

The Impact of Customer Satisfaction and Relationship Quality on Customer Retention: A Critical Reassessment and Model Development

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ABSTRACT

Customer satisfaction with a company's products or services is often seen as the key to a company's success and long-term competitiveness. In the context of relationship marketing, customer satisfaction is often viewed as a central determinant of customer retention. However, the few empirical investigations in this area indicate that a direct relationship between these constructs is weak or even nonexistent. The overall purpose of this article is to develop a conceptual foundation for investigating the customer retention process, with the use of the concepts of customer satisfaction and relationship quality. The article involves a critical examination of the satisfaction-retention relationship, and the development of a more comprehensive view of the customer's quality perception. ©1997 John Wiley & Sons, Inc.

Instincts aside, do you have any rational proof that satisfying customers is worth the effort, and, in fact, pays off? (Kordick, 1988, p. 3)

THE LINK BETWEEN CUSTOMER SATISFACTION AND CUSTOMER RETENTION

For more than two decades, customer satisfaction has been an intensively discussed subject in the areas of consumer and marketing research. Since the mid-1970s annual conferences have been held on customer satisfaction (e.g., Hunt, 1977), with proceedings being published since 1981 in the *Journal of Customer Satisfaction, Dissatisfaction and Complaining Behavior*. During the past two decades, more than 1200 articles have been published in the area of customer satisfaction research (Perkins, 1991; Wilkie, 1990).

In recent times, customer satisfaction has gained new attention within the context of the paradigm shift from transactional marketing to relationship marketing (Grönroos, 1994; Sheth & Parvatiyar, 1994), which refers "to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges" (Morgan & Hunt, 1994, p. 22). In numerous publications, satisfaction has been treated as the necessary premise for the retention of customers, and therefore has moved to the forefront of relational marketing approaches (Rust & Zahorik, 1993). Kotler sums this up when he states: "The key to customer retention is *customer satisfaction*" (Kotler, 1994, p. 20). Consequently, customer satisfaction has developed extensively as a basic construct for monitoring and controlling activities in the relationship marketing concept. This is exemplified through the development and publication of a large number of company, industry-wide, and even national satisfaction indices (E. W. Anderson, Fornell, & Lehmann, 1994; Fornell, 1992; Fornell, Johnson, Anderson, Cha, & Bryant, 1996).

The link between satisfaction and the long-term retention of customers is typically formulated by marketing practitioners and scholars in a rather categorical way, and is therefore treated as the starting point, rather than the core question of the analysis (see, for the practitioners' side, e.g., Naumann & Giel, 1995; Quartapelle & Larsen, 1994, and for the academics, e.g., Engel, Blackwell, & Miniard, 1993; Kotler, 1994; Woodruff, 1993). Or, as LaBarbera and Mazursky point out: "The *assumption* that satisfaction/dissatisfaction meaningfully influences repurchase behavior underlies most of the research in this area of inquiry" (1983, p. 400). Consequently, only a few researchers have investigated the nature and extent of the relation between satisfaction and retention itself (Bloemer & Poiesz, 1989).

The small number of existing studies in this area can be classified into three groups. Most researchers use *monetary data*, such as revenues or profit, as dependent variables (see Reichheld & Sasser, 1990; E.W. Anderson et al., 1994). Thus, the individual level of analysis is substituted by an aggregated company-wide level. The validity of such a procedure for the investigation of the satisfaction-retention relation

seems to be considerably limited for two reasons. First, the aggregation of data renders any analysis on the individual customer level impossible. Second, profit and revenues are determined by a multitude of variables, which in addition are highly correlated. Therefore, a valid assessment of the relationship investigated here seems barely possible with this research design. A second group of studies on an individual level utilizes *repurchase intentions* of customers to investigate the link between satisfaction and retention (Bitner, 1990; Oliver, 1980; Oliver & Bearden, 1985; Oliver & Swan, 1989). This approach is also accompanied by two primary limitations. Because satisfaction values and intention measures are normally obtained through the same questionnaire, the data are inherently correlated. This may lead to an overestimation of the strength of the relationship. Furthermore, previous research in the area of customer loyalty shows that the predictive validity of intention measures “varies depending on the product, the measurement scale, the time frame, and the nature of the respondents” (Bolton, 1995, p. 2; see also Morwitz & Schmittlein, 1992) and, altogether, must be seen as rather low (LaBarbera & Mazursky, 1983; Oliva, Oliver, & MacMillan, 1992). Closely related to the problem of intention measures is the usage of other inadequate operationalizations.¹

Finally, a few studies use *real purchasing data* on an individual level to examine the satisfaction–retention relationship. This is the main group of interest here, because it avoids the problems mentioned above. These studies consistently show only a *weak* (or, in some of the analyses, even *nonexistent*) link between both variables. So, in an early investigation using Multiple Classification Analysis (MCA), Newman and Werbel found an explained variance of 0.06 to 0.07, depending on the operationalization of both constructs (Newman & Werbel, 1973). Through correlation analysis, LaBarbera and Mazursky ascertained correlations for different product classes from 0.18 to 0.22 (LaBarbera & Mazursky, 1983). In an experimental study by Bolton, “overall satisfaction” explained 7% of the variance of the length of the company–customer relationship. She even found *no* significant relationship between the transaction-specific satisfaction appraisal and the length of the relationship (Bolton, 1995). In addition, studies that compare the satisfaction level of migrated customers with those of loyal customers show similar results. For example, Kordick reports that in a study of car buyers, only 40% of the surveyed buyers who said they were satisfied with the brand and the service engaged in repeat purchase behavior. Furthermore, Kordick notes that 15% of the *unsatisfied* customers returned to the same dealers despite their

¹For example, Oliva et al. measure the customer’s bonds to a company with the single statement “[The company] does a better job than my other suppliers in meeting my electrical supply needs” (1992, p. 93). Such a more quality-based operationalization of customer retention then accounts for the high degree of explained variance ($R^2 = 0.38$) in this study.

dissatisfaction (Kordick, 1988). In a German study by Gierl, between 40% and 62% of the interviewed customers stated that they had changed the brand even though they were satisfied. Amazingly, in eight of nine examined product classes, the percentage of these satisfied brand switchers even exceeded the percentage of customers who defected due to a dissatisfactory state (Gierl, 1993). According to Reichheld, the percentage of satisfied migrants is even higher; he reports that “between 65% and 85% of customers who defect say they were satisfied or very satisfied with their former supplier” (Reichheld, 1993, p. 71).

Condensing the results from these studies, skepticism seems to be well-founded as to the widespread conceptual view of a strong satisfaction–retention relationship. Therefore, it seems necessary to critically examine the sweeping postulate of a close relation between customer satisfaction and customer retention, and identify the causes for the existing divergence of both constructs (see Stauss & Neuhaus, 1996, for the same). In this article the authors will propose a conceptual model that extends the widespread view of a direct and linear relationship between customer satisfaction and customer retention in two ways. First, a more complex understanding of the relationship between both constructs is presented, which focuses particularly on different aspects of the customer’s quality perception as a mediating variable. Second, the relationship is extended for two dimensions of nonlinearity.

Based on an introductory presentation of the conceptual model of the relationship between customer satisfaction and customer retention, the different elements of the model will be discussed in detail. At the end of the article the authors will summarize their considerations and highlight some implications for future research activities on the satisfaction–retention link.

A CONCEPTUAL MODEL OF THE RELATIONSHIP BETWEEN CUSTOMER SATISFACTION AND CUSTOMER RETENTION

Customer Retention as the Target Variable of the Model

The conceptual model introduced subsequently postulates different antecedents of customer retention. This focus on customer retention as the target variable of the model results from the fact that customer retention is widely accepted as a central objective in relationship marketing. Sheth, for example, explicitly defines relationship marketing as “the *retention* of profitable customers through ongoing one-to-one collaborative and partnering activities . . .” (1996, p. 2; our emphasis). On the practitioners’ side, it is particularly the increased competition

in many consumer and industrial markets and the insight that retaining customers opens up considerable cost-reduction potentials that have led to a strong emphasis of customer retention (e.g., Reichheld & Sasser, 1990).

The customer retention construct itself has rarely been studied (some exceptions are Crosby & Stephens, 1987; Reichheld & Sasser, 1990; Rust & Zahorik, 1993). Because customer retention focuses on repeated patronage of a marketer or supplier, it is closely related to the repeat-purchasing behavior variable and the brand-loyalty construct as frequently discussed variables. However, there are implicit differences on the conceptual level between customer retention and both of these constructs. First, in contrast to most of today's interpretations of the loyalty construct, which contain both behavioral and attitudinal aspects (Jacoby & Chestnut, 1978), customer retention does clearly *not* contain any attitudinal aspects. Second, in customer retention, the *marketer* is seen as taking the active (i.e., retaining) role in the marketer–customer dyad, whereas the behavioristic repeat-purchase concept pays no attention to the factors underlying the displayed behavior. Hence, customer retention aims at repeat-purchase behavior that is triggered by the marketer's activities; thus its study focuses on the managerial aspects. Therefore, when investigating the determinants of customer retention, the scientific knowledge gained in the fields of brand-loyalty and especially repeat-purchase behavior can only be applied when the knowledge does not refer exclusively to repeated patronage of a marketer/supplier that is *not* related to marketing activities and/or attitudinal aspects.

Explaining Variables of the Model

The model presented here (see Figure 1) extends the depicted view of an immediate and strong impact of customer satisfaction on customer retention. It incorporates the customer's quality perception as a central moderating variable and broadens the traditional simplistic view of quality perception. Furthermore, two manifestations of nonlinearity are suggested.

Considering customer satisfaction as the initial construct of the model, one has to distinguish *compensatory* (rewards) and *noncompensatory* (penalties) attributes and their different influence on the formation of satisfaction (first aspect of nonlinearity). The rather emotional and ephemeral impression of satisfaction tied to a particular product or service experience is postulated to fade into a more stable, attitude-like overall evaluation of the product or service, the customer's quality perception. This quality perception may appear in three qualitatively different manifestations that result from the dynamic adaptation of the customer's internal standard underlying the quality appraisal

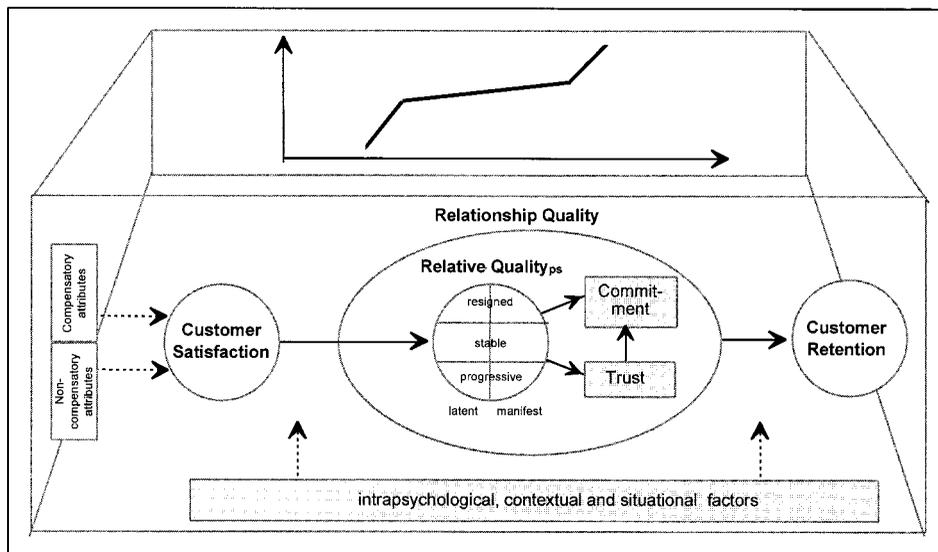


Figure 1 A conceptual model of the satisfaction–retention relationship.

(resigned, stable, and progressive quality perception). Additionally, by considering the customer’s involvement, *latent* and *manifest* quality perceptions are distinguished. The combination of resigned, stable, and progressive quality perceptions on the one hand and manifest and latent quality perceptions on the other hand results in six different types of quality perception, which all have an individual and significantly different meaning for customer retention. The model also adds a competition-related component by incorporating the customer’s quality appraisal of other products/services from his or her evoked set. The quality appraisal thus is interpreted as a *relative* quality perception.

Furthermore, the product- or service-related quality perception as conceptualized here is interpreted as a component of the more complex construct *relationship quality*, which also includes the customer’s trust and his or her commitment to the marketer. Relationship quality finally serves as a potent but *nonlinear* predictor variable for customer retention. In addition to these general mechanisms, *intrapyschological*, *contextual*, and *situational factors* exist that may influence the repurchase decision of the customer. They should be seen as an optional part of the model; they *can* be included in an adequate context but are not necessary in every case. In the following sections the depicted components of the conceptual model are commented upon in more detail, starting with a general section substantiating the inclusion of the customer’s quality perception as a moderating variable in the satisfaction–retention relationship.

MODEL DISCUSSION

Customer Satisfaction as Antecedent of the Customer's Quality Perception

A basic problem for the investigation of the satisfaction–retention link is that, after more than two decades of theory development, there is still no widely accepted consensus on the satisfaction construct (Swan & Trawick, 1993). Particular importance for the analysis arises from the fact that a conclusive distinction is missing between customer satisfaction and the adjacent construct of product and service quality (Hansen & Hennig, 1995; Holbrook, 1994). Given this, the authors first discuss the terminology of both constructs and then outline consistent definitions that serve as a theoretical basis for further discussion of the model.

Satisfaction and quality research “have evolved along parallel tracks” (Strandvik & Liljander, 1995, p. 113). The relation of both constructs is currently subject to a passionate and controversial debate (e.g., Gotlieb, Grewal, & Brown, 1994; Patterson & Johnson, 1993). For the investigation undertaken here, the following aspects for the distinction of satisfaction and quality are of particular importance:

The Reference Object. One central aspect in distinguishing the two constructs is whether the customer's appraisal refers to a concrete transaction (e.g., a single purchase or consumption experience) or is a holistic evaluation of the product or service (e.g., without any direct reference to concrete buying or consuming episodes). Whereas satisfaction is discussed on both levels (as transactional satisfaction or overall satisfaction; see Bitner & Hubbert, 1994; Storbacka, 1994), quality is primarily treated as an overall construct which is based on all previous experiences and impressions the customer has had regarding the product or service (Bitner, 1990; Gotlieb et al., 1994; Steenkamp, 1989).

The Stability of the Constructs. Whereas satisfaction is usually seen as an ephemeral and nonstable construct (Oliver, 1981), the quality perception of the customer is regularly associated with such properties as stability and durability. Therefore, quality is categorized as “similar to attitude” (Strandvik & Liljander, 1995, p. 114; also Bitner, 1990; Bitner & Hubbert, 1994; Gotlieb et al., 1994).

The Relevance of Emotions. Today, satisfaction is primarily interpreted as being emotionally dominated: “The evidence is now overwhelming that emotion is the critical incident in CS/D&CB” (Hunt, 1993, p. 40; see also Cadotte, Woodruff, & Jenkins, 1987). This aspect can be seen as a fundamental difference to quality. Because “over time or across situations, the emotional aspect is no longer as strong and the

surprise aspect is finite" (Dabholkar, 1993, p. 13), the stable and lasting quality perceptions must be viewed as cognitively dominated.

In the literature, three theoretical conclusions can be found regarding the relation between satisfaction and quality. First, quality is understood as an *antecedent of customer satisfaction* (see, e.g., Peyrot, Cooper, & Schnapf, 1993; Woodside, Frey, & Daly, 1989). According to this interpretation, quality is equated with the customer's appraisal of a concrete product or service experience (Gotlieb et al., 1994). Consequently, it does not include expectational aspects, whereas satisfaction is based on the (dis-)confirmation of expectations associated with the service or product experience. However, this interpretation involves a number of problems, because it ignores the higher stability of the customer's quality perceptions and the different affective-cognitive structure of both constructs. Moreover, the problematic assumption of a *quasi-objective* understanding of the quality construct implicitly underlying this interpretation of the relation between satisfaction and quality raises questions. The latter is clearly illustrated when Strandvik and Liljander, as proponents of this interpretation, explain the state of being dissatisfied despite high quality by arguing that the product or service "does not fit the customer's preferences" (1995, p. 119).

Second, both constructs are treated as *one and the same*. According to this approach no significant theoretical difference between satisfaction and quality exists (Gummesson, 1987; Spreng & Singh, 1993). As with the first interpretation, the aforementioned divergences concerning the higher stability of quality perception and the emotional dominance of satisfaction are ignored by this approach.

The third approach, which is the one applied here, is where customer satisfaction is modeled as an *antecedent of quality*. Following this interpretation, the product- and/or service-related quality perception is seen as the higher-order and more stable variable, which is built mainly on previous experiences of (dis)satisfaction related to discrete transactional episodes (Bitner, 1990; Bitner & Hubber, 1994; Bolton & Drew, 1991; 1994). Thus, satisfaction is regarded as a short-term emotional state that results from an intrapersonal comparison of the customer's expectations with the evaluation of a single product or service encounter. This emotional state of satisfaction "leads to an overall, global attitude about [service] quality" (Dabholkar, 1993, p. 11), which is only *implicitly* based on some kind of internal expectation standard. Because quality is a dynamic construct, additional consumption experiences influence and modify the existing quality perception and cause changes in this perception (Thompson & Getty, 1994). In other words, multiple satisfaction evaluations contribute to an overall quality evaluation.

Building on this distinction of both constructs, it is here postulated that perceived overall quality plays a key role as a mediator in the relationship between satisfaction and customer retention discussed here

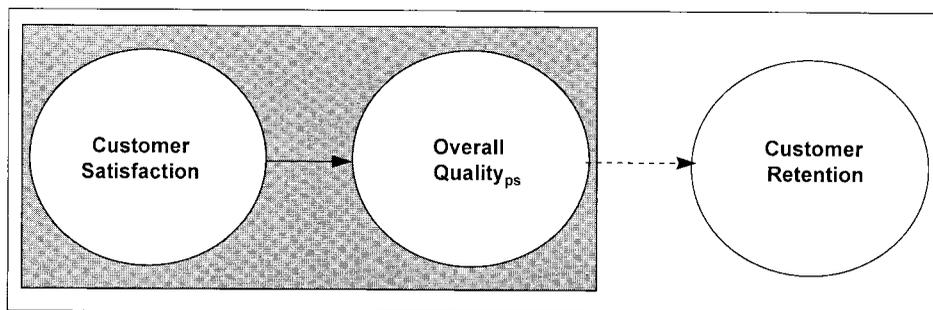


Figure 2 Schematic representation of the postulated relationship of customer satisfaction, overall quality_{ps} perception, and customer retention.

(see Figure 2). “Satisfaction . . . is thought to be an immediate antecedent to quality judgments and then to loyalty” (Oliva et al., 1992, p. 84). In order to avoid confusion, subsequently the notation (overall) quality_{ps} will be used to distinguish the product- or service-related quality perception analyzed in this section from the construct of relationship quality, which will be discussed later.

From the preceding considerations, the following general research proposition can be derived:

- P1:** Regarding the impact on customer retention, transaction-related satisfaction values have to be complemented by product- or service-related quality perceptions of the customer because of the ephemeral character and emotional determination of the satisfaction construct.

Differentiating the Quality_{ps} Construct

The multitude of different approaches used to measure satisfaction and quality_{ps} discussed in the literature (see, e.g., Cronin & Taylor, 1992; Hausknecht, 1990; Parasuraman, Zeithaml, & Berry, 1988) agrees at least in the aggregation of different dimensions of the customer’s judgments to one single overall value of quality_{ps}. For predicting customer retention, this widely-used procedure implies the general assumption that identical quality_{ps} values are accompanied by the same degree of customer retention (see Bloemer & Kasper, 1994) (Figure 3).

In recent times, doubts about this assumption and, subsequently, the marketing relevance of the traditional understanding of the quality_{ps} construct, have been articulated by several researchers (see Stahl, 1996; Stauss & Neuhaus, 1996). According to the work of Bruggemann and co-workers in the area of job satisfaction (see, e.g., Bruggemann, 1974; 1976; Bruggemann, Groskurth, & Ulich, 1975), it seems more appropriate to interpret quality_{ps} as a complex construct with *qualitatively different forms*. Therefore, identical quality_{ps} values can be

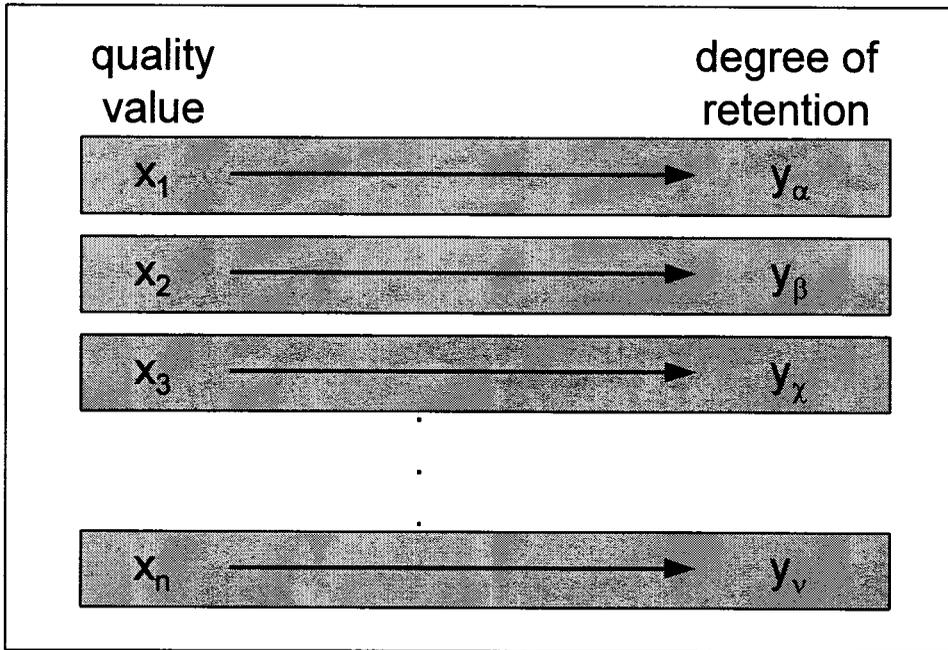


Figure 3 Traditional view of transformation of quality_{ps} values.

associated with different degrees of retention, as illustrated in Figure 4 (Stauss & Neuhaus, 1996).

On the basis of a model proposed by Bruggemann, this article differentiates between various levels and types of quality_{ps} perception. The model adds dynamic aspects to the traditional interpretation of the

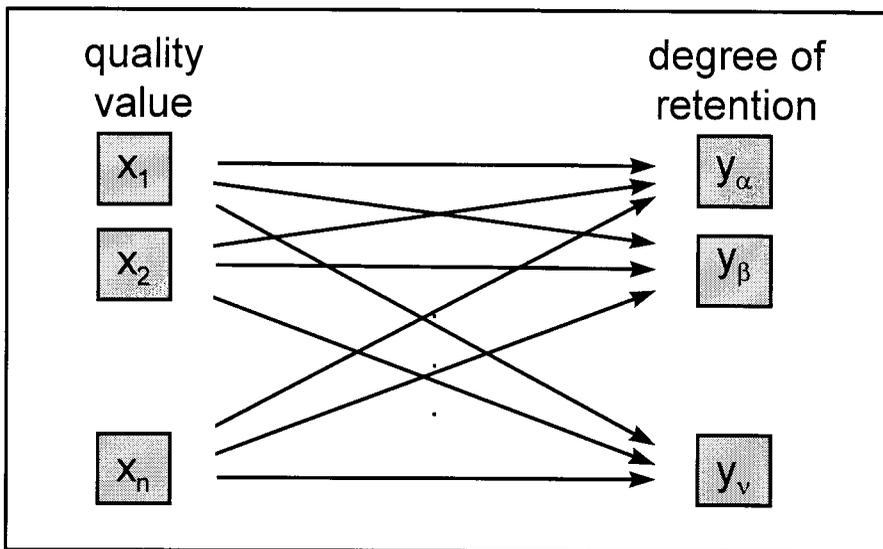


Figure 4 Modified view of transformation of quality_{ps} values.

quality_{ps} construct and can be described as follows. The model is founded on the assumption that the evaluation of a certain product or service is closely related with intrapersonal changes in the customer's internal standard underlying his or her quality appraisal. Depending on a variety of psychological factors (Bruggemann, 1974), this internal standard can be raised, lowered, or maintained on the initial level. As a result of the adaptation of the internal standard, a number of specific psychological states (e.g., demand, resignation) must be distinguished. Finally, these different psychological states can be linked with certain types of quality_{ps} perceptions. These types of quality perception have different effects on customer retention and can be described as follows (see Figure 5):

Progressive Quality_{ps} Perception (+). The customer evaluates the product or service positively but expects a heightening of performance in the future.

Stable Quality_{ps} Perception (+). The customer has a positive impression of the product or service and desires qualitative continuity.

Resigned Quality_{ps} Perception (+). The customer rates the performance of the company as insufficient but adapts his/her internal standard to this lower quality level, which again leads to a (temporarily) positive quality perception.

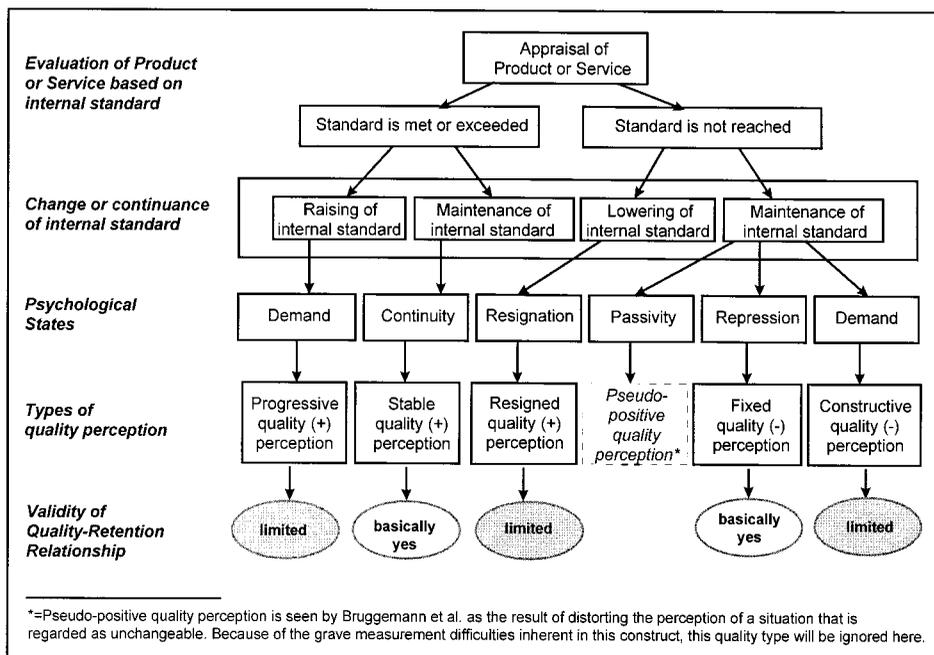


Figure 5 An adaptation of the Bruggemann model for identifying different types of quality_{ps} perceptions.

Fixed Quality_{ps} Perception (-). The customer judges the marketer's performance in a negative way but, at the same time, makes no attempt to solve the problem in cooperation with the company.

Constructive Quality_{ps} Perception (-). The customer evaluates the marketer's performance negatively but tries to initiate a change (e.g., by complaining) in order to achieve a future improvement in quality.

This conceptual extension of the quality variable plays an important role for the analysis of the relationship between overall quality_{ps} and customer retention. It has been empirically confirmed in an explorative study by Stauss and Neuhaus (1996).² Therefore, the close connection between the constructs often referred to in the literature can at most be maintained for certain types of quality_{ps} perception (stable quality [+]
perception, fixed quality [-] perception). Additionally, for other types of quality (progressive quality [+]
perception and resigned quality [+]
perception), the theoretical viewpoint has to be extended by the dynamic aspects mentioned here. For these types of quality_{ps} perception, high quality values based on traditional conceptualizations of the quality_{ps} construct may be misleading because they disregard the need for improvements in product or service performance to retain the customer.

From the preceding considerations, the following research proposition can be derived:

- P2:** There exist different types of quality perception. The identification of these types by including changes of the internal standard underlying quality appraisals allows a more accurate prediction of customer retention.

The Distinction between Latent and Manifest Quality_{ps} Perceptions

The involvement of customers has become a key variable in consumer research over the past decades (see, e.g., Laaksonen, 1994; Zaichkowsky, 1985) but is only rarely used in the context of satisfaction and quality research. However, it must be questioned that quality_{ps} perceptions play a significant role for the retention of customers under *low-involvement* conditions. Due to the attitude-like conceptualization of quality_{ps}, this proposition can be derived from extensive research in the area of attitude-behavior consistency (see Day, 1978; Gotlieb, Schlacter, & St. Louis, 1992; Lastovicka & Bonfield, 1982).

²The study of Stauss and Neuhaus was conducted within the banking sector. They could assign 83% of the sample to one of the five listed quality types. Almost 46% of the sample had a stable quality perception (+), about 9% had a resigned quality perception (+), and 34% were understood as customers with a progressive quality perception (+). In a separate question, 71% of the customers stated that they perceived the quality of the bank's services as good or even very good. Therefore, at least 25% (= 71% - 46%) of the customers had a positive quality perception, but at the same time had the potential to leave the bank and had to be treated accordingly.

Closely related to this consideration, Bloemer and Poiesz proposed a distinction between *manifest* and *latent* quality_{ps} perceptions (Bloemer & Poiesz, 1989), which was empirically confirmed by Bloemer and Kasper (1994). Paralleling their argument, a manifest quality_{ps} perception is based on a cognitively dominated judgment formed *before* the data collection. This can be seen as typical for a high-involvement setting, where the customer has extensively gathered and processed information on the product or service. Opposed to that, a latent quality_{ps} perception is where the quality judgment is triggered by the measurement act itself and is first formed at this point. A latent quality_{ps} perception will usually be the case in a low-involvement setting when the customer is neither emotionally nor cognitively interested in the product or service and, consequently, has at most sporadically processed any product- or service-related information.

A strong relationship between quality_{ps} and retention can only exist in the case of manifest quality_{ps} perception (but as is shown in the other sections of this article it need not exist). With latent quality_{ps} perception, such a relationship is assumed to be much weaker or even nonexistent. Therefore, in the case of latent quality_{ps} perception quality-based predictions of customer retention will lack validity: If a positive quality_{ps} judgment “is passively present it may be hard to identify behavior that is directly and unequivocally related to it” (Bloemer & Poiesz, 1989, p. 45).

Referring to the conceptual model of the satisfaction–retention link, a distinction of latent and manifest quality_{ps} perceptions is suggested here with regard to the customer’s involvement level. This is especially important in consumer markets, which are predominantly interpreted as low-involvement settings, and therefore can be expected to have a high proportion of latent quality perceptions (see Kassarian, 1981; Wilkie, 1990).

From the preceding considerations, the following research proposition can be derived:

- P3:** Manifest and latent quality perceptions must be differentiated on the basis of customer involvement data. Only in the case of highly involved customers can a significant impact of the customer’s quality perception on customer retention be assumed.

The Integration of Alternatives

There is a long tradition in consumer and marketing research of analyzing and appreciating the effects of competitive offers on buying decisions (see, e.g., Engel et al., 1993; Howard & Sheth, 1969). In satisfaction and quality research, however, the influence of the customer’s evaluation of rival products is mostly neglected. Recently, some authors have begun to discuss this topic under a relationship marketing perspective (see Biong, Parvatiyar, & Wathne, 1996; Wilson 1995).

Here it is argued that competitive aspects have to be considered in the conceptualization of satisfaction and quality_{ps} to derive more valid predictions of customer retention rates.

Returning to the distinction between ephemeral satisfaction and the relatively stable quality_{ps} perceptions mentioned earlier, two different dimensions of competitive influence on customer retention must be distinguished. First, at the *satisfaction construct* level, where the customer's comparison standard is explicitly modeled, the influence of competition on the formation of this standard has to be integrated if necessary (for the discussion of competition-related and non-competition-related standards and their relevance, see, e.g., Cadotte et al., 1987; Erevelles & Leavitt, 1992).

Second, and of much greater importance for the analysis undertaken here, is the *quality_{ps}* construct level. Regarding the examination of the relationship between the customer's quality perception and customer retention, a *relative* interpretation of the quality_{ps} construct is proposed to be superior to the *absolute* interpretation of the variable usually referred to. So, it seems reasonable that a quality_{ps} value of 4 for a product X (on a 5-point scale, with 5 being the best value) should not be interpreted in isolation. Instead, an additional consideration of the customer's quality judgment of competitive offering Y can increase the meaningfulness of the quality_{ps} value with regard to customer retention. Assuming that the customer judges product Y with a value of 1, the propensity for rebuying product X will be higher than in the case of rating the competitor as 5. Dick and Basu conclude for the related attitude construct that "the nature of *relative attitudes* is likely to provide a stronger indication of repeat patronage than the attitude toward a brand determined in isolation" (1994, p. 101).

Consequently, the superiority of the relative quality_{ps} concept over the absolute quality_{ps} concept is another aspect that deserves attention with regard to the satisfaction/quality-retention relation. The operationalization of the relative quality_{ps} construct as an implication for measurement is not subject of this article but deserves more attention in future studies. On a basic level, there are at least two ways of measuring relative quality_{ps}: (a) The direct inclusion of alternatives into the statement (e.g. "Please assess product X in comparison with the best other available offering"), (b) the collection of separate (absolute) quality_{ps} appraisals for all products of the customer's evoked set with a subsequent use of this information for calculating relative quality appraisals.

From the preceding considerations, the following research proposition can be derived:

- P4:** Relative quality judgments that incorporate the evaluation of competitive products or services predict customer retention better than absolute quality appraisals.

From Product- or Service-Related Quality to Relationship Quality

Besides satisfaction and (relative) overall quality_{ps} perception, which refer to product or service dimensions, the customer's evaluation of the *relationship* with the company also impacts customer retention and must be considered. However, the literature dealing with the idea of relationship quality is scarce. Moorman, Zaltman, and Deshpandé (1992) are among the few who consider the mere existence of the relationship quality construct. In another empirical investigation, Palmer and Bejou (1994) identified several factors that function as determinants of relationship quality. The objective here is slightly different: a theoretical conceptualization of the relationship quality construct as a central variable in the satisfaction-retention process by identifying its components.

One attempt to conceptualize relationship quality in a particular context (life insurance) has been made by Crosby and co-workers (Crosby, 1991; Crosby, Evans, & Cowles, 1990), who view relationship quality as "the salesperson's ability to reduce perceived uncertainty" (Crosby et al., 1990, p. 70). Relationship quality then is "composed of at least two dimensions, (1) trust in the salesperson and (2) satisfaction with the salesperson" (Crosby et al., 1990, p. 70). For a general conceptualization of relationship quality, other important functions of relationships beyond uncertainty reduction by a specific person, such as interaction efficiency and other aspects of transaction cost reduction, social need fulfillment, et cetera, should be considered.

Similar to the conceptualization of product quality, relationship quality can be seen as the degree of appropriateness of a relationship to fulfill the needs of the customer associated with that relationship. Because the exchange of products and/or services is the fundamental feature of any buyer-seller relationship, the (relative) overall quality_{ps} perception as conceptualized in the preceding sections should be included first as a basic component of relationship quality. A product or service that meets the customer's needs must be considered an absolutely indispensable condition of high relationship quality.

Furthermore, additional key variables assuring high degrees of relationship efficiency and effectiveness for the customer must be identified out of the many relational phenomena discussed in relationship marketing literature. These key variables must also be included as constitutional elements of relationship quality. Drawing on the commitment-trust theory of relationship marketing (Morgan and Hunt 1994), trust and commitment are incorporated as the two other basic constructs in the theoretical conceptualization of relationship quality. The many further relational phenomena discussed in the literature (perceived similarity, relative power status, communication, mutual adaptation, social orientation, propensity to invest, and many others;

see Ellis, Lee, & Beatty, 1993) are not considered irrelevant, but rather are thought to function as precursors or consequences of relationship quality displayed in the respective levels of overall quality_{ps}, trust, and commitment (see also Morgan & Hunt, 1994).

Trust and commitment have been widely discussed in the literature. As in Moorman et al., (1992) *trust* is defined here as the “willingness to rely on an exchange partner in whom one has confidence” (p. 315). The semantic content of other commonly discussed definitions overlaps to a relatively high degree, indicating a certain consensus on the understanding of trust among scientists (e.g., Anderson & Narus, 1990; Morgan & Hunt, 1994; Schurr & Oxanne, 1985).

Commitment, however, can still be found in significantly varying theoretical conceptualizations (see Young & Denize, 1995, for an overview). It is defined here as a customer’s long-term ongoing orientation toward a relationship grounded on both an emotional bond to the relationship (affective aspect) and on the conviction that remaining in the relationship will yield higher net benefits than terminating it (cognitive aspect). This definition consciously excludes behavioral aspects like investments in the relationship or different forms of mutual adaptation, which can be found subsumed under commitment by some authors (e.g., Brown, Lusch, & Nicholson, 1995; Gundlach, Achrol, & Mentzer, 1995). It seems more appropriate to consider these overt behaviors as *outcomes* of high levels of commitment to a relationship and not to blend them into one definition with their intrapsychological antecedents. A high level of commitment is given when there exists both a rational bond (net benefits) as well as an affective bond (emotional tie) to the relationship.

Because trust and commitment serve multiple relationship functions, they can be considered to be what “distinguishes productive, effective relational exchanges from those that are unproductive and ineffective—that is whatever produces relationship marketing successes instead of failures” (Morgan & Hunt, 1994, p. 22). These crucial functions of trust and commitment can be provided mainly because they “lead directly to cooperative behaviors that are conducive to relationship marketing success” (Morgan & Hunt, 1994, p. 22).

Reflecting the customer’s assumed perception and evaluation of a relationship as a whole, where product-or service-related and relational aspects are blended into one outcome, relationship quality is thus conceptualized as comprising the three described dimensions: (a) the customer’s overall quality_{ps} perception as conceptualized in the previous sections, (b) trust, and (c) commitment. A high-quality relationship then would be one with high levels in all three dimensions.

The three dimensions of relationship quality are not independent. The hypothesized causal links between them are displayed in Figure 6 and are theoretically founded below.

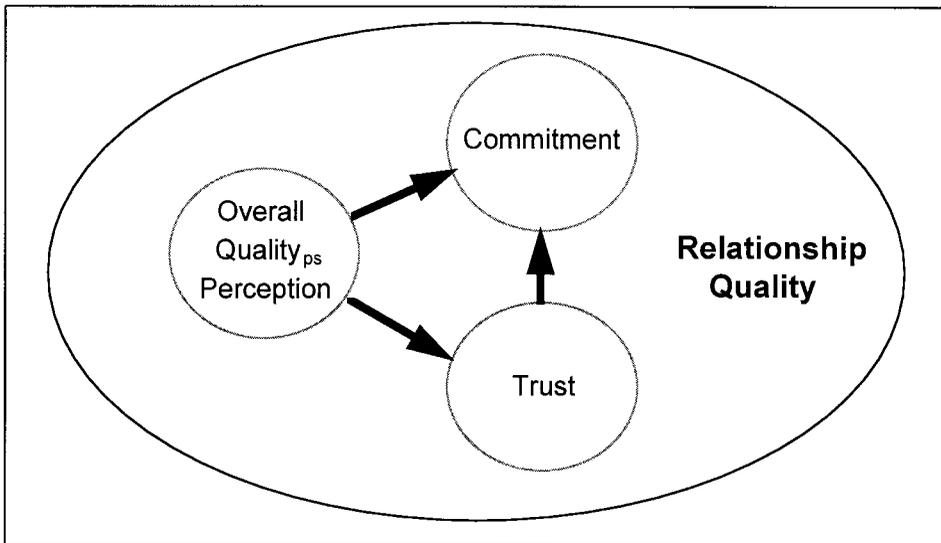


Figure 6 Causal links between the three dimensions of relationship quality.

Overall Quality_{ps} Leads to Trust. Rotter's often-cited characterization of trust as a "generalized expectancy" (Rotter, 1967, p. 653) focuses on the process of trust development. The emphasized process of generalization requires an initial sequence of experiences with an exchange partner that provides the customer with the opportunity to judge his reliability. In early stages of a developing relationship, the predominant source for these experiences is the perception of the overall quality_{ps} where the customer matches the supplier's performance against his/her internal standard (E. W. Anderson & Sullivan, 1993). A consistent sequence of positive experiences, that is, the repeated experience that the supplier "kept his promise" by providing the expected performance, may then lead to the development of trust through the aforementioned process of generalization to future transactions (quantitative aspect) and other relational fields (qualitative aspect).

Overall Quality_{ps} Leads to Commitment. A high level of (relative) overall quality_{ps} (i.e., the supplier's repeated deliverance of maximum benefits for the customer among the given set of alternatives) can be thought to lead directly to cognitive commitment of the customer. The same can be observed for the affective dimension of commitment. A high level of transactional quality provides the customer with a repeated positive reinforcement for having made the correct decision, thus creating emotional bonds. But it is more important and valid, especially in person-to-person-interactions, that overall quality_{ps} includes the fulfillment of the customer's social needs connected with product/service related transactions (as reflected in the 'responsiveness' and 'empathy' -dimensions of the SERVQUAL scale, for example.

See Parasuraman et al., 1988). A repeated fulfillment of these social needs then is likely to lead to bonds of an emotional kind that constitute the affective dimension of commitment.

Trust Leads to Commitment. It is reflective of the two subdimensions of commitment that trust is also believed to promote commitment in two ways. First, trust is crucial to relationship efficiency. For example, it serves as a substitute for contractual agreements and increases interaction efficiency, thus decreasing transaction costs. This increase of relationship efficiency entails an increased net benefit for the customer (as well as for the supplier), which in turn fosters the cognitive commitment of the customer to the relationship. Second, trust addresses central social needs of the customer, the fulfillment of which leads to an affective commitment to the relationship.

It is here hypothesized that high-quality relationships, that is, relationships with high levels of overall quality_{ps}, as well as high levels of trust and commitment, are much more stable and entail higher rates of customer retention than relationships that may have a high level of overall quality_{ps}, but lack the stabilizing functions of trust and commitment. It is therefore theorized that one important property of a high-quality relationship is *relationship inertia* (see Storbacka, 1994). In high-trust/high-commitment relationships, an exceptional slip in overall quality_{ps} may not endanger the existence of the whole relationship, whereas in relationships based only on a high level of overall quality_{ps}, it is much more likely that such a single incident may lead to a termination of the relationship initiated by the customer. It must be acknowledged that the possibilities for creating and managing trust and commitment in relationships may be limited (Grönroos, 1994), especially in consumer goods markets, but this does not diminish its importance for retaining customers in the many settings where this is possible.

From the preceding considerations, the following research propositions can be derived:

- P5:** In addition to the product- or service-related aspects, other dimensions that refer to the buyer-seller relationship have to be included. Commitment and trust, as central dimensions of the complex construct relationship quality, play important roles in the customer's repurchase decisions.
- P6:** There exists a strong and positive relation between relationship quality and the target variable customer retention.

Nonlinearity

Most of the existing approaches relating customer satisfaction, product- or service-related quality perception, or relationship quality with customer retention (either conceptual or empirical) are based on an explicit

or implicit linearity assumption. This premise is confronted with a non-linear reality with regard to two different dimensions: first, at the attribute level and second, at the overall functional level.

At the *attribute level* most researchers use multiattribute models to conceptualize satisfaction and quality_{ps}. According to this approach, different product or service features are evaluated by the customer and then aggregated into one single quality value. The overwhelming majority of the models (e.g., difference score models, adequacy models, performance models) uses linear-additive algorithms for this aggregational procedure. Therefore, the traditional approach in conceptualizing satisfaction and/or quality_{ps} assumes the included attributes to be completely compensatory.

This viewpoint has been heavily criticized by some researchers (Brandt, 1987; Jacoby, 1976; Swan & Combs, 1976), who instead propose a “two-factor model” of customer satisfaction and quality, transferring the work of Herzberg (see e.g. Herzberg, Mausner, & Snyderman, 1959) into the area of marketing. According to this alternative approach, one has to distinguish between attributes that function as “motivators” (or “rewards,” meaning that they can be treated as compensatory) and attributes that work as “hygienes” (or non-compensatory “penalties”). The latter type of attributes is *not* suited to cause a positive quality_{ps} perception, but is able to create a *negative* perception of quality_{ps} if performance falls below a critical value. The two-factor model has neither been clearly disproved nor confirmed in empirical studies. Yet plausible evidence suggests such a distinction of attributes. “For example, a product warranty may not increase purchase likelihood [. . .]. However, the absence of a warranty may definitely decrease purchase likelihood [. . .]” (Bloemer & Poiesz, 1989, p. 44).

On the more global *functional* level, a linear relationship between quality_{ps} and retention (or loyalty, respectively) is often assumed. This linear relation has been questioned recently by different researchers and substituted by a nonlinear function with certain thresholds (e.g., Coyne, 1989; Oliva et al., 1992; Zeithaml et al., 1996). However, there is ongoing controversy regarding the nature of this function. Coyne (1989) postulates that the loyalty curve is relatively flat after a first threshold is passed and climbs rapidly after the quality_{ps} perception of the customer has risen above a second threshold. Contrary to this, Zeithaml, Berry, and Parasuraman (1996) propose “an upward-sloping (rather than flat) relationship within the zone of tolerance” (1996, p. 35) which, in their terminology, is the area between both thresholds. Figure 7(a)–7(c) compare the traditional linear model of the quality-retention relationship with the nonlinear functions postulated by Coyne and Zeithaml et al., respectively.

Both nonlinear courses have been at least partially confirmed by empirical data. The function proposed by Coyne was estimated by Oliva et al. (1992) as a catastrophe model, and Zeithaml et al. used

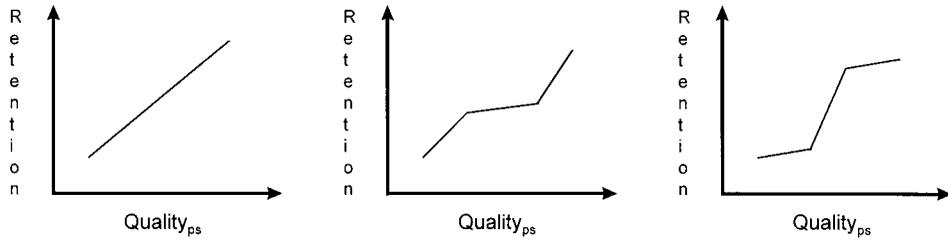


Figure 7 (a) Linear model, (b) Nonlinear model according to Coyne (1989), (c) Non-linear model according to Zeithaml et al. (1996).

multiple dummy regression analysis to investigate their function. Further support for the Coyne function comes from multiple regression modeling of large-sample-size data by Müller and Riesenbeck (1991).³

Based on the distinction between penalties and rewards on the attribute level, the traditional approach of a linear-additive combination of *all* attribute-specific $quality_{ps}$ appraisals has to be questioned and developed into a more differentiated procedure. In addition, on a more global level, the supposition of a nonlinear function between $quality_{ps}$ and retention seems promising, but much more empirical research is needed to verify its validity. In this context, a critical point for investigation must be seen in the identification of thresholds. Thus, both depicted approaches may at least partially serve as a further explanation for the observed discrepancy between theory and empiricism in this research area.

From the preceding considerations, the following research propositions can be derived:

- P7:** Product or service attributes with an impact on quality perception must be divided into rewards and penalties, of which the latter are noncompensatory. The separate examination of penalty attributes increases the predictive validity of quality values.
- P8:** The functional relation among satisfaction, quality, relationship quality, and customer retention is of a nonlinear kind.

Further Intervening Variables

The aspects described above were presented under the implicit postulate that the expounded mechanisms and qualifications regarding the satisfaction/retention relationship apply more or less generally. Besides these general theoretical relations, there also exist other variables with a possible impact on customer retention that *can* be

³The sample of Müller and Riesenbeck (1991) covers data from 83,000 households and 550 retailers from 17 product classes in the United States and Germany.

important in specific contexts and thus have to be examined situationally for relevance. Furthermore, most of these variables elude the marketer's influence and therefore have the character of exogenous variables in the managerial perspective. As there are many possibly relevant factors and the explications can draw partially on the common discussion in literature on the attitude–behavior relationship (e.g., Ajzen & Fishbein, 1980; Fazio, 1990), this section highlights just a few aspects with potential relevance in this particular context.

The potential intervening variables in the (relationship) quality–retention relation can be grouped into intrapsychological, contextual, and situational factors, with the latter ones being specific intrapsychological or contextual factors that only have a temporary impact in one particular buying situation. One major variable among the *intrapsychological variables* is the customer's predisposition to variety seeking, which can play an important role in repeat-purchase behavior, especially in consumer goods settings. The customer's inherent need for diversity or satiation with a product may then evoke brand-switching behavior despite a perception of high quality (for an overview of the different facets of variety seeking, see McAlister & Pessemier, 1982). "For instance, a consumer may choose a 7-Up following a choice of Coke not because his or her preference for Coke has changed but just because s/he wants something different" (Menon & Kahn, 1995, p. 286). Today's conditions in many markets promote such a behavior as products often are mainly psychologically differentiated and technically homogeneous to a large degree. Under these conditions the consumer's perceived functional risk is low and he/she can follow his/her variety-seeking needs without taking a great risk of a malfunctioning product.

The second category, *contextual factors*, encompasses a variety of different factors, such as the social context. In consumer markets it is the influence of peer groups, parents, colleagues, or spouses that can impose buying norms on the consumer that override his/her individual decision based on his/her quality appraisal. An analogous situation may occur within buying centers in industrial marketing settings when the buyer's and the decider's individual decisions are contradictory and the latter's higher formal status plays the pivotal role for the final decision. Further examples for contextual factors that may cause buying decisions that contradict quality perception are legal restrictions to supplier choice (like local content regulations in international marketing), parent company directives, or customers' influence on a company's supplier choice through vertical supply chains.

Finally, *situational variables* can also erode customer retention. Examples for these potentially relevant factors are time pressure, temporary budget restrictions, exceptional shopping situations like vacations, or lack of availability of the desired product or service. These and other situational variables may also lead to the purchase of a product or service other than the one that ranks highest in terms of quality perception.

From the preceding considerations, the following final research proposition can be derived:

- P9:** The relationship between relationship quality and customer retention is influenced by intrapsychological, contextual, and situational factors as well.

SUMMARY AND CONSEQUENCES FOR FURTHER RESEARCH

The previous sections revealed several starting points that can help deepen the understanding of the role of customer satisfaction in relationship marketing. A conceptual model has been presented that postulates that the relationship between satisfaction and customer retention is moderated by the *relationship quality* construct and must be interpreted as *nonlinear*. Relationship quality has been introduced as a three-dimensional variable that incorporates the customer's product- or service-related quality perception, the customer's trust, and his or her relationship commitment. Furthermore, the conducted analysis suggests that the traditional understanding of the customer's product- or service-related quality perception must be broadened for three aspects:

1. A competition-related perspective must be added.
2. The customer's level of involvement has to be considered.
3. The quality construct has to be differentiated on the basis of changes of the customer's internal expectation standard.

The conceptual model of the satisfaction–retention link presented in this article can be used as a theoretical basis for the development of appropriate measurement designs. This may enable researchers as well as marketers to deliver more realistic estimations of the impact of satisfaction on customer retention. Measurement approaches considering the aspects included in the model can be expected to result in more valid predictions of customer retention rates on the basis of satisfaction and quality measures than isolated approaches. However, some challenges may come along with the transformation of the conceptual model into concrete measurement designs (e.g., the adequate operationalization of the included constructs), which have not been discussed here.

Besides these measurement-related difficulties, certain conceptual limitations may still exist. For example, market-specific qualifications may occur for which the model must be extended or modified in single components. So there is a strong need for empirical testing of the model and the interrelationships between the included variables. The authors encourage other researchers to examine the model and report

their findings so that further advances can be made in the area of customer satisfaction and retention.

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