. In a first time, a factor analysis would be useful in order to check the actual number of service encounter dimensions. The number may be reduced through the use of this technique. None of the articles (using Macneil's norms) known by the author reports this kind of statistical analysis. But a problem we may have is that the variables used to define the service encounter will not be independent from each other. We will also check how many dimensions the relational orientation has, and we will select the best items (from 8 or 12 at the origin) in order to get an operational scale. Then, we will probably use a discriminant analysis.

⁷ "Constrained" means that exit costs (economic or psychological costs) are high.

As noticed by Dwyer & al. (1987), there is a need for a better understanding of the antecedents of long term relationship termination. In our research, we propose to study the impact of a moderator, the service encounter, on the evaluation made by the customer and on his/her decision to stay or leave the relationship. We aim to demonstrate that developing a good relationship can increase the exit barriers. Through this research, we will increase knowledge about the understanding of the whole relationship life cycle. We will also contribute to training bank account managers in order to help them to better forecast relationship termination and to provide them with tools to consolidate fragile relationships.

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Appendix

Variables will be measured on a 4-point Likert scale. For most of the questions, the customer will have to evaluate the performance of the bank on its attributes or his degree of agreement and the importance he gives to the attribute.

When we did not find scales in the literature we developed new items, generated from the exploratory phase. Translation of North American scales into French ones was problematic. Cultural differences made it impossible to use several questions. The items related to trust were a good example of this problem.

For example:



Two questionnaires will be developed: one for bank Y newcomers (they will talk about a former bank - we have to find a way to develop a questionnaire that can fit two

different situations: relationship termination or additional bank account opening, otherwise we will need three questionnaires); and one for loyal customers. Both questionnaires will be identical with regards to the variables measured and the formulation of question. Additionally, for the newcomers, we will study the reasons for the choice of bank Y.

Table 5 - Measurement of our different constructs

Constructs	Variable	Authors	Item ex.	Comments
Service encounter				
Solidarity	Trust	Dwyer & Oh, 1987	I can count on the account manager to be sincere	
	Crisis solidarity	Paulin, 1998		
	Development Solidarity	Paulin, 1998, Schul, 1987	The bank is highly interested in the welfare of its customers	
Communication	Frequency Two-way communication	Mohr & Nevin, 1990, 1996 ⁸	How much feedback do you provide to this banker about their products, market conditions, etc.	
Integrity	Similarity Autonomy Competency Turnover Knowledge of the customer and of his situation	Ricard, 1995 Dewar & Werbel, 1979	Most of the decisions made by the salesmen in this branch have to have a superior's approval.	
Flexibility	Formalism Account manager adaptative selling Quickness Availability	Spiro & Weitz, 1990 ⁹	My account manager is very sensitive to the needs of his customers	
Planning and consent				
Mutuality				
Power				
Complaint handling				
Other variables				
Customer's relational orientation	Affective <i>versus</i> Functional Long-term <i>versus</i> Short-term	Ricard (1995)	Age of the relationship, number of service purchased and two items on the importance that the customer gives to the relationship	
Other customer's characteristics				

⁸ Only two of their four dimensions are retained here. The formalism dimension will be included in the flexibility norm, and the "non coercive influence attempts" dimension has not succeeded during the pretest phase.

⁹ We only keep two dimensions: (1) the recognition that different sales approaches are needed for different customers; (2) the collection of information to facilitate adaptation.

Degree of constraint	<ul style="list-style-type: none"> • lack of alternatives • specific investments • attachment 			
Bank customer orientation ¹⁰		Narver & Slater, 1990		Only 4 items (6 in the original scale)
Prices		Burke, 1984		
Products		Burke, 1984		
Bank competitive environment				
Age	Age		How long have you been with this bank? When did you open your account?	
History				
Global satisfaction	Cognitive, affective and conative dimensions	Dwyer & Oh, 1987; Llosa, 1996 Ricard, 1995	In general, I am pretty satisfied with my relationship with the manufacturer What is the probability that you continue doing business with this bank in two years	
Service quality				
Relationship quality				
Mode of response				

* (x) y means that there was originally x items in the scale and that we have kept only y of them.

¹⁰ We also measure, as bank characteristics, the reputation of the bank, the customer's perception of its policy, its proximity and the convenience of its office opening hours .