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Venkata K. Yanamandram
University of Wollongong, venkaty@uow.edu.au

L. White
Macquarie University

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Keywords

Switching costs, behavioural loyalty, dissatisfied customers

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Exploring the Switching Costs-Behavioural Loyalty Relationship amongst Dissatisfied Customers in the B2B Services Sector

Venkata Yanamandram, University of Wollongong, Australia
&
Lesley White, MGSM, Macquarie University, Australia.

Abstract

This paper presents a research model to explore the mediating effects of dependence and commitment on the relationship between switching costs and behavioural loyalty, and the moderating role of criticality of purchase in the relationship between dependence and commitment in the B2B services sector. While studies have recognised the mediating role of dependence and commitment on relational intentions, there is no research identified that investigates mediating or moderating roles under conditions of dissatisfaction in the B2B services sector. We attempt to fill this knowledge gap by contributing to a better understanding of how customer loyalty towards service providers is formed under a troubled or dysfunctional relationship.

Introduction

Just as satisfied customers are not necessarily loyal (Rowley and Dawes 2000), dissatisfied customers do not always exit (Day 1984; Hirschman 1970). Customer dissatisfaction diminishes an organisation's customer base, forces the firm to rely on a more volatile customer mix, and erodes the firm's reputation (Levesque and McDougall 1996), and this is particularly true in service industries, where customer dissatisfaction is a significant problem (Fornell 1992; Singh 1990). Studies have shown that customers are dissatisfied with the relationship they have with their service providers (e.g. Colgate and Lang 2001; Colgate and Norris 2001; Gronhaug and Gilly 1991; White and Yanamandram 2004). How customers react to dissatisfaction is of central importance to marketing managers (Richins 1987). While some customers take no action at all when dissatisfied, others may take action such as complaining directly to the provider about the service or switch brands or suppliers (Richins 1987). Ultimately, the actions the buyer chooses to take and how the supplier reacts to this dissatisfaction can influence future purchases and is of critical importance to a service provider's ability to retain that customer (Singh 1988).

Literature in business-to-business (B2B) marketing suggests that a relationship may continue to exist due to the buyer's perceptions of high switching costs (Porter 1980) even if the relationship is not a satisfactory one. Caves and Porter (1977) posit that even proactive, rational managers resist changing unsatisfactory practices because the cost or difficulty of switching to a better practice is prohibitive. A number of scholars have conducted empirical studies in consumer markets (Aydin and Ozer 2005; Caruana 2004; Gronhaug and Gilly 1991; Lee and Cunningham 2001; Patterson and Smith 2003) as well as in business markets (Lam *et. al.* 2004; Nielson 1996; Sengupta, Krapfel and Pusateri 1997; Wathne, Biong and Heide 2001) on the direct effect of switching costs on loyalty or repurchase intentions.

However, limited attempts have been made to investigate either mediating or moderating relationships in a B2B setting (Lam *et. al.* 2004; Wangenheim 2003). Mediating variables between certain antecedents and behavioural outcomes can explain what drives a loyal customer in managing a stable, though unsatisfying customer relationship (Wiener 1982; Zins 2001). Similarly, moderating variables have potential managerial significance for prioritisation of customer groups. Accordingly, the objective of the study is to explore the mediating effects of

dependence and commitment on the relationship between switching costs and behavioural loyalty, and the moderating role of criticality of purchase in the relationship between dependence and commitment in the B2B services sector.

Further, while the literature recognises the mediating role of dependence and commitment on relational intentions (e.g. Geyskens et. al. 1996; Wetzels, Ruyter and Birgelen 1998), there is no research yet known that investigates mediating or moderating roles under a dissatisfactory condition, especially in the B2B services sector. We therefore attempt to contribute to a better understanding of how customer loyalty towards service providers is formed under a troubled or a dysfunctional relationship. The fastest growth in services marketing is in business markets (Brown 2002), making this a valuable area of investigation.

Given the long-term nature of business relationships, we propose that the measure used to assess customer dissatisfaction should capture attitudes to long term service provision rather than to one off service encounters. Research has validated a multi-dimensional measure of B2B satisfaction/dissatisfaction (e.g. Homburg and Rudolph, 2001). We propose that the measurement of dissatisfaction be conducted at two levels: overall dissatisfaction, and dissatisfaction with specific aspects of the service provider, namely service features, service-related information, customer service, purchase-order handling, complaint-handling, and interaction with their salespeople. Items are adapted from Homburg and Rudolph (2002) who developed a valid scale for measuring B2B dissatisfaction/satisfaction.

This conceptual paper is organised as follows: First, a research model consisting of five key constructs, namely switching costs, dependence, calculative commitment, behavioural loyalty and criticality of purchase is presented in figure 1. The paper then discusses these key constructs, along with proposed measures to be adopted to investigate the model. This is followed by a discussion on the relationship between the key constructs, and the proposal of six key propositions.

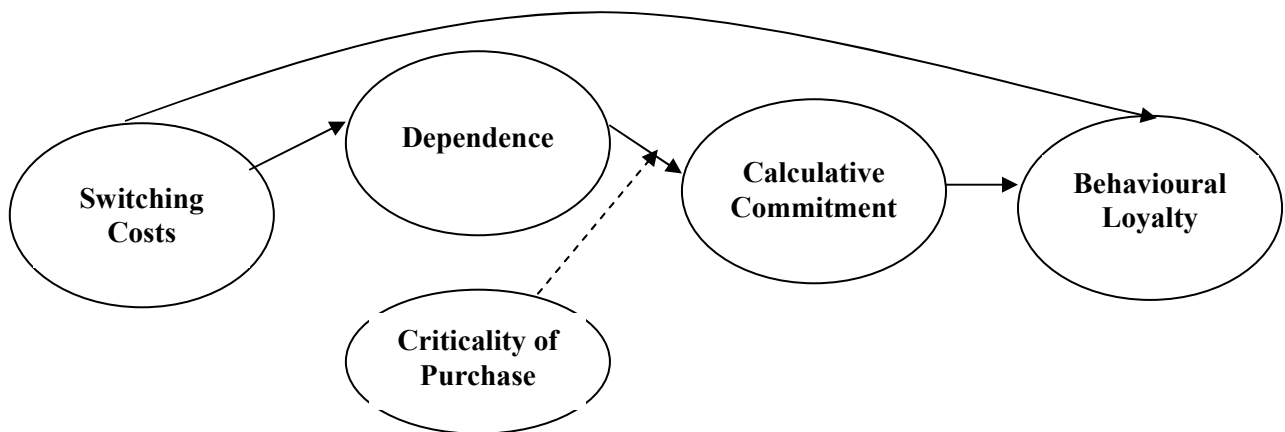


Figure 1 Conceptual model of behavioural loyalty amongst dissatisfied customers.

Discussion of Key Constructs

Switching Costs

Switching costs refer to the buyer's perceived costs of switching from the existing to a new supplier (Heide and Weiss 1995; Jackson 1985; Porter 1980). These include the cost of changing services in terms of time, monetary and psychological expenditure (Dick and Basu 1994). To

effectively manage switching costs, firms must distinguish and understand the various types of costs that customers perceive. Distinguishing the various switching cost dimensions both conceptually and empirically should be beneficial for two reasons. First, different dimensions of switching costs are likely to be differentially related to certain consequences in ways that are both theoretically and practically important (Jones, Mothersbaugh and Beatty 2002). Second, different strategies are likely to be necessary to effectively manage different switching cost dimensions as part of a company's overall retention program (Jones, Mothersbaugh and Beatty 2002). Jones, Mothersbaugh and Beatty (2002) and Burnham, Frels and Mahajan (2003) in separate studies, developed and validated a multidimensional scale, however, those dimensions were studied in a consumer context. For this study, items for each switching cost dimension were borrowed from the above two studies; followed by inclusion of items resultant from our qualitative study (Yanamandram and White 2006), then modified for review by an expert panel in order to test face validity, and finally pre-tested with representatives of the population of interest for assessment of substantive validity. The resultant domain of switching costs includes (i) benefit loss costs (Burnham, Frels and Mahajan 2003; Guiltinan 1989) (ii) uncertainty costs (Guiltinan 1989) (iii) personal risk (Newall 1977) (iv) company risk (Newall 1977) (v) pre-switching search and evaluation costs (Jones, Mothersbaugh and Beatty 2002) (vi) set-up costs (Jones, Mothersbaugh and Beatty 2002; Patterson and Smith 2003) (vii) post-switching behavioural and cognitive costs (Jones, Mothersbaugh and Beatty 2002) and (viii) contractual and reciprocal purchase arrangements (Jarvis and Wilcox 1977). Each of these costs is described below:

Benefit loss costs: Continued patronage of a service provider often leads to the accrual of benefits and special treatment that are lost if the relationship is terminated and thus represent disincentives to switching (Guiltinan, 1989; Turnball and Wilson 1989). These costs are discussed under various terms such as loss of special treatment (Patterson and Smith 2003) and loss performance costs (Jones, Mothersbaugh and Beatty 2002). Our qualitative study also indicated that some service providers offer recognition programs or incentives for the employees of the customer firm, and they would lose those benefits if they switched to a new service provider.

Uncertainty costs: A cost associated with failure to continue an existing relationship is the psychological uncertainty surrounding the performance of an unknown or untested service provider (Guiltinan 1989). Thus uncertainty costs should be prominent in services, given their intangibility and heterogeneity.

Personal and Company risk: Perceived risk is a significant element in industrial buying decisions (Cox 1967). Bozzo (2002) asserts that a customer repeats the same buying behaviour in order to reduce the perceived risk linked to a bad choice. However, perceived risk is more complicated in business markets than in consumer markets because it not only contains consequences for the purchaser, but also for the company. Two types of perceived risk seem to be particularly applicable in organisational buying: personal risk and company risk (Newall 1977). Personal risk is concerned with buyer's fears of being held responsible for a decision which could prove to be unsatisfactory (Newall 1977). Company risk is the extent to which the company can tolerate risk and is dependent upon the size of the company and financial standing.

Pre-switching Search and Evaluation costs: These costs represent customer perceptions of the time and effort involved in seeking out information about available alternatives and evaluating their viability prior to switching.

Set up costs: When customisation is high, as is often true in services, there is additional learning, namely service-provider learning (Jones et. al. 2002). Set up costs are the time and effort associated with the process of initiating a relationship with a new provider or setting up a new service for initial use (e.g. installing and configuring software) (Guiltinan 1989). Moreover, a factor related to transaction costs is a service provider's specific knowledge about individual customers' idiosyncrasies and their needs and wants (Williamson 1979; Lee and Cunningham 2001). This view is parallel to the views of Patterson and Smith (2003) who state in their study that some customers were concerned about having to explain their idiosyncratic preferences all over again to a new provider when they switch. Hence, this customer perception of the time involved and inconvenience required to train and/or educate a new service provider is considered another set up cost. Further, the qualitative research indicated that businesses also worry about the impact switching have on their employees and customers (buying firm's customers) during the process of setting up a new service.

Post-switching Behavioural and Cognitive costs: Learning occurring after switching is particularly true of services since customers generally play an integral role in service routines and procedures (Heskett et. al. 1990). Customer perceptions of the time and effort needed to acquire and adapt to the new procedures and routines are referred to as post-switching behavioural and cognitive costs (Jones, Mothersbaugh and Beatty 2002).

Contractual and Reciprocity arrangements: These costs eliminate freedom of choice in a buying situation and describe arrangements between a buyer and seller that ensure that all orders are placed with a particular service provider for some mutually agreed period of time.

Dependence

Extending concepts from interdependence theory (e.g. Thibaut and Kelley 1959), the decision to remain in a given relationship is strongly related to the degree of dependence on that relationship. A company's dependence on a partner is defined as the extent to which a target firm needs the source firm to achieve its goals (Frazier 1983; Gassenheimer, Houston and Davis 1998). So, the target firm has little choice but to maintain the relationship with the source firm (Frazier 1983). According to Stanley and Markman (1992), dependency in the relationship is referred to as constraint-based relationship maintenance because of the asymmetry in a relationship between two partners. Much of the literature on dependence has been discussed in the context of a marketing channel relationship (vendor-retailer, manufacturer-distributor) (Ganesan 1994; Heide and John 1988). Heide and John (1988) indicate the dependence of a retailer on a vendor can be increased by four means. Firstly, when outcomes obtained by the retailer from the vendor are important and highly valued and the magnitude of the exchange is high. Thus, a firm is considered more dependent on its vendor when that vendor provides a large fraction of its business. Several authors have used this notion of magnitude and/or importance of exchange to describe dependence (e.g. Dickson, 1983; Etgar, 1976; Pfeffer and Salancik, 1978). Secondly, when outcomes obtained by the retailer exceed outcomes available to the retailer from the best alternative vendor. This notion of role performance and/or comparison of outcome levels has been used as the basis of dependence in the past (e.g. Frazier, 1983). Third, dependence is increased when fewer alternative sources of exchange are available to the focal party. A number of studies have capitalised on the notion of the concentration of exchange by measuring the number of exchange partners (e.g. Pfeffer and Salancik, 1978 and/or the fraction of business done with the particular partner (e.g. Dickson, 1983; Etgar, 1976). Fourth, dependence is increased when fewer potential alternative sources of exchange are available. The presence of potential exchange possibilities is assessed by examining the difficulty involved in replacing the incumbent exchange partner. When replacing an exchange partner is difficult, the

potential alternatives are few and dependence is increased. Heide and John's (1988) measure of dependence is proposed to be adopted for our study.

Criticality of Purchase

The importance or criticality of purchase has been defined as the "perceived impact of a purchase on organisational profitability and productivity" (McQuiston 1989, p. 70). Bunn (1993) defines criticality in terms of product importance as 'the buyer's perception of the significance of the buying decision and/or the potential impact of the purchase on the functioning of the firm' (p.43). Alternatively, Johnston and Bonoma (1981) conceptualise this construct in terms of the relative importance of the purchase to others of a similar type.

Calculative Commitment

Since commitment plays a central role in continuity of relationships (Wetzels, Ruyter and Birgelen 1998), and as commitment is the most advanced phase of partners' interdependence (Scanzoni 1979), the phenomena of 'why customers are motivated to stay' could be explained using the behavioural component of commitment referred to as calculative commitment (Geyskens et. al. 1996; Gilliland and Bello 2002). It is the state of attachment to a partner cognitively experienced as a realisation of the benefits sacrificed and losses incurred if the relationship were to end (Geyskens et. al. 1996; Kumar et. al. 1994). Relations that are based on calculative commitment continue on a cost-benefit basis.

Geyskens et. al. (1996) explain the distinction between calculative commitment and dependence: "whereas dependence measures structural elements that bind the firm to the partner, calculative commitment measures to what extent the firm's attachment is based on structural ties" (p. 305). That is, calculative commitment measures to what extent the firm's *motivation* to continue the relationships with that partner is based on these structural ties (Geyskens et. al. 1996). Hence, while dependence and commitment are related constructs, and both variables are likely to be associated with stay-leave decisions, they are not synonymous, and dependence is not intended to as a substitute for the commitment construct (Drigotas and Rusbult 1992). While both calculative commitment and affective commitment are psychological states, they arise from different motivations for maintaining a relationship. The motivation to continue a troubled business relationship is "negative" as compared with the "positive motivation" underlying affective commitment (Geyskens et. al., 1996). As dissatisfied customers are not likely to show affective commitment, only calculative commitment is proposed to be measured in our study.

The high sacrifice scale of Meyer and Allen (1984) seems to represent a business customer's attachment to a service provider cognitively experienced as recognition of the sacrificed benefits and incurred losses if the relationship were to end. Our reasoning is based on Gilliland and Bello (2002) and McGee and Ford (1987), who have suggested that previous work on calculative commitment has confused the measurement of lack of alternatives with the notion of sacrifice and that a sacrifice-based approach more closely parallels the investment-based view of commitment, as described originally by Becker (1960).

Behavioural Loyalty

Customers may demonstrate their loyalty in any one of a number of ways; they may choose to stay with a service provider, whether this continuance is defined as a relationship or not. Uncles et. al. (2003) identify a contingency approach to conceptualising loyalty and argue that an

attitude towards a brand may provide only a weak prediction of whether or not a brand will be bought on the next purchase occasion because any number of factors may co-determine which brand(s) are deemed to be desirable. Our views parallel the views held by Uncles et. al. stated above; this research therefore views loyalty in terms of expressed behaviour.

In our study, behavioural loyalty is viewed as a temporal construct to include (i) tendency to repeat purchase, (ii) patterns in repeat purchasing (number and frequency of purchase orders placed), (iii) the tendency to increase or reduce the number of service providers used (in-suppliers) and (iv) the proportion of total purchases from a given service provider before and after dissatisfaction. In other words, behavioural loyalty is measured as a unique combination of behavioural indicators in a B2B environment, as suggested by Morris and Holman (1988).

Relationships between Key Constructs

Seven propositions are proposed to explain the relationships between the key constructs.

Switching Costs and Behavioural Loyalty. According to Dwyer et. al. (1987) and Heide and Weiss (1995), a customer will be motivated to stay in existing relationships to economise on switching costs, such as transaction-specific investments that the customers has made on the relationships. These investments constitute a significant barrier to moving to other service providers when a customer is dissatisfied with the services of a provider. Consistent with these arguments, Heide and Weiss (1995) found that for the purchase of computer workstations, organisational buyers are less likely in both the consideration and choice stages to consider or select new suppliers than current suppliers. Ping (1993) provided empirical support for the influence of switching costs on retailer-supplier loyalty. On the basis of the foregoing arguments and evidence, we advance the following proposition:

Proposition 1a: Each switching cost dimension has a positive effect on behavioural loyalty.

Switching Costs and Dependence. Dependence is the expectation that considerable costs would be involved to replace an incumbent supplier (Heide and John, 1988; Morgan and Hunt, 1994). Given the switching costs entailed in specific asset investments, it can be expected that a business customer that has invested specific assets in a service provider will experience dependence on that service provider. Consistent with this argument, prior research has found a positive relationship between asset specificity and dependence (Ganesan 1994; John and Weitz, 1989). Other researchers (Lam et. al. 2004; Nielson 1996) who have conducted empirical studies in this area have argued that switching costs reflect dependence on the service provider. This reasoning and associated evidence lead to the following proposition:

Proposition 1b: Each switching cost dimension has a positive effect on dependence.

Dependence and Calculative Commitment. An organisation's dependence on another organisation is regarded as an important antecedent to its relationship commitment (Venetis and Ghauri 2004). That is, commitment can be formed when one party perceives dependence on the other party to the exchange (Heide and John 1992). As dependence increases, the dependent organisation will find itself in an increasingly vulnerable position, and it could be argued that the dependent firm is more likely to continue the relationship because it seems necessary given the losses involved in terminating the relationship. This is because when customers feel trapped in a relationship, it becomes difficult for them to switch suppliers (Anderson and Weitz 1992; Gundlach, Achrol and Mentzer 1995). This concept is related to the inter-dependency of the

parties in the relationship and is similar to the power-dependence and transaction cost theories that are used in channel marketing research.

There is a body of research on the effects of dependence-based commitment. While Geyskens et. al. (1996) and Gilliland and Bello (2002) found a positive correlation between dependence and calculative commitment in an industrial goods channel context, Wetzels, Ruyter and Birgelen (1998) found a positive correlation in business service relationships. This leads us to advance the following proposition:

Proposition 2: There is a positive relation between dependence and calculative commitment.

Calculative Commitment and Behavioural Loyalty: Commitment can be viewed as mechanisms through which behavioural outcomes are maintained (Wilson and Mummalaneni 1986). Further, the importance of the possible integration of the concept of commitment in loyalty studies has been emphasised by Zins (2001), who states, “it seems that the essential theoretical advancement emerged by introducing the...calculative commitment construct into the marketing literature lies in the more transparent demonstration of how cognitive...antecedents may interfere with future loyal or disloyal behaviour” (p.271). From this perspective, it does not make sense to exchange the loyalty notion with the commitment notion (Samuelson and Sandvik 1997). Fullerton (2003) asserts that customer commitment to a service provider would be a very important driver of customer loyalty in service industries.

Literature on marketing relationships in consumer markets has generally identified a positive effect of dependence-based commitment on customer retention (Fournier, Dobscha and Mick 1998; Fullerton 2003). In business service relationships, Wetzels, Ruyter and Birgelen (1998) found a positive correlation between calculative commitment and intention to stay; actual behaviour such as repeat buying behaviour was not included. However, they strongly emphasise that repeat purchasing behaviour should be studied to obtain a complete picture on the role of commitment. This being said, Gounaris (2005) did not find a positive correlation between calculative commitment and intention to stay in a B2B service context. This reasoning and associated evidence lead to the following proposition:

Proposition 3: Calculative commitment to the service firm has a positive effect on behavioural loyalty.

Moderating Effect of Criticality of Purchase: It is expected that criticality (importance) of purchase moderates the impact of dependence on calculative commitment. Although there is a body of research on the positive effects of dependence on calculative commitment, we argue that this may not be true amongst all dependent customers. That is, all dependent customers would not be calculatively committed to their service providers. When service failures arise under conditions when the purchase occasion is more important or critical to the customer, a customer’s cognitive evaluation of the instrumental worth of a continued relationship is posited to vary from when the purchase occasion is less important; however, the effect of decision importance is thought to be ambiguous. On one hand, increases in decision importance may be expected to decrease the probability that an existing vendor will be chosen, with all else being equal. Under such conditions, business decision makers might justify the processing costs associated with utilising new vendor information by switching vendors and may also perceive greater opportunity costs of staying with existing vendors (Schmalensee, 1982). Further, they will think the quality or “goodness” of their choice more often and will observe purchase outcomes more carefully than in low-importance cases (Wangenheim, 2003), which in turn makes it more likely that they will compare even small benefits and losses.

There is an alternative explanation for the comparison of small benefits and losses when purchase importance is high. McQuiston (1989) showed that the greater the perceived impact of the purchase, the greater the perceived risk of the decision for the individual participants in the buyer centre as well as to the organisation as a whole. When buying decisions are associated with perceived risk, customers engage in more cognitive processing (Richins and Bloch, 1986). When purchase decisions are made under high cognitive control, customers are more likely to detect differences between actual and perceived quality and may even tend to exaggerate them – a process referred to as contrasting (Hovland et. al., 1957). Comparison of even the minor benefits and losses are likely to be perceived as more critical when purchase importance is high; in such an instance, the motivation to terminate an unsatisfactory relationship will be high. In other words, when purchase importance is high, dissatisfied customers who have been dependent on their service providers are not likely to be calculatively committed. This leads us to posit the following proposition:

Proposition 4a: The strength of the positive relationship between dependence and calculative commitment is weaker when perceived purchase importance is high.

However, it is also likely that for more important decisions, buyers will tend to protect themselves by staying with an existing vendor. This is because the greater the perceived impact of the purchase, the greater the perceived risk of the decision for the individual participants (McQuiston, 1989), and hence the risk of an incorrect decision can cause repeat purchase behaviour for highly important purchase decisions (Jarvis and Wilcox, 1977). This reasoning leads to the following competing proposition to proposition 4a:

Proposition 4b: The strength of the positive relationship between dependence and calculative commitment is stronger when perceived purchase importance is high.

Jarvis and Wilcox (1977) on the other hand, suggest that time and energy costs give rise to repeat purchase behaviour for low importance purchases. Heide and Weise's (1995) mixed results in their study on the effects of purchase importance provides further reasoning. While their results confirmed that decision importance has a significant and negative effect on buyer's tendency to use a closed consideration set, they found no significant effect on switching behaviour, suggesting that importance influences a buyer's process, or information acquisition strategy, but may be unrelated to the final outcome or commitment decision. The foregoing discussion leads us to our next proposition:

Proposition 4c: The positive relationship between dependence and calculative commitment is weaker when perceived purchase importance is low.

Implications

This study is the first, to the researchers' knowledge, to investigate the switching costs-behavioural loyalty relationship amongst dissatisfied customers in a B-to-B services context. The next stage of program is to undertake empirical work necessary to draw conclusions. Given that different industries may exhibit different characteristics with respect to this model, it is recommended that it be tested across a range of industries.

An understanding of why "at risk" customers stay could help to determine to what extent such firms can further discourage such customers from leaving in both positive and negative ways. For those service firms that are attempting to attract competitors' prospective switchers, an

understanding of why they do not switch is important, as it will enable them to develop strategies to overcome these switching barriers and gain market share.

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