



## Service failure and consumer switching behaviors: Evidence from the insurance industry

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### ABSTRACT

This paper analyzes consumer switching behaviors from the perspectives of consumer psychology and interactions with the society, such as consumer's emotional intelligence, relationship involvement and personality traits. We survey life insurance policyholders in Taiwan and Hong Kong. Our results show that when service failures are more serious, consumers with higher emotional intelligence exhibit lower intention to switch than those with lower emotional intelligence. Similarly, the more serious the service failures, the more the consumers with internal locus-of-control orientation exhibit intention to change their existing consumption than those with external locus-of-control orientation. Further for more serious the service failures, the higher the relationship involvement with customers, the more their intention to switch is reduced. The unique contribution of this paper is that it combines multivariate statistical analysis and a non-linear neural fuzzy network model structure to verify the collected data. The paper concludes with a discussion of management implications and recommendations for future studies.

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### 1. Introduction

Although external expansions of products and markets remain one of the key foci of corporate development, the maintenance of customer willingness to consume is also an important issue for companies in this era of wafer thin profits and intense competition. Understanding consumer switching behaviors is a necessary in determining how to retain customers. Previous literature examining customer switching behaviors has mostly focused on such areas as the controllable and uncontrollable factors that affect consumer switching behavior, factors that affect consumer switching behaviors in certain industries or in certain markets, or across different countries and cultures.

However, there are relative few analyses of the factors that affect the switching behaviors of consumers from the perspectives of consumers' psychology and society. These factors include emotional intelligence of consumers, personality traits, and relationship involvement. Studies of controllable and uncontrollable factors tend to focus on service environments, attitudes, atmosphere and clues. Meaningful cross-cultural comparisons are lacking.

To fill these gaps, we surveyed consumers in Taiwan and Hong Kong where the language and culture are broadly similar, in order to compare and contrast similarities and differences in consumer switching behaviors. Previous empirical research has generally ap-

plied linear multivariate statistical analysis or structural equation modeling (SEM) to analyze data. However, our methodology combines multivariate statistical analysis and non-linear neural fuzzy network models in analyzing the data.

For example, [Keaveney \(1995\)](#) proposed eight major factors. For instance, controllable core services including convenience (derived services), service attitude and environment, prices and business moral and uncontrolled factors, include competition and non-volunteer switching. Business shut-down and relocations of customers are such instances.

For example, [Manrai and Manrai \(2007\)](#) proposed four factors that influence customer satisfaction in the banking industry across different levels. These factors are consumers' personal reasons, financial factors, store environment and convenience. The empirical finding also pointed out that different customer groups exhibit significant differences in terms of the special services that affect their switching behaviors. In addition, consumer switching behaviors may be different if the competing banks provide different special services.

For example, [Athanasopoulos \(2000\)](#) proposed a set of measurements to gauge consumers' satisfaction, such as quality of services, convenience and innovation. Comparisons are also made for consumers of different type of companies and the switching behaviors of consumers with various characteristics.

For instance, [Money \(2004\)](#) compared the institutional consumers in the B2B markets in Japan and the US. The empirical finding showed that the companies operating overseas find it easier to switch compared to the companies operating in home countries.

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- (1) Although there is a considerable amount of related literature, there are still many topics waiting to be explored: there are discussions of controllable and uncontrollable factors that affect the switching behaviors of customers (Athanasopoulos, 2000; Chakravarty, Feinberg, & Rhee, 2004; Manrai & Manrai, 2007). Some studies focused on the consumers under different cultural backgrounds or different natures in order to compare the switching behaviors of the consumers in question. However, these surveys are performed on the consumers across regions or countries (Money, 2004). As there are huge gaps in the consumer cultures and values in these studies, the conclusions made on the basis of such comparisons have limited extensibilities in terms of their management implications.

## 2. Literature review

### 2.1. Emotional intelligence

According to Goleman (1998), emotional intelligence refers to one's ability to connect with others, effectively understand and evaluate the emotions he or she has in relation with others. In other words, emotional intelligence is an extension of personal experience. Salovey and Mayer (1990, 1993) argue that emotional intelligence consists of three components: emotional evaluations and expressions, emotional adjustments, and utilizations. A number of studies suggests that higher or more positive emotional intelligence brings about more satisfying relationships with others and personal and career success (Bagozzi & Gopinath, 1999; Cooper & Sawaf, 1997).

Studies of emotional intelligence have explored the relationship between emotional intelligence, social behaviors and work performance from psychological perspectives. For example, Lopes, Salovey, and Straus (2003) sampled 103 university students. They reported that there is a high correlation between emotional intelligence, personality traits, and satisfactions with social relationships. Meanwhile, emotional expressions, such as frustration and anger, are disruptive. Engelberg and Sjöberg (2004) applied the conceptual structure of Salovey and Mayer (1990) to emotional intelligence and did a questionnaire survey of 208 respondents. They argue that emotional intelligence is related to the adjustments of social relationships.

Efficacy or theoretic foundations are constructed from different aspects of intelligence. For example, there are formations of concepts regarding social intelligence and measurements of relevant variables. Grandey (2000) integrates the ideas of Ashforth and Humphrey (1983), while Morris and Feldman (1996) also proposed a systematic framework to illustrate the process of emotional labor.

The content of emotional intelligence has been investigated by several researchers. Mayer, Caruso, and Salovey (1998) came up with the Multifactor Emotional Intelligence Test (MEIS) to analyze the elements of emotional intelligence. Mayer, Salovey, and Caruso (2001) further refined their tool with the Emotional Intelligence Test (MSCEIT).

The majority of the past studies on the switching behaviors of consumers have focused on the exploration of marketing and research tools. These issues are seldom examined from the perspectives of consumer psychology or social behavior.

In the previous studies on emotional intelligence, the focus has been placed on the expressions, adjustments and utilizations of emotions (Salovey & Mayer, 1993), the ability to control emotions. Although emotional intelligence is often used as an independent variable and moderator variable, it affects the function of emotional expressions (Quebbeman & Rozell, 2002). In the framework

of emotional labor proposed by Grandey (2000), emotional expression abilities dominate and support work autonomy, which affects emotional labor of service providers. In other words, the higher the emotional intelligence that consumers command, the more they are able to control their emotions. They will thus tend to be "rational" and put more thought into the decision to switch from their existing consumption patterns. By contrast, the lower the emotional intelligence of consumers, the more likely they will be susceptible to the interference of external factors. To resolve their internal conflicts, these consumers tend to switch their existing consumption patterns if the service failures are serious.

H1: *When service failures are more serious, consumers with higher emotional intelligence exhibit lower intention to switch than those with lower emotional intelligence.*

### 2.2. Personality

Personality traits are an important variable in the study of psychology. Different personality traits affect attitudes, behaviors and tolerance of frustrations (Ong, Bergeman, Biscoti, & Wallace, 2006; Shahar, Joiner, Zuroff, & Blatt, 2004). However, in management study, a vast majority of the past studies are on the influence of personality traits on work performance of employees. Most scholars agree that different personality traits lead to differences in work performance and customer-oriented behaviors (O'Reilly, 1977; Robbins, 1998; Widmier, 2002). This paper thus infers that different personality traits lead to varying tolerance of service failures. In other words, consumers with internal locus-of-control orientation have higher self-confidence and self-discipline. They are better at controlling their emotions. Salovey, Bedell, Detweiler, and Mayer (2000) pointed out that effective control and stabilization of controls mean benefits of emotional modulations. Therefore, consumers with internal locus-of-control orientation often demand rapid compensation from the service providers in case of service failures because their self-consciousness and self-esteem are higher. If the minimum threshold of compensation is not reached, these consumers will give up the services they use. By the same token, consumers with external locus-of-control orientation are prone to be driven by the environment. In the case of service failures, their subsequent responses and behaviors are subject to many factors. Odekerken-Schroder, Wulf, and Schumacher (2003) argued that, on the basis of empirical findings, personality traits of consumers affect the level of transaction relationships.

There is at present no literature directly evaluating the influence of personality traits on service recovery and consumption willingness. Gountas and Gountas (2007) indicated that personality traits affect perceptions of customers regarding services in their study of the airline industry. Generally speaking, consumers with external locus-of-control orientation emphasize that their behaviors have nothing to do with external events, positive or negative, that are beyond their control. Therefore, they tend to resort to mild measures and relative few demands when it comes to dealing with unpredictable events. In other words, they tend not to change their existing consumption habits. Therefore, in case of service failures, this type of consumer tends not to demand rapid responses and radical measures. In other words, they are not very willing to alter their existing consumption patterns. By contrast, consumers with internal locus-of-control orientation tend to believe that they can control their own destiny. They believe that they are the master of the environment, not the other way around. Therefore, in case of service failures, this type of consumer tends to change their existing consumption patterns. Given this understanding, we formulate hypothesis 2:

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