



Understanding the psychological process underlying customer satisfaction and retention in a relational service

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ABSTRACT

This paper reexamines the psychological process underlying the relationship between customer satisfaction and customer retention in a relational service context. It is based on a composite model of the attitude-behavior relation, which takes both attitude toward target and attitude toward behavior into account. Data were collected from a survey with a sample of 209 clients from a major credit counseling organization in the USA. Account data indicating those clients' actual retention behavior were matched with the survey data. A two-step structural equation modeling (SEM) procedure was employed to establish the construct validity and test the hypotheses. The results revealed that the effect of customer satisfaction on retention is mediated by the more proximal determinants of the actual retention behavior. Specifically, customer satisfaction has both direct and indirect effects on customers' attitudes toward remaining in the Debt Management Program (DMP), which is the proximal predictor of customer retention. In addition, satisfaction alone cannot guarantee customer retention. Customers' perceived behavioral control exerts direct effects on their intention to remain and retention.

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1. Introduction

With the increasing chances of losing current customers and the enhanced cost of attracting new customers in today's intensely competitive market, companies are devoting themselves to more strategic efforts to retain customers (Fornell and Wernerfelt, 1987). In the extant literature of customer retention, satisfaction has been identified as a central determinant of customer retention (Cronin et al., 2000; Rust and Zahorik, 1993; Mittal and Kamakura, 2001; González et al., 2007), and its effect on customer retention has been intensively discussed within the paradigm shift from transactional marketing to relationship marketing.

Despite the general popularity of satisfaction research, the findings regarding the satisfaction-retention link are inconsistent. First, the relationship between satisfaction and actual retention has been found to be fairly weak (Hennig-Thurau and Klee, 1997; Anderson and Sullivan, 1993). For example, Newman and Werbe (1973) found that satisfaction can explain only 6% or 7% of the variance of retention. Second, some recent studies (Seiders et al., 2005; Jolley et al., 2006; Balabanis et al., 2006) uncovered the contingent nature of the relationship, and several moderating effects of customer, relational, and marketplace characteristics have been identified. Third, whether

there are any mediators underlying the relationship is not clear. Although Hennig-Thurau and Klee (1997) argued that there are potential intervening variables such as relationship quality mediating this relationship, only limited empirical research has dealt with this issue. Overall, how and why customer satisfaction has an impact on customer retention remains unclear and the underlying psychological process by which customer satisfaction affects customer retention deserves further research.

This paper proposes that a composite model of the attitude-behavior relation can shed some light on understanding the psychological process underlying the customer satisfaction-retention link and provide an alternative explanation of the mediating mechanism behind this relationship. In this model, "attitude toward target" and "attitude toward behavior" are both taken into consideration. Customers' overall satisfaction with the organization, concerning customers' evaluative beliefs of the organization, is considered as a surrogate construct of "attitude toward organization," and proposed as a distal determinant of the actual retention behavior. Furthermore, the indirect effect of a customer's satisfaction on retention is argued to be carried through the impact of a proximal determinant, that is, attitude toward remaining behavior (Eagly and Chaiken, 1993). In addition, satisfaction may affect attitude toward remaining behavior both directly and indirectly.

Compared with previous studies on satisfaction and retention, this study includes the following unique features. First, this paper examines the relationship between satisfaction and retention in a relational exchange by studying the consumers who enrolled in a debt

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management program. Different from other service industries characterized by discrete and recurring purchases such as retailing and restaurants, credit counseling services are provided on a continuous and contractual basis (Seiders et al., 2005). Credit counselors first help consumers work out a comprehensive repayment plan with lower interest rates agreed to by all their creditors. Then, credit counselors give consumers ongoing advice to help them budget their expenses and consistently deposit their payments each month through the program so as to pay off their debts eventually (Hunt, 2005). Customer retention is a critical issue in such service industries characterized by relational exchange. Only if consumers remain in the service can the credit counseling service organization receive “fair share” payments from the creditor as well as collect service fees from consumers. Second, we defined customer satisfaction as a cumulative evaluation of a firm’s performance derived from customers’ prior experiences with the firm (Anderson et al., 1994; Homburg et al., 2005). Although in some prior studies customer satisfaction has been conceptualized at the transaction specific level as a degree of fulfillment (Agustin and Singh, 2005), we believe that when the nature of exchange is relational rather than transactional, the cumulative overall evaluations are more likely to determine customer retention behavior (Boulding et al., 1993). Third, unlike the majority of prior research that uses behavioral intention as a surrogate measure of customer retention (Gustafsson et al., 2005), this paper uses customer account information from a service provider to measure customers’ actual retention status. This allows us to examine how satisfaction and intention are associated with actual retention. Finally, many previous studies used self-reported, cross-sectional data in investigating the customer satisfaction-retention link. In contrast, this paper links survey data including satisfaction, behavioral beliefs, attitude toward remaining, and intention to remain to customer account data of actual retention status, which were collected 3 months after the survey was conducted.

2. Theoretical framework

This paper employs a composite model of the attitude-behavior relation to reexamine the psychological process underlying the customer satisfaction-retention link. As presented in Fig. 1, satisfaction with the organization, viewed as attitude toward target (i.e., service organization), influences the attitude toward remaining behavior directly or indirectly. The indirect effect is via the mediating effect of anticipated behavioral outcomes of remaining, such as utilitarian out-

comes and social outcomes (i.e., normative outcomes). In turn, attitude toward remaining, as well as normative outcomes and perceived behavioral control, influences consumers’ behavioral intention. Finally, consumers’ behavioral intention and perceived behavioral control together have an impact on consumers’ actual retention. In addition, perceived behavioral control affects satisfaction.

This composite model of the attitude-behavior relation proposed by Eagly and Chaiken (1993) is an extension of the theory of reasoned action (TRA) proposed by Fishbein and Ajzen (1975) and takes both attitude toward target and attitude toward behavior into consideration, although at different points of a sequential process. In TRA, only proximal causes of consumers’ remaining behavior are understood in terms of their attitude toward remaining behavior, subjective norms, and intentions. In contrast, the current composite model also captures the sense that remaining behavior may be affected by attitude toward target. In this paper, customer satisfaction with the service organization is considered as a surrogate construct to “attitude toward target,” and the justification is provided in the following section. It is necessary and reasonable for this study to include attitude toward target into the attitude-behavior model because consumers’ attitude toward a service organization is very relevant to their later remaining behavior and will exert a great influence on their remaining judgment and decision (Snyder, 1982). However, we have to mention that this composite model is not contradictory to the spirit of TRA since attitude toward target (i.e., attitude toward service organization) is proposed to be the distal cause of remaining behavior, whose effect is mediated by attitude toward remaining behavior, the proximal predictor in the TRA model (Eagly and Chaiken, 1993). On the whole, this composite model follows a sequence that attitude toward target impacts behavioral beliefs, which, in turn, impact attitude toward behavior. In turn, attitude toward behavior impacts behavioral intentions, and so on. In addition, perceived behavioral control, a unique construct in the theory of planned behavior (Ajzen, 1991), is considered as an exogenous variable in the conceptual framework. In the following sections, first customer satisfaction as the attitude toward target, then the relationship between attitude toward target and attitude toward behavior, and finally the role of perceived behavioral control is explained.

2.1. Customer’s overall satisfaction with the organization as attitude toward target

Customers’ overall satisfaction with the organization is conceptualized as a cumulative, global evaluation of the organization derived

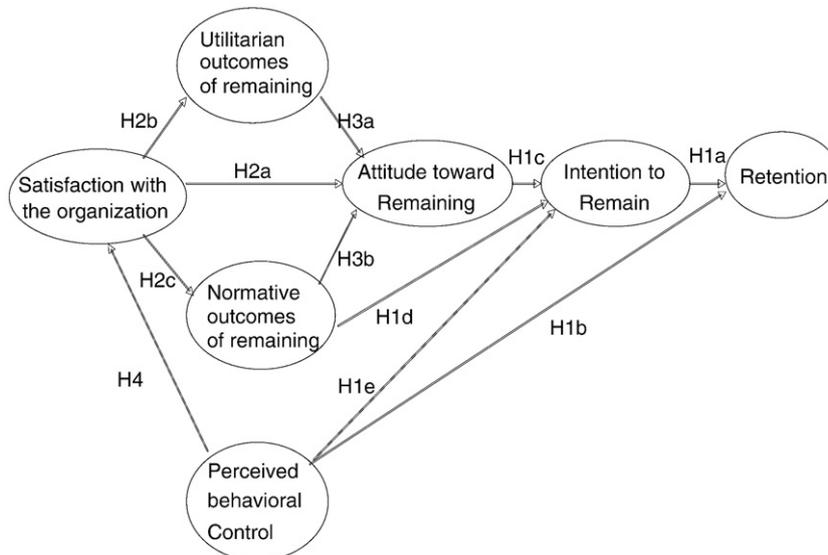


Fig. 1. Theoretical framework (Model 1: full mediation).

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