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Business customers' satisfaction: What happens when suppliers downsize?

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Abstract

Organizational downsizing has become commonplace in today's competitive environments. Over the past 10 years in the U.S. alone over 10 million positions have been eliminated. Recently, questions related to the holistic benefits of downsizing have emerged. One of these questions suggests that downsized companies may find it more difficult to fully satisfy their customers; especially if there have been significant cuts in key contact personnel. In view of this question, the work presented here examines whether downsized suppliers, as compared to non-downsized suppliers, enjoy higher (or lower) levels of customer satisfaction and loyalty among their business customers. Based on a sample of 560 purchasing professionals, this study indicates *that contrary to popular managerial schema* ([Lewin, J. E. (2003). An empirical investigation of the effects of downsizing on buyer–seller relationships. *Journal of Business Research*, *56*(4), 283–293]; [McKinley, W., Zhao, J., & Rust, K. (2000). A socio-cognitive interpretation of organizational downsizing. *Academy of Management Review*, *25*(1), 227–243]), downsized suppliers do a significantly worse job in delivering quality and value to their business customers. As a result, their customers are less satisfied and less loyal.

Keywords: Downsizing; Business customers' satisfaction

1. Introduction

Customer satisfaction significantly influences an organization's current and future performance (Anderson, Fornell, & Lehmann, 1994). Prior research suggests that customer satisfaction is an important source of competitive advantage (e.g., Rust, Zeithaml, & Lemon, 2000), often leading to customer loyalty and repeat purchase (Bolton, 1998; Lam et al., 2004). The benefits of customer satisfaction include increases in revenues, decreases in customer-related transaction costs, and reductions in price elasticity among repeat buyers (Fornell, 1992).

One important source of customer satisfaction is consistent, positive interactions with a firm's sales and customer service-support personnel. Key contact employees have been shown to influence customer satisfaction in a variety of settings including consumer services (Heskett, Jones, Loveman, Sasser, & Schlesinger, 1994) and industrial manufacturing and distribution (Bendapudi & Leone, 2002). Often, business customers' relationships with their suppliers' sales and customer-support personnel are as strong (or even stronger) than their relationships with the vendor firms themselves (e.g., Gwinner, Gremler, & Bitner, 1998). Further, the relationships between organizations (i.e., buyer and supplier firms) are frequently anchored in the personal relationships among the staff within the respective organizations—i.e., purchasers and sales/support personnel (Lian & Laing, 2007). As such, the professional and interpersonal relationships among these boundary spanner personnel often significantly influence the continued success of the inter-organizational relationship (Granovetter, 1985); leading Ennew and Ahmed (1999) to argue that these types of interpersonal, inter-firm relationships can foster satisfaction even when technical performance fluctuates. Thus, when a supplier's key contact employees are no longer available, as is often the case in downsized firms (e.g., Eisenberg, 1997; Markels & Murray, 1996; Wilkinson, 2005), the relationships between the supplier and its customers become vulnerable to

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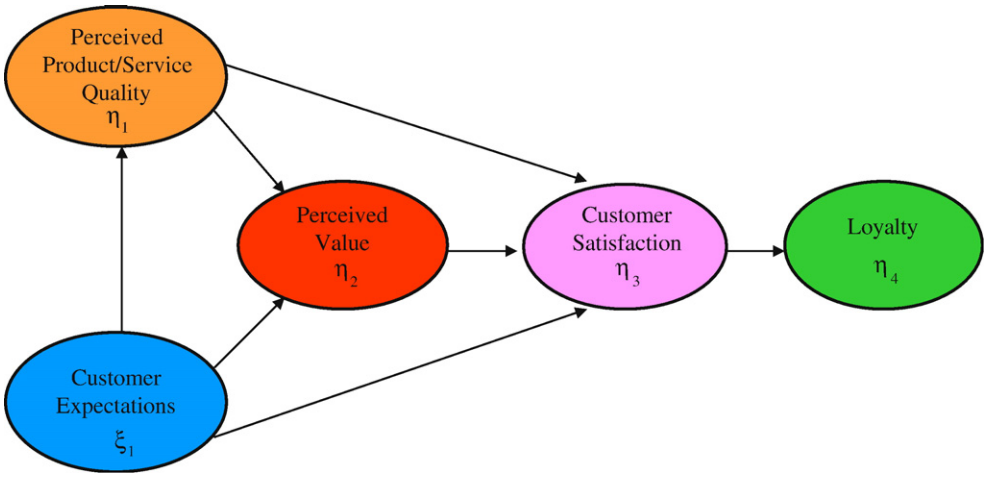

Fig. 1. Business customer satisfaction. The model exhibit above will be tested using a sample of 294 non-downsized suppliers and 266 downsized suppliers. The two groups will be compared, using SEM group comparison techniques, to assess (1) if there are significant differences in the two groups across modeled constructs, and (2) if significant differences exist—where and how those differences manifest.

competitive actions and customer defections (Bendapudi & Leone, 2002).

Interestingly, it appears as if the important relationship between customer satisfaction and stability in key contact personnel is overlooked by organizations engaging in downsizing activities. Instead, these organizations focus on the savings found in reduced operating expenses – i.e., reductions in employee wages, health and retirement benefits, etc. – and, the often anticipated improvements in flexibility and market responsiveness as a result of their downsizing initiatives. Recently, however, the hidden costs and holistic benefits of downsizing have come into question. Among these costs is the inability to fully satisfy customer needs and the concomitant reduction in customer satisfaction (Fornell, Johnson, Anderson, Cha, & Bryant, 1996).

While limited research, coupled with anecdotal accounts, provide some insight into the relationship between organizational downsizing and customer satisfaction in business-to-consumer markets (e.g., Bryant, 1997; Fornell et al., 1996), to date no study has empirically examined these relationships in business-to-business markets. However, many believe that behavior among buyers in these two environments is significantly different; thus empirical findings from B2C research may not be readily applicable in B2B environments (e.g., Doney & Cannon, 1997; Ganesan, 1994; Edward, Gut, & Mavondo, 2007). This may be especially true when one considers the relationships among quality, value, satisfaction, and loyalty in B2B as compared to B2C environments (Lam et al., 2004); especially as it relates to the intangible aspects of the selling firm's offerings (Beverland, Napoli, & Lindgreen, 2007)—for example, the relationships buyers have with the suppliers' key contact personnel.

Therefore, a major contribution of this work is its empirical examination of these relationships in B2B contexts. More specifically, survey data collected from 560 purchasing professionals are used to compare downsized suppliers', versus non-downsized suppliers', ability to satisfy their business customers. Adopting a model similar to the ones used to assess customer satisfaction in consumer markets (e.g., Fornell et al., 1996), customer satisfaction is positioned as the central construct in a system of relationships. As shown in Fig. 1, the proposed model suggests the antecedents of overall business customer satisfaction are customer expectations, perceived product/service quality, and perceived value. The outcome of overall business customer satisfaction is customer loyalty (including repeat purchase intentions).

The balance of this work is organized in the following manner. First, the potential link between organizational downsizing and customer satisfaction is outlined. Next, the relevant extant literature is reviewed, forming the basis for the study hypotheses. Then, the research methodology is discussed. Finally, a summary discussion is developed, followed by the study limitations and directions for future research.

2. Organizational downsizing and customer satisfaction

2.1. Organizational downsizing

Downsizing has become commonplace in industrialized markets (Nixon, Hitt, Lee, & Jeong, 2004). For example, between 1995 and 2005, approximately 10 million people lost their jobs to downsizing in the U.S. alone.[1] Both supplier and buyer firms have been affected by downsizing initiatives. However, according to the Bureau of Labor Statistics Data (2005), sales and marketing personnel have been hit harder than many other groups.

[1] This data was accumulated over time from various announcements posted on cnn.com, cnnfn.com, and from press releases obtained from Challenger, Gray, and Christmas Inc., a leading authority on organizational downsizing.