Why Satisfaction Doesn’t Buy Loyalty

The Role of Industry Context Effects

Inaugural speech

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**Prologue**

Good afternoon Rector Magnificus, ladies and gentlemen,

Some four years ago the dean of the Business School asked my colleague Michel Vandenput, a former senior partner at KPMG, to build a major in Strategy and Marketing at Nijmegen. It had to complement the School’s specialization on internal organizational issues such as Human Resource Management and Organizational Change Management. Vandenput created a program with a broad approach to the relationship between a company and its environment, bringing together elements of strategy, marketing, industry and market analysis, distribution and logistics. He called it “Strategy, Marketing and Distribution”. The program has been very successful ever since. It serves about 250-300 students a year, or almost half of the Business School’s student body.

Faced with the introduction of a Bachelor and Master structure throughout the European Union, the School has recently made some changes. Separate Masters degree programs will soon be introduced for Strategy and Marketing. It will be a challenge to position these new Master programs well. The “battle for the consumer’s or student’s mind” involves three important decisions. It requires

1. Choosing a desirable and recognizable position,
2. That is different from that of competitors, and
3. That builds on the organization’s strengths.

Thus, the challenge will be to create something new, while maintaining the unique aspects of the old program. One of the strengths that Nijmegen has is its integrated approach to marketing and strategy. My research work of the past few years and my plans for the future focus on both marketing and strategy. In my speech today, I will address the effect of industry context on consumer behavior. Traditionally industry context effects are considered part of strategy, whereas consumer behavior is a marketing topic.
1 Introduction

The last decade has been described as the “relationship” era as interest in understanding the relationship between consumers and companies mushroomed into a significant area of research in marketing. There is every indication that this growth will continue. Two important points fuel it. First, the recognition that keeping customers is just as, or even more important, than attracting new ones. Second, the fact that consumer loyalty is not constant and that conventional constructs of satisfaction and trust often fail to show a strong association with consumers’ intention to repurchase (Oliver 1999).

Some of the problems of loyalty research can be summarized as follows:

- Many companies still have a poor understanding of the satisfaction-loyalty mechanisms of their markets. For instance, they frequently do not realize that customers’ “trust in the company” and “perceived value (benefits versus costs) of maintaining the relationship with the company” are important mediating variables.

- Many companies also use poor measures that lack validity and reliability. For instance, often single-item measures of loyalty are used. These generally fail to tap emotional involvement with the brand or company, an important factor in predicting repurchases.
• Finally, managers tend to misinterpret market research results. Managers often think that when 80 percent of their customers respond with an overall satisfaction rating of satisfied or over (e.g., 50% satisfied and 30% completely satisfied), they are doing well. However, recent research shows that only very satisfied customers repurchase. Moreover, even a small percentage of dissatisfied customers may buy a company a lot of negative word-of-mouth and publicity.

But there is more. Empirical research has begun to systematically document that whatever associations that do exist between loyalty and satisfaction depict wide variability across industry contexts. In some studies, the association between satisfaction and loyalty ranges from almost non-significant (e.g., cars) to highly significant, near perfect association (e.g., local telephone services). Such industry differences may be attributed to different industry structures (Jones and Sasser 1995). However, consumers’ different attitudes towards the sellers in those markets may also play a role. I do not think that I have to persuade you that consumers may behave differently toward real estate agents and second hand car dealers than to, for instance, retail clothing stores.

However, despite this basic logic, in marketing this area has remained largely unexplored. It is my intention to explore the effect of the industry context on satisfaction and loyalty and to present an effective method
to study this issue. The approach is currently developed with my two research partners from Germany and the US, Hartmut Holzmueller from Dortmund University and Jagdip Singh from Case Western Reserve University in Cleveland, Ohio.

My speech is organized as follows. First I will discuss the way in which past consumer marketing research has dealt with industry context effects. Next, I will discuss the consumer disposition approach that we have developed. I will show some initial results focusing on direct and moderating effects on satisfaction and loyalty relationships. These relationships are an excellent testing ground to demonstrate industry context effects because results have been shown to differ largely across industries. Finally, I will discuss a research agenda for the new marketing group.
2 Dealing with industry context effects in marketing

2.1 Past research

Past research has tended to cope with industry variability in consumer and firm relationships in one of three ways. One approach has been to ignore the across industry heterogeneity and simply obtain an aggregate sense of the focal inter-relationships of a study. It is reasoned that conceptual interest lies in the associations among theoretical constructs and that contextual variability is akin to random “error” or holds little academic interest. Characteristic for this approach is the use of large cross-industry samples. For instance, Tax and colleagues (Tax, Brown and Chandrashekaran 1998) examined the association between consumers’ satisfaction with complaint handling and their commitment to the relationship with the service provider by aggregating across six different service industries. No attention was given to possible industry differences.

The second approach copes with industry variability by describing the heterogeneity in consumer-firm relationships. This type of research controls for industry effects, but typically does not propose any hypothesis concerning industry variability a-priori. The industry differences obtained are described and interpreted. For instance, Jones and Sasser (1995) describe the patterns of

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1 Sections 2 and 3 draw from Nijssen et al (2001).
satisfaction-loyalty relationships across different industries. They interpret the widely varying results in the light of the competitive environment across industries attributing it to differences in industry structure.

The third approach that we want to identify, although less common, attempts to develop a model to “explain” industry context variability and hypothesize its effects on consumer-firm relationships. Often, these studies utilize structural characteristics of industries including the concentration level, intensity of rivalry, regulatory environment, and switching constraints to model industry variability (e.g., Singh 1991). Although this approach has produced useful insights, the understanding of industry context effects remains limited because of a lack of vigorous approaches for exploring the phenomenon. As such, Anderson (1994, p. 25) observes that, although identification of differences across industry contexts is interesting, “it raises an important question: Why do we observe these differences?” Or why and particularly how do they emerge?

2.2 Toward a better explanation

In order to contribute to the discussion and advance the theories on modeling industry context effects, we suggest an approach rooted in the consumer attitude or consumer disposition literature. Previous research suggests that consumer attitude towards marketing practices may help our understanding of consumers’ behavior (Barksdale and Darden 1972). This is
underscored by the fact that commercial market research companies and governmental agencies regularly collect and report data on consumers’ overall or industry specific confidence or sentiment.

However, before we continue let me explain what we mean by consumer dispositions, and briefly outline the basic idea for assessing industry context effects. The assumption is that consumers’ (and managers’) decision making and behavior is influenced by the industry context in which it occurs. However, rather than being influenced directly by industry structure and developments, consumers (and managers) are influenced indirectly (are mediated) by their perceptions of market phenomena and the “attitude” that they develop through accumulating knowledge and experience with the industry. We refer to this state as consumer disposition.

The dispositions toward the industry or market that consumers (and sellers) develop over time influence their behavior and help to explain the evolution of the marketplace. These dispositions are not physical representations of the market but “attitudinal” drivers and are part of the individuals in an industry. Because of their aggregated nature, consumers’ and sellers’ dispositions influence behavior like atmosphere or climate influences a relationship (e.g. IMP group). Like an invisible hand it affects buyer-seller interactions and charts an industry’s course. Consequently, the disposition or climate argument serves as a theory to explain why and how industry context affects behavior. It helps to bridge the
two levels of abstraction involved, i.e. individual and the industry or market level.

Let me briefly summarize the reasons for suggesting this approach.

1. Previous research suggests that consumer attitude towards marketing practices may be important for understanding consumer behaviors (Barksdale and Darden 1972)
2. The dispositional approach has yielded useful insights in other area of marketing inquiry, such as research on the adoption of innovations (Steenkamp, Hofstede and Wedel 1999), and
3. A theory is required to link phenomena of different levels of abstraction. Without a theory model mis-specification and incorrect operationalization are likely to occur (Morgeson and Hofmann 1999). The industry variation found in satisfaction-loyalty relationships indicates to possible mis-specification of the models used.

In summary, our research suggests that marketing research has failed to really include industry context effects in its perspective. Consumer disposition toward an industry may be a suitable mechanism for modeling such context effects. It has the power to mirror the industry context and is close enough to the consumer to affect consumer behavior.
Let us take a closer look at consumer disposition toward an industry.

2.3 Consumer disposition

Rather than relying on some "objectively" defined characteristic of an industry like in the structural approach, utilized in past research, a consumer's "subjective" perceptions and personal characteristics seem to hold more promise for modeling industry context effects.

The assumption that markets are physical entities is well accepted in economic thinking and goes back to the marketplace, as we knew it in medieval times. However, modern markets show that markets also exist without constraints of time, place and physical markers. Without tangible manifestations, agreement on the existence and boundaries of modern markets must be inferred from stories and joint sense making between sellers and customers. Therefore they are better thought of as social and sociocognitive (=knowledge) constructs that become more stable over time as "the market" matures. (Rosa, Porac, Ruser-Spanjol and Saxon 1999).

However, consumer dispositions go beyond perception and assimilation of experiences, and even attitude toward (sellers in) an industry. They are an agglomeration of cognition, affect, and action tendencies toward companies that vary across industry contexts. Consistent with recent research these consumer dispositions are conceptualized to emerge as consumers synthesize their information and experiences within an industry
but across multiple exchanges to develop higher level inferences and make an industry representation. Such higher order inferencing may be a complex process in which personality plays an important role. It can involve

- a cognitio-emotional interpretation of individual exchanges with one or more sellers in an industry
- that is filtered by perception of the individual consumer,
- aggregated across sellers, experiences and time through a process of assimilation, updating, and projection, and
- shaped and complemented by personal characteristics of the individual (see Figure 1).

Figure 1: The disposition concept

Personality research (Mischel and Shoda 1999) established that such dispositions
are potent constructs that exert a consistent and significant influence on individual judgments and behaviors.

We used desk research and in-depth consumer interviews to identify the dimensions of consumers’ industry context disposition. The results proved that industry is an adequate level of reference (see also Myers-Levy and Tybout 1989, Sutcliffe and Huber 1998), and that consumer perceptions and consumer interactions with sellers are indeed affected by dispositions toward the industry.

After a careful analysis of both the empirical data and the consumer attitude toward business literature, we identified two basic dimensions of dispositions, (1) valence, referring to the overall positivity or negativity of judgments and behavioral tendencies, including benevolence, innovation, and customer orientation of the sellers in the industry, and (2) marketplace efficacy, referring to the perceived control that consumers feel that they have relative to the sellers in the marketplace.

You may notice the relationship with a number of traditional industry characteristics. For instance, industry structure and concentration tendencies are consistent with the efficacy (or power) dimension. And, competition and cooperation will be correlated with negative and positive valence respectively (Ostrom and Iacobucci 1995).

A set of four holistic consumer dispositions toward the market emerges when
we use a 2 x 2 classification and the dimensions of valence and efficacy. The quadrant positive valence and highly efficacious consumers concerns consumers that could be considered “active content”. They are potential apostles for a firm and its industry based on their positive “attitude” toward the industry and the fact that they feel relatively powerful or effective. Negative valence and high efficacy refers to discontent consumers. They have a negative “attitude” toward the industry and are able to complain or feel powerful to exit the market if necessary. The combination of positive valence and low efficacy refers to content but passive consumers. The quadrant of negative valence and low efficacy (powerless or even helpless) represents alienated consumers, i.e. consumers who are discontent but feel numb. (see Figure 2).

<table>
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<tr>
<th><strong>Valence toward the industry</strong></th>
<th><strong>Marketplace efficacy</strong></th>
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<td><strong>Powerful</strong></td>
<td><strong>Powerless</strong></td>
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<tr>
<td><strong>Positive</strong></td>
<td>Active Content</td>
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<tr>
<td><strong>Negative</strong></td>
<td>Discontent</td>
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**Figure 2: The consumer disposition toward marketing practices framework** (based on Nijssen, et al 2001)
Although our objective is to identify or study these types of overall dispositions, we thought that utilizing these two dispositional dimensions—valence and marketplace efficacy—in an initial test might be useful. If the results from this initial study, using the two dimensions are promising, future studies with more comprehensive (multi-dimensionality) and rigorous (operationalizations) dispositional constructs will be warranted.
3 Initial test and results: dispositions’ direct and moderating effects on satisfaction-loyalty

To test the direct and moderating effects of our two dispositional dimensions, i.e. valence and marketplace efficacy, we used an elaborate satisfaction-loyalty model that included relational trust and value as proximal antecedents of relational loyalty, and used satisfaction as the precursor of trust and value. (Singh and Sirdeshmukh 2000). This STVL model is shown in Figure 3. The deliverance of satisfaction will buy a seller trust and eventually a consumer’s willingness to invest in his/her relationship with the seller. The latter will be based on perceived relational value, i.e. a comparison of the benefits/cost involved in maintaining the relationship. This relational value is the customer’s will finally result in consumer loyalty to a firm or brand.

The two dispositional dimensions are argued to have positive direct and moderating effects on the elements of the model and their relationships. A direct effect on, for instance, loyalty implies a general, overall effect on loyalty’s score for all respondents. This will cause an overall upward shift of the function or curve. A moderating effect affects the relationship between the two variables (e.g.,

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2 Here trust is defined as the expectations held by the consumer that the provider/seller is dependable and can be relied upon to deliver on its promises, while value is defined as the consumer’s willingness to commit to the relationship based on his/her perception of the cost/benefits involved.
satisfaction-loyalty) affecting the slope of the function or curve.
Figure 3: The Direct and Moderating Effects of Consumer Dispositions on the STVL Model (direct effects = bold; moderating effects = dotted)
A large sample of US consumers responding to questions pertaining to the clothing retail and non-business airline travel industries respectively was used to test the model and the disposition effects. The data were analyzed utilizing path analysis with EQS software.

The results supported our ideas. First, the base-line model fitted the data well and consumer disposition proved to have significant incremental value over the STVL- model. Second, disposition had a better explanation for the industry differences than the industry “dummy” that was used as a control variable. Third, three significant positive direct effects were found, that is (a) valence on satisfaction, (b) valence on value, and (c) efficacy on satisfaction. Apart from these “spill-over” direct effects, consumers’ valence and efficacy dispositions also demonstrated “modifying” effects. First, valence and efficacy had the power to either significantly decrease (even shut-off) or increase the link between trust and loyalty. For consumers with a high disposition the trust-loyalty relationship was much stronger than for consumers with low dispositions (for them the relationship was zero). Second, consumers with a low efficacy disposition had a strongly increased direct relationship

3 It should be noted that the industry dummy was also significant and provided additional explanation to the model. This may be caused by the basic disposition measures used.
between satisfaction and loyalty, a link absent for highly efficacious consumers.

Let us take a closer look at the results. When either dimension of disposition was held at the “average” level, consumer’s trust in the specific firm with whom s/he maintained a relational exchange had a positive and significant effect on his/her loyalty toward this firm. However, when the consumer dispositions toward the industry were “low” due to either highly negative valence or a sense of helplessness (“low” efficacy), the strong relationship between trust and loyalty vanished to insignificance. Because dispositions had no direct effect on trust this implies that, regardless of the level of a consumer’s trust in the exchange-specific firm, context-induced dispositions can shut off its link to loyalty resulting in an absence of trust-based consumer loyalty. Conversely, when a consumer’s dispositions are “high” due to either highly positive valence or a heightened sense of control in the industry-market (“high” efficacy), the relationship between trust and loyalty is increased approximately two-fold.

In other words, in highly favorable industry contexts, consumers appear to reward exchange-specific firms that earn their trust with high levels of loyalty. Such amplifying advantages accrue to individual firms not simply because they are more effective in building trust with the individual customers, but because they belong to an industry that is perceived by consumers to be responsive yielding a greater sense of
control to the consumers and providing them with positive experiences. In industry contexts that consumers perceive negatively firms will have to work much harder, and first overcome this resistance toward the industry members and their behaviors that underlie these sentiments.

The conclusions are that
1. Consumer disposition is a powerful tool in explaining industry differences.
2. When the dispositions of the target consumers toward the industry are unfavorable, firms should deliver satisfaction. When dispositions are favorable the emphasis should be on building trust.
4 Formulating a research agenda

I will next formulate my research agenda. The marketing group of the Strategy, Marketing, and Distribution department is already working on some of the areas or projects that I will identify. Other areas will be addressed together with our international partners in the near future. However, because our marketing group is expanding rapidly and new people with their own research and research interests will join us in the near future, the research program that I am purposing here today will be complemented with a number of new initiatives. We also will strengthen the relationship between our research and educational program in accordance with the strategic course recently charted by the University. The agenda that I am about to present will be a guideline to the emerging strategy. Subjects that will definitely be included are brand management, managing the relationships with stakeholders, and new product development.

I would like to identify three major research areas related to the disposition approach to industry context effects formulated:

1) Further developing the current framework of Consumer Disposition toward Firms

First, the construct of consumer disposition needs to be developed further and tested in different industries and circumstances. The dimensions can also be
improved drawing on existing consumer and market orientation literatures. In addition to improving the general dimensions we should study relevant developments in future markets. Internet’s affect on customer-seller relationships and consumers’ increased sensitivity to firms’ levels of social responsibility prove that market climate and thus consumer dispositions need some industry adaptation and may change rapidly.

Consistent with this notion of evolution of dispositions we must look at the difference between weak and strong situations and the stabilization of market representations over time (cf. Sutcliffe and Huber 1998). Strong situations engender clear meanings and lead everyone to construe events in the same way, inducing rather uniform expectancy and response patterns. Weak situations, on the other hand, lack such clear meaning leading to a different interpretation of events or situations and causing differences in consumer reaction patterns. Consequently, consumer dispositions’ effect may differ across these situations.

Finally, cross-cultural effects regarding consumer disposition toward specific industries may be studied. Hofstede (1980) identified several dimensions of national culture that can be related to consumer disposition, such as femininity4.

4 “Masculine” societies place greater value on wealth, success, ambition, material things, and achievement, whereas...
and power distance. The latter may affect the evaluations of consumers’ marketplace efficacy, whereas the former could affect the evaluation of the valence dimension. However, as the dispositions we propose are measured at the individual level value differences are also better operationalized at the individual level (e.g. Schwartz).

2) Using the disposition approach to study Managers’ Dispositions towards their markets

Just as consumers have dispositions toward an industry, managers will have dispositions toward their markets. These will affect their strategic and marketing decisions for consumer markets. Although managers and team structures have been recognized to play an important role in explaining business decisions most strategy research has focused on managers’ perceptions rather than dispositions. This may explain the variety in the level of significance and strength of the relationships shown in research (Sutcliffe and Huber 1998). Regarding “firm-consumer markets” manager dispositions should exist of largely the same dimensions as the consumer dispositions outlined above. Their effect can be investigated using generally accepted models for decisions regarding innovation, and sales and marketing decisions such as complaint handling.

“feminine” societies value people, helping others, preserving the environment, and equality (Hofstede 1980).
However, for business-to-business markets a separate study will be necessary to identify the correct set of dispositional dimensions. The vast amount of relationship and context literature (e.g. IMP group’s idea of atmosphere) should be tapped. Because Information Technology has dramatically changed the landscape of supplier and purchaser relationships in a Business-to-Business context specific attention should be given to technology’s role.

3) Industry dynamics and the role of dispositions

Although I have already touched upon the role of market evolution while addressing the further development of the disposition construct, its theoretical value for explaining market and industry evolution should be explored systematically. The concept of consumer and manager disposition towards the marketplace is an important force impinging on long-term consumer-firm (and business-to-business) relationships such as the rise and fall of product categories and industries. A clear relationship with industrial organization theory exists. For instance, Hirschman (1970) developed a consumer-based explanation drawing upon economic and political theory to explain consumers’ levels of satisfaction and particularly their complaint behavior or assertiveness. In industries where consumers are disposed toward exit and feel powerful (e.g., under “perfect” competition), Hirschman reasoned that satisfaction levels would be
high. Sellers would work hard to avoid loss of sales resulting from exit. Likewise, in industries where consumers are disposed toward voice satisfaction levels would be high because sellers would be aware of the danger of organized protest. However, when consumers’ disposition toward voice and exit is curbed either because consumers feel powerless or are not organized (e.g., in “loose monopolies”), satisfaction levels might suffer. In other words, when consumer interests and dispositions start to diverge without correction taking place, markets may jam.

A more extensive and longitudinal study using dispositions—tapping also the customer and market orientation literatures—may help to understand fundamental market shifts.
5 Summary and Conclusion

In summary, I have suggested that industry context effects are best modeled using consumer dispositions towards marketers in an industry. Consumer dispositions rather than objective industry characteristics or perceptions drive consumer behavior. Based on a careful analysis of the dimensions of consumer disposition we formulated a taxonomy with four dominant dispositions characterizing different consumer “attitudes” toward and industry.

In my research agenda I suggested to develop the approach further and apply it also in B-to-B contexts as well as use it for studying management behavior. The marketing group will use these ideas as a guideline for research. However, the strategy will emerge over time because of the group’s rapid growth.

The conclusion is that relationship management and the role of industry context effects in particular, is an area that holds promise for new research in strategy and marketing. It can help to retain and strengthen the link between the two disciplines.

It is important for the true understanding of relationship management that consumer dispositions are included. This should lead to better quality service for us all in the future.
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References


