Available online at www.sciencedirect.com
SCIENCE DIRECT
Industrial Marketing Management 35 (2006) 676 – 689
INDUSTRIAL MARKETING MANAGEMENT

Relationship equity and switching behavior in the adoption of new telecommunication services

Brian Low [a,*], Wesley J. Johnston [b,1]

[a] *University of Western Sydney, Locked Bag 1797, Penrith South DC, NSW 1797, Australia*
[b] *J. Mack Robinson College of Business, Georgia State University, Atlanta, GA 30303 3083, USA*

Received 7 October 2004; received in revised form 24 March 2005; accepted 31 May 2005
Available online 11 July 2005

Abstract

This paper first defines and then presents a model of "relationship equity" for business markets. It points out that the potential benefits of managing relationship equity have been largely ignored and that a general model and stream of relevant research questions could be useful to marketing and relationship practitioners. The model developed considers the special case of key account management as antecedent, two different types of moderator variables, relationship equity as a perception by the buyer, and switching behavior via adoption of new telecommunication services as a result of this perception. The model is used as a basis for developing a number of working propositions.

Keywords: Relationship equity; Key account management; New telecommunication services

1. Introduction

The topic of interfirm relationships is one of the major business-to-business marketing issues currently being addressed by marketing practitioners and academic researchers (e.g., Berry, 1995; Hakansson & Ford, 2002; Morgan & Hunt, 1994; Sweeney & Webb, 2002). As companies increase their efforts in pursuing a targeted share of the customer's business (Anderson & Narus, 1999), sustaining customer relationships has become critical to success.

Vendors are increasingly urged to establish customer relationships that extend beyond individual market transactions (Berry & Parasuraman, 1991; Dwyer, Schurr, & Oh, 1987) and to direct resources towards building and strengthening existing relations with current customers (Anderson & Narus, 1991; Berry & Parasuraman, 1991). How firms relate to their market was one of several key scholarship imperatives identified by Kinnear (1999). Blatteberg, Getz, and Jacquelyn (2000) also argued that customer is a financial asset that companies and organizations should measure, manage, and maximize just like any other asset. This may be achieved through partnering by focusing on specific market segments and individual customer firms to target for close, collaborative relationships (Anderson & Narus, 1991).

Vendors who have successful relationships with selected customers in turn reaps the benefits of higher profitability through reduced marketing and administrative costs and better sales growth compared to supplier firms that use a transactional approach to servicing customers (Kalwani & Narayandas, 1995). However, recent research by Reinartz, Thomas, and Kumar (2002) and Hanssens (2003) have shown that there was little or no evidence to suggest that customers who purchase steadily from a company over time are necessarily cheaper to serve or less price sensitive. A framework balancing the resources between customer acquisition efforts and retention efforts in determining customer profitability maximizing balance was subsequently proposed by Reinartz and Kumar (2005). Further, relationship building may not only be the most important resource for the firm (Gadde, Huemer, & Hakansson, 2003) but also the source of sustainable competitive advantage.

* Corresponding author. Tel.: +61 2 9685 9684.
E-mail addresses: b.low@uws.edu.au (B. Low), MKTWJJ@langate.gsu.edu (W.J. Johnston).
[1] Tel.: +1 404 651 4184.

0019-8501/$ - see front matter © 2005 Elsevier Inc. All rights reserved.
doi:10.1016/j.indmarman.2005.05.007

Buyers themselves seek to reduce choices by engaging in ongoing relationships with marketers (Ganesan, 1994; Kalwani & Narayandas, 1995; Sheth & Parvatiyar, 1995), recognizing and formally rewarding differences based on their perceptions of how their vendors have treated them (Dorsch, Swanson, & Kelly, 1998). For instance, customers who perceive they are receiving value and feel valued by the vendor tend to spend more money with them on a per year basis and stay with the vendor longer (Berry & Parasuraman, 1991), especially when there are learning costs associated with switching vendors (Sollner, 1996).

A strong business relationship also provides the customer with the freedom from having to make decisions (Gwinner, Gremier, & Bitner, 1998), saving the customer energy and allowing time for other activities (Rosenblatt, 1977). Feelings of familiarity, personal recognition and social support (Berry, 1995) are also factors why buyers like to develop ongoing relationship with their vendors.

Research into sustainable buyer–seller relationships in business-to-business markets, especially on its drivers, has surged during the past ten years. Building on and adapting theories from a variety of disciplines, relationship researchers have proposed, examined and provided substantial insights about how drivers such as trust (Bitner, 1995; Kerrin, 2002; Schurr & Ozanne, 1995) and commitment (Anderson & Weitz, 1992; de Ruyter & Lemmink, 2001; Morgan & Hunt, 1994) have influenced behavior in relationships.

Others like Hakansson (1982) have argued that adaptations that provide value to one or both parties reduce costs, increase revenues and also create dependence between the parties (Cannon & Perreault, 1999). Parties in a committed relationship have also been found to develop resources and processes in unique ways and resist engaging in opportunistic behavior (Zineldin & Jonsson, 2000). The extent to which a vendor fulfills direct and indirect functions in a relationship has also been shown to have a direct positive impact on the relationship quality perceived by the customer (Walter, Muller, & Helfret, 2000; Walter, Muller, & Ritter, 2003).

While much has been written on relational drivers and relationship outcomes, the literature and empirical studies are deficient in one very important way. There has virtually been no research focus and evidence on the effects of relationship equity on buyer–seller relationships. Although one may get a sense of what relationship equity is, a comprehensive explanation, articulation, and its managerial implications and limitations, within the B2B literature is somewhat lacking. This is surprising considering that in its original conception, equity was originally limited to business relationships (Hinde, 1979). With roots in social exchange theory, sociologists have long thought about the role of equity in exchange relationships (e.g., Blau, 1964; Thibaut & Kelley, 1959).

In this paper we examine how relationship equity relates to buyer's switching behavior in a key account management program setting. These programs are generally typified by large investments by the supplier and the buyer, high switching costs, and extended duration. Viewed in this manner, equity goes beyond the basic notions of customer satisfaction and value. Equity also stresses benefits that are proportionate to one's inputs into the relationship (Kelley & Thibaut, 1978). It is concerned with perceptions of long-term value exchanges although such perceptions may be more immediate, indicating a sense of fair dealings. If there is perceived inequity in these value exchanges from either the supplier or the customer, each partner's desire for another supplier or customer will be increased.

Distinction is also made between key account management as a resource issue that may manifests itself at (a) a generalized institutional-level, and (b) specific-individual level. Our focus is at an individual level. Here, the key account manager is seen as a distinct actor from the organization it represents (Hakansson & Wootz, 1979), and buyers do differentiate and form separate evaluations between key account manager and the organization it represents (Doney & Cannon, 1997). From a behavioral perspective, key account management therefore centers on how these managers interact with buyers, and hence buyers' perceptions of the manager's relationship equity management efforts and skills become critical.

Our belief is that, depending upon a set of antecedents and the contextual, moderating factors surrounding these efforts and skills, buyers will switch to new suppliers when relationships are perceived to be inequitable. The research setting for this paper is the adoption of new telecommunication services. We choose this setting because of its high level of technological and market uncertainty, and the subsequent intuitive and logical notion that buyers sometimes do rewards their suppliers on the basis of whether they have been treated equitably as a result of these uncertainties. From this analysis, we formulated a number of working propositions followed by a discussion of managerial implications, and of future research needs. We start with an examination and articulation of some of the dimensions of relationship equity and our resulting definition of this construct.

2. A conceptualization of relationship equity

Equity has been defined as the feeling of well being, distributive justice, fair dealings, and as a feeling of getting what he/she deserves (Adams, 1965; Homans, 1961). This feeling or perception of dues or benefits may be immediate, indicating a sense of fair dealings. Or it may be assurances that current shortfalls in expected benefits will be made up in the future, generating a feeling of sociological indebtedness among parties to the relationships (Axelrod, 1984). Equity also stresses benefits proportionate to one's inputs into the relationship (Kelley & Thibaut, 1978) although what constitute "proportionate share of "buyers" outputs" is less clear. We do know, however, that this is highly perceptive and subjective in nature.