Chapter
2

Chapter 2: Literature Review

This chapter reviews some of the major studies on customer satisfaction and other related concepts such as expectation, disconfirmation, intention, market share, loyalty, repeat purchase, post purchase, performance and future interaction with salespersons.

2.1 Customer Satisfaction / Dissatisfaction (CS/D)

In the late 1960's, Customer Satisfaction/Dissatisfaction (CS/D) began to emerge as a legitimate field of market research. An experimental study of customer effort, expectation and satisfaction was conducted. Two psychological theories "contrast" theory and "dissonance" theory are used in predicting the effect of disparity between expectations and product value of customer satisfaction. The contrast theory implies that a customer who receives a product less valuable than expected will magnify the disparity and become highly dissatisfied. On the other hand, if the dissonance theory holds, the customer will experience dissonance and will seek to reduce the dissonance by adjusting his perceptions or expectations of the product.

2.2 The Disconfirmation Paradigm

Since the early 1970's the volume of research done on customer satisfaction has increased dramatically. Numerous theoretical structures have been proposed to examine the antecedents and consequences of satisfaction and develop meaningful measures of the satisfaction construct. The vast majority of these studies have used some variant of the disconfirmation paradigm, which holds that customer satisfaction is related to the size and direction of the disconfirmation, which is defined as the difference between an individual's pre-purchase expectations (or some other comparison standard) and post-purchase performance of the products or services (Anderson 1973; Oliver 1980; Olson and Dover 1979; Swan and Trawick 1980; Tse and Wilton 1988).

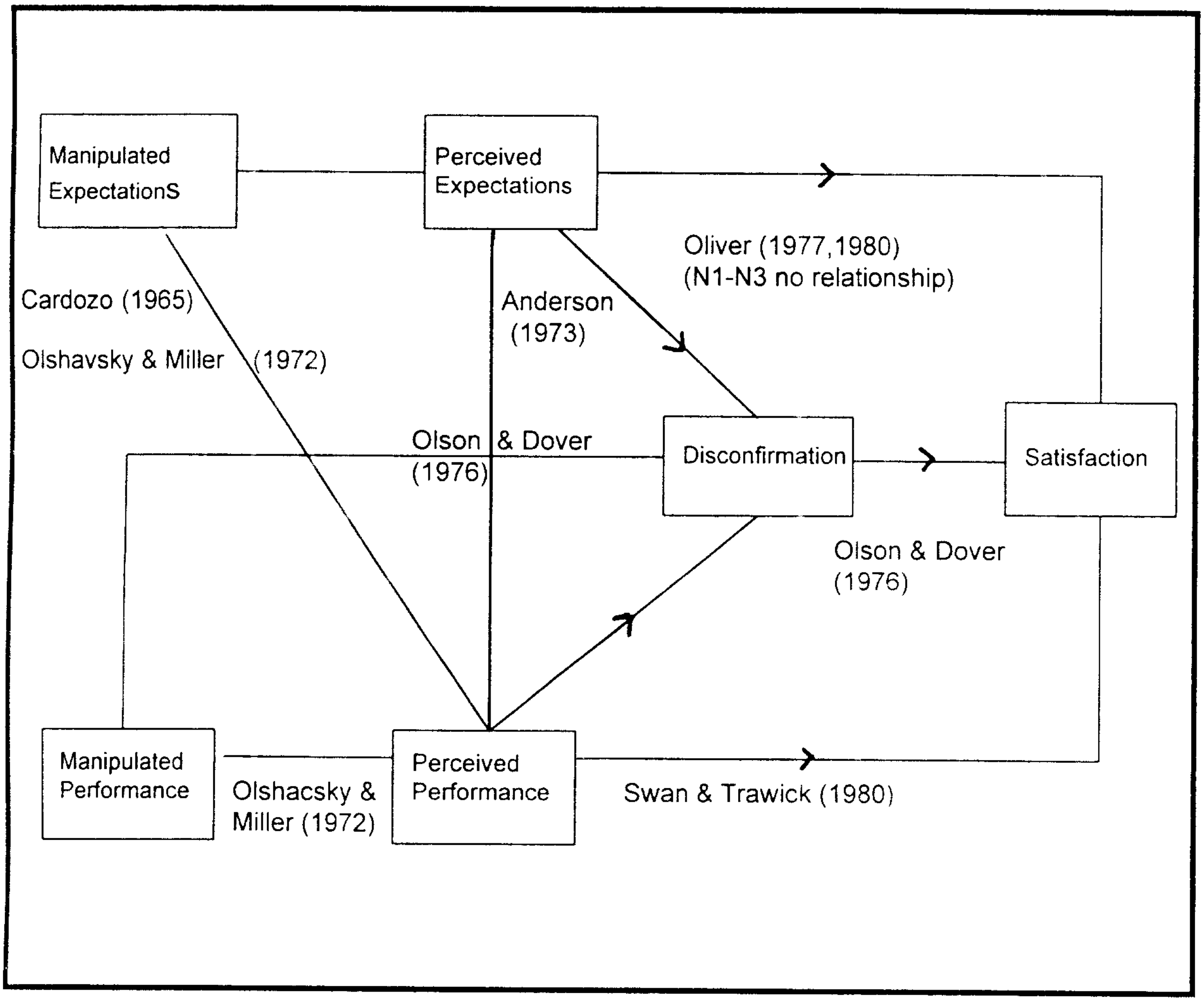
An individual's expectations are :

1. confirmed when a product performs as expected,
2. negatively disconfirmed when the product performs poorly than expected, and
3. positively disconfirmed when the product performs better than expected.

When an individual's expectations are confirmed, he is satisfied. When expectations are negatively disconfirmed, dissatisfaction results. Positively disconfirmed expectations should also result in satisfaction.

The full disconfirmation paradigm encompasses four (4) constructs: expectations, performance, disconfirmation and satisfaction (Churchill and Surprenant 1982). Figure 1 depicts how the concepts are thought to be related and summarises some of the major satisfaction studies todate. This model of the determination of customer satisfaction was first proposed by Oliver 1980 and subsequently built upon by other researchers.

Figure 1 : Linkages Tested In Prior Research



Source : Churchill And Surprenant (1982)

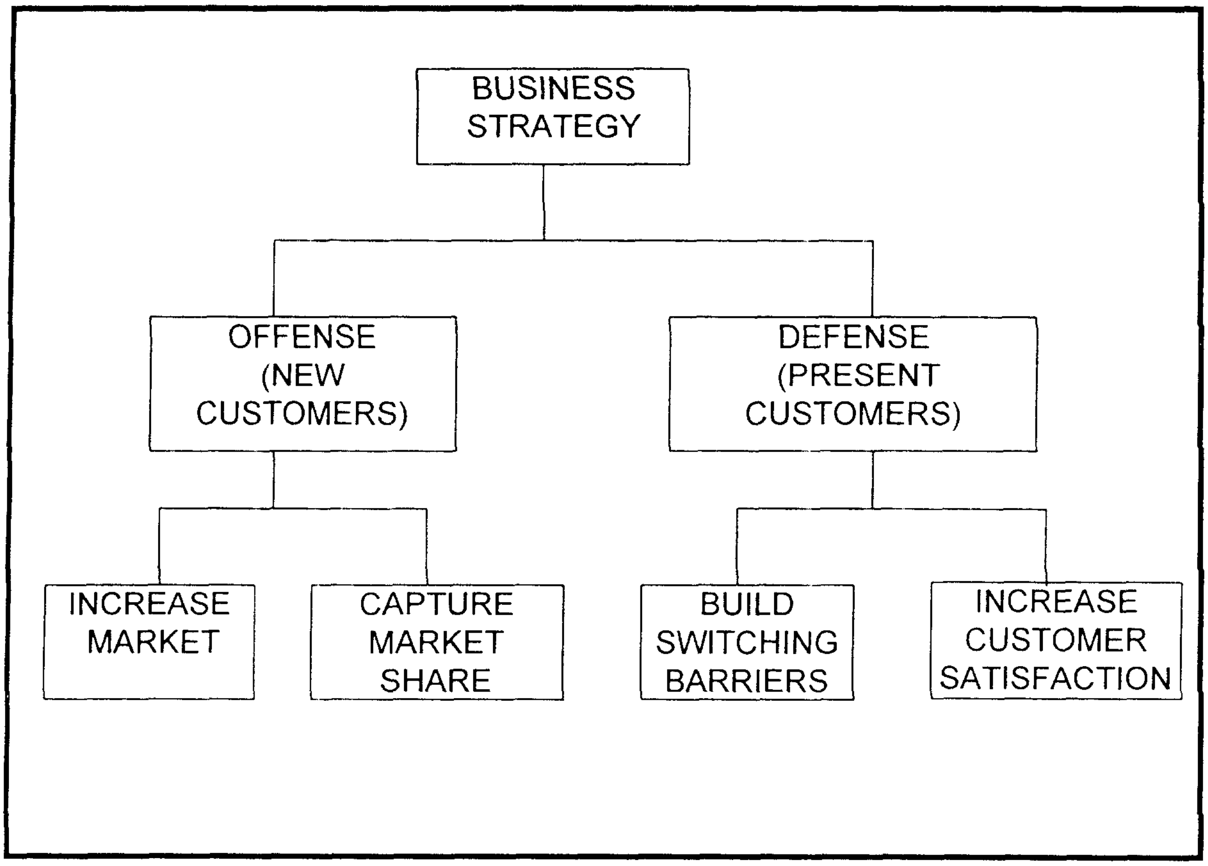
However, empirical studies have produced conflicting findings regarding the roles of expectations, disconfirmation and performance in satisfaction evaluations (Halstead et. al. 1994 for a review of 14 major CS/D studies). This has prompted some scholars to suggest that different satisfaction processes operate under different conditions, for example, across different product categories, high or low involvement products, or products or services (Anderson 1994; Bolton and Drew 1991b; Cadotte et. Al. 1987; Halstead et. al. 1994; Oliver 1989; Spreng et. al. 1996). Churchill and Surprenant (1982) found that both disconfirmation and performance were significant antecedents of satisfaction for a low involvement product, but only performance was significant for a high involvement product. In contrast, Tse and Wilton (1988) found that both disconfirmation and performance had significant effects for a high involvement product, but performance was stronger. Patterson (1993) found an opposite pattern with a high involvement product (home heater), that is, performance had a stronger effect than disconfirmation. Using a high involvement product, Spreng et. al. (1996), found disconfirmation significant. Although performance had a stronger bivariate relationship with satisfaction, this was completely mediated by the disconfirmation of expectations and desires. Thus, even for high involvement products, there is a lack of consistent results; some studies showed a stronger effect of performance, whereas others showed a stronger effect of disconfirmation.

Thus, disconfirmation and performance have been shown to have varying effect on CS/D, even within one type of product (high involvement consumer goods). Based on Oliver (1980), Jayanti and Jackson (1991), state that "when performance judgements tend to be subjective (as in services due to intangibility) expectations may play only a minor role in the formation of satisfaction" (p. 603)

2.3 Market Share and Customer Satisfaction

Overall, business strategy is composed of, the offence and the defence where offence is for customer acquisition and defence to protect the present customer base (Fornell and Wernerfelt 1987,1988). Traditionally, more effort was devoted to acquiring customers than retaining them. A good defence strategy is critical in a highly competitive market. When growth of a company is accomplished at the expense of its competitors (i.e. by capturing market share), firms with weak defence strategies tend to be the first to suffer. A defence strategy involves reducing customer exit and switching. The objective of defensive strategy is to minimise customer turnover (maximise customer retention), given certain cost constraints by protecting products and markets from competitive inroads. One way of accomplishing that is to have **highly satisfied customers**. Fornell and Wernerfelt (1987,1988)

Figure 2 : Source Of Revenue



Source : Fornell And Wernerfelt (191987,1988)

Substantial literature suggests that market share leads to profitability (Buzzell and Gale 1987). Customer satisfaction is also believed to lead to profitability (Business International 1990). However, it is far from certain that market share and customer satisfaction themselves are positively correlated. In fact, the opposite could very well be the case.

Beginning in the 1970s and spurred by two very influential publications (one by the Boston Consulting Group 1972; the other by Buzzell, Gale and Sultan 1975), the pursuit of market share became a key part of management strategy. The maximisation of market share was believed to be the way to maximise profits. Market share maximisation was claimed not only to serve the individual firm, but also to improve a country's economy in terms of productive efficiency (Henderson 1979).

The fundamentals of a market share strategy are outlined in relation to a customer satisfaction strategy. Both the market share and the customer satisfaction strategies are often used under the same market conditions, low growth or saturated markets, that is, when there is little prospect for growth without taking business away from competitors. Capturing market share is an offensive strategy; creating customer satisfaction is defensive. Success and failure in gaining market share are evaluated by comparing with competitors. For customer satisfaction, success and failure are evaluated primarily by changes in customer retention. In other words, the behavioural objective for the offence is patronage switching; for the defence is loyalty.

The table below shows the difference between market share strategy and customer satisfaction strategy.

Table 1 : Market Share Versus Customer Satisfaction

	Market Share	Customer Satisfaction
Typically employed in	Low growth or saturated Markets	Low growth or saturated markets
Strategy type	Offence	Defence
Focal point	Competition	Customers
Measures of success	Share of market relative to competition	Customer retention rate
Behavioural objective	Buyer Switching	Buyer Loyalty

However, it is not clear that high customer satisfaction and high market share are always compatible. Fornell (1992) and Griffin and Hauser (1993) discuss the possibility of a negative relationship between customer satisfaction and market share. They argue that a small market share firm may serve a niche market quite well, while a large market share firm must serve a more diverse and heterogeneous set of customers. At least two primary forces are at work in determining whether the relationship between customer satisfaction and market share is positive or negative. First, increasing market share, at least up to a point, can produce economies of scale. This, for example, may allow the firm to charge lower prices, thus increasing the value of the firm's offering and consequently increasing customer satisfaction. By contrast, there may be a dilution of effort that goes with trying to serve an increasing number of customers and/or segments. This dilution could lead to lower quality service. In undifferentiated industries with homogeneous customer preference, it is more likely that customer satisfaction and market share is positively related, especially in the long run.

Firms may pursue different generic strategies such as differentiation, niche and low cost leadership, as suggested by Porter (1980). Firms following pure niche strategies are likely to be more successful at satisfying customers than those pursuing other strategies. Although it is true that firms can differentiate their offerings to meet the needs of multiple segments, it may become difficult or costly to do so without diluting the service quality (e.g. personal service). As a firm grows by bringing in customers with preferences further away from the firm's target market, the overall level of customer satisfaction is likely to fall.

In summary, the relationship between customer satisfaction and market share is an emerging issue in need of greater understanding. Achieving success in one may lower performance in the other. Market share can be gained by attracting customers with preferences more distant from the target market. Service capabilities can also be overextended as volume grows. Effects of market share on profitability are equally problematic (Please see Szymanski, Bharadwaj, *and Varadarajan (1993) for a review of the market share-*profitability relationship).

2.4 Customer Satisfaction and Switching Barriers

Aside from customer satisfaction, there are other means of customer retention. Customer switching barriers comprise a host of factors that also bring about retention.

As shown in Figure 2, offensive strategy has two basic forms :

1. Gaining new customers from market expansion, and
2. Increase market share at the expense of competing firms.

In principle, the defensive strategy also has two basic forms :

1. Switching barriers, and
2. Customer satisfaction

Switching barriers make it costly for customers to switch to another supplier (vendor, store, etc.). Customer satisfaction, in contrast, makes it costly for a competitor to take away another firm's customers. In the first case, the firm makes it difficult, expensive, or even illegal for customers to switch.

Search costs, transaction costs, learning costs, loyal customer discounts, customer habit, emotional costs and cognitive effort, coupled with financial, social and psychological risks on the part of the buyer, all add up to switching barriers. Others costs include the retraining personnel, capital investment for change over, and costs of acquiring new ancillary equipment (Porter 1980). Basically, any pursuit by the firm to limit the scope of comparable buyer alternatives for repeat purchase is equivalent to a strategy of erecting *customer switching barriers. For example, in the airline industry, American* airlines (domestic and international) discourages passenger switching by raising barriers. Frequent flier programs are designed to enhance repeat business, not through superior service or passenger satisfaction, but by providing an economic incentive for the customer to remain loyal. European and Oriental airlines, in contrast, rely more on customer satisfaction to secure repeat business. If they have a frequent flier program at all, it is usually not emphasised or is a result of a joint effort with an American partner.

At a general level, it may not be possible to determine whether satisfaction is more effective than switching barrier, but two immediate problems with barriers are not present in the satisfaction approach. The first is that if the customer is aware of the barrier at the time of purchase, the barrier will be an impediment to the offence strategy. The presence of barrier makes the initial sales more difficult. The opposite is true for customer satisfaction. Highly satisfied customers are an asset for the offence. The second problem with barrier is that external forces might eliminate them. Frequent flier programs are easily imitated. When that happens, the competitive edge of the barrier disappears.

Low barrier and weak customer satisfaction force the company to compete on price. If customer satisfaction is high, there is less need for price promotions. The propositions that evolve from the ideal-point model and the switching barrier effect suggest that customer satisfaction should be lower in industries where repeat buyer face high switching costs and where the industry offers a homogeneous product to a heterogeneous market. However, a direct measure of switching barrier is very difficult to obtain.

2.5 Customer Satisfaction, Customer Loyalty and Product Quality

The impact of customer satisfaction on repeat business and customer loyalty is not the same for all industries. Loyal customers are not necessarily satisfied customers, but **satisfied customers tend to be loyal customers**. Loyalty is measured by the repurchase intention and price tolerance (for satisfied customers). The latter measure is similar to the "dollar-metric of loyalty" introduced by Pessemier (1959) - the price differential needed to make loyal customers switch. Dollar-metric measures have shown acceptable levels of reliability and validity in previous research (Olson and Jacoby 1971), and are often used in studies of brand loyalty (e.g. Raju, Srinivasan, and Lal 1990). Presumably, customers take both price and quality into account as they form an overall evaluation about a product's performance Each was measured in light of the other - perceived performance is thus measured by price (given quality) and quality (given price).

Building from the individual level, based on the model of customer satisfaction proposed by Oliver (1980), several studies discuss a strong link between customer satisfaction and loyalty (Anderson and Sullivan 1993; Bearden and *Teel 1983; Boulding et. al.* 1993; Fornell 1992; LaBarbera and Mazursky 1983; Oliver and Swan 1989). Reichheld and Sasser (1990) discuss why increasing customer loyalty should lead to higher profitability. In general, higher customer satisfaction should be related to higher loyalty for current customers, lower price elasticities, lower costs of future transactions, lower failure costs, lower costs of attracting new customers, and better reputation for the firm. Increased loyalty of current customers means more customers will repurchase (be retained) in the future. The more loyal the customers become, the longer they are likely to continue to purchase from the same supplier. The cumulative value of a loyal customer to a firm can be quite high.

Just as price elasticity varies among firms and industries, so does "customer satisfaction elasticity." *Clearly, it is very important to determine how sensitive* the present customer base is to satisfaction. In view of the current business emphasis on quality, one may well get the impression that quality and customer satisfaction are equally important for all firms. That is not the case. Customer satisfaction is more important (for loyalty) in some industries than in others. However, many industrial nations do not expect great improvements in productivity. Instead, they concentrate more on quality production. When quality is recognised by the buyer, it is reflected in customer satisfaction. Products and services that provide high customer satisfaction are less vulnerable to competition. They have a higher proportion of repeat business and higher gross margins.

The results of the research conducted indicate that industries selling homogeneous products to a homogeneous market, and industries selling differentiated products (services) to a heterogeneous market, typically had higher customer satisfaction than other industries. Most monopolies are less sensitive to customer satisfaction than industries in competitive market structures. To be competitive in world markets, a company must invest in productivity as well as in the quality of what is produced.

Satisfied customers are an asset to the firm. Changes in satisfaction are consequences of past decisions and predictors of future performance. The ultimate judgement of quality is with the customer. Quality improvements that are not recognised by customers are questionable investments. Accordingly, the most meaningful measurement of quality is how it effects customer satisfaction.

2.6 Customer Satisfaction and Economic Returns

In the study on The Swedish Customer Satisfaction Barometer (SCSB), Fornell (1992), provides a standard set of customer based performance measures that can be matched to economic performance measures, such as market share and Return On Investment (ROI). Prediction of economic returns is one of the central purposes of the SCSB.

Companies that are consistently providing goods and services that satisfy customers should enjoy enhanced profitability by reducing failure costs. A firm that provides high customer satisfaction consistently should have fewer resources devoted to handling returns, reworking defective items, and managing complaints (Crosby 1979; Garvin 1988; TARP 1979;1981).

The costs of attracting new customers should be lower for firms that achieve a high level of customer satisfaction (Fornell 1992). Satisfied customers are reputedly more likely to engage in positive word of mouth, for the firm (Anderson 1994b; Howard and Sheth 1969; Reichheld and Sasser 1990; TARP 1970,1981). An increase in customer satisfaction also should enhance the overall reputation of the firm. An enhanced reputation can aid in introducing new products by providing instant awareness and lowering the buyer's risk of trial (Robertson and Gatignon 1986; Schmalansee 1978). Good reputation also can be beneficial in establishing and maintaining relationships with key suppliers, distributors and potential allies (Anderson and Weitz 1989; Montgomery 1975).

Return on investment, a long-term measure of economic health, is strongly affected by customer satisfaction. A change in customer satisfaction is not reflected all at once in returns. Rather, a percentage change in customer satisfaction in one period carries forward to future periods, consistent with the cumulative nature of customer satisfaction. Nevertheless, research findings have suggest that high quality and high customer satisfaction are related to economic returns. Firms that actually achieve high customer satisfaction also enjoy superior economic returns. Research findings also indicate that economic returns from improving customer satisfaction are not immediately realised. Because efforts to increase current customers' satisfaction primarily affect future purchasing behaviour, the greater portion of any economic returns from improving customer satisfaction will also be realised in subsequent periods. This implies that a long run perspective is necessary for evaluating the efficacy of efforts to improve quality and customer satisfaction.

2.7 Customer Satisfaction and Repeat Purchases

Several researchers have modelled future purchase intentions as a function of prior intentions (LaBarbera and Mazursky 1983), product performance (Mazursky and Geva 1989), and CS/D (Oliver 1980) for tangible goods and low involvement consumer services (Bitner 1990). Given the characteristics of business-to-business services, we expect this relationship to be even stronger in the context of business services. Considerable anecdotal evidence suggests that customers of service providers, especially business services, tend to remain with the same provider if they are continually satisfied (e.g. Davidow and Uttal 1989; Woodside, Wilson, and Milner 1992). *Zeithaml (1981) contended that brand switching is less frequent with services* than with products because customers can economise decision effort, reduce risk in the decision process, and obtain optimum satisfaction from a seller who is permitted to gain a better understanding of regular customers' special needs and preferences.

Studies have demonstrated empirically a strong link between satisfaction and repurchase intentions. Given that satisfaction is not an end in itself, these findings suggest that CS/D is the crucial link in establishing longer term client relationships and the strategic well being of the organisation. It highlights the importance of satisfying, even delighting, the client if repeat work is to be won.

2.8 Impact of Perceived Salesperson Listening Behaviour

Listening is the most used but least understood component of communication processes. Poor listening costs American business billions of dollars (Brownell 1990; Steil, Barker, and Waton 1983) and is one of the primary causes of salesperson failure (Ingram, Schwepker, and Hutson 1992). Fortunately, listening is a learned skill that can be improved and measured (Devine 1978), and its importance as a trainable skill is conveyed by Churchill, Ford, Hartley, and Walker (1985) in their meta-analysis on salesperson performance.

Despite the fact that *listening is presumed to be a critical skill for successful* salespeople to build trusting, open relationships with customers, very little empirical work has been published in the area. As Castleberry and Shepherd

(1993) commented, "We were unable to identify a single study which empirically assessed the listening ability of salespeople and related it to any other measures" (p.35). Listening skill of salesperson has been defined as the "cognitive process of actively sensing, interpreting, evaluating and responding to the verbal and non-verbal messages of present or potential customers" (Castleberry and Shepherd 1993, p.36). Effective listening goes beyond merely hearing what the other person is saying to actually getting the meaning of what is being said. As DiGaetani (1980) indicates, "It requires serious attention and critical hearing, both concentration and penetration, both memory and knowledge" (p.42). Listening requires salespeople to fully attend to, comprehend, and respond to each individual client.

Listening is a very complex process involving both behavioural and cognitive activities (Greene 1988). A theory suggests there are essentially three components to listening. (Steil et al. 1983) Each component requires unique skills, but all work together to create a higher order listening construct. The first component is sensing, which indicates receiving stimuli and attending to the message. The second component is evaluating. This consists of those cognitive processes that allow the message receiver to assign meaning and value to the message. The third component is responding, which allows the receiver to develop and display an appropriate reaction to the message.

Sensing - customers can perceive when a salesperson is actively sensing what is being said by noticing if she or he maintains eye contact, focuses on the conversation, and engages in other non-verbal behaviours that facilitate the gathering of incoming stimuli (Yrle and Galle 1993)

Evaluating - customers perceive that their messages are being actively evaluated by salespersons when they does not interrupt the speakers or change the subject, try hard to understand what is being said, and, where pertinent, paraphrase questions and ask for more details (Brody 1994).

Responding - customers get a feeling that the salesperson is responding appropriately to the conversation when she or he answers at appropriate times, is eager in his or her response, offers relevant information to the questions asked, and tries to answer in full sentences rather than just saying yes or no.

2.9 Relational Outcomes of Perceived Salesperson Listening Behaviour

One who listens to us respects us and, in turn, a mutual exchange process begins. Clearly, there are many positive and beneficial outcomes from this exchange, but of primary importance in the buyer-seller interaction are the results that promote long-term relationships. It has been studied that there is an impact of customer perceptions of salespersons listening behaviour on three traditional relationship outcomes variables :

a) Trust in the salesperson
b) Satisfaction with the salesperson and
c) Anticipation of future interactions (Crosby, Evans and Cowles 1990; Swan and Oliver 1991)

Trust in the salesperson - A customer's trust in a salesperson may be defined as " a confident belief that the salesperson can be relied upon to behave in such a manner that the long-term interest of the customer will be served" (Crosby et. al. 1990, p70). It is widely recognised that trust plays a vital role in buyer-seller relationships, and in the channel literature, studies have found a positive association between communication and trust (Morgan and Hunt 1994). Listening helps salespeople gather information and understand their customers' needs better. When customers perceive that a salesperson is listening to what they are saying and working hard to fulfil their needs, they feel that the salesperson is honestly interested in them and is more trustworthy (Swan and Oliver 1991). As Stettner (1988) indicates, " By asking the right questions and creating an atmosphere of fairness and *genuine concern, he builds trust and gives his guests the freedom to express* themselves openly" (p.44).

Satisfaction with the salesperson - A customer's satisfaction with the salesperson reflects an emotional state that occurs in response to an evaluation of the interaction experience that the customer has with the salesperson (Crosby et al. 1990). It is expected to have a positive association between perceived salesperson listening behaviour and customer satisfaction. This expectation is based on the interpersonal needs theory (Schutz 1966), which states that people have certain interpersonal needs that must be fulfilled for their interaction experience to be rewarding. These needs may concern the feeling of being included in the communication process, perceiving a sense of authority and control in decision making, and the need to be liked and be treated with respect (Cragan and Wright 1991). It is thought that when people's interpersonal needs are met, they are more likely to stay and build a relationship. Conversely, if these needs are not met, they are likely to be dissatisfied with their experience (Anderson and Martin 1995).

A salesperson's listening behaviour plays a crucial role in meeting these needs and expectations. When customers perceive that a salesperson listens actively to what they say and responds in an appropriate manner, they may feel that their interpersonal needs of inclusion, control, and affection are being fulfilled, and hence they are more likely to be satisfied in their dealings with that salesperson. Empirical support for this relationship is provided by Anderson and Martin (1995), who found a positive association between satisfaction and different facets of listening (attentiveness, perceptiveness, and responsiveness) in the context of group communication behaviour.

Anticipation of future interaction - Anticipation of future interaction reflects the nature of the intended relationship that the customer has with the salesperson. Low expectations of future interaction would be an outgrowth of *current relational problems*, whereas high expectations of future interaction would reflect a favourable perception of the current relationship (Kellerman 1987) A considerable amount of research has examined the impact of active listening on practitioner-client relationships (e.g. Hepworth and Larsen 1986; Nugent 1992). According to Hepworth and Larsen (1986), listening enhances the practitioner-client relationship, thereby increasing the probability of a positive service outcome. Similarly, Nugent (1992), indicates that listening creates a positive impact on clients and thus a positive affective influence on the practitioner-client relationship.

One relationship that has been well established in dyadic research is that the trust of a person influences the level of satisfaction with that person (e.g. Crosby et. al. 1990). And this occurs in a spiralling fashion, in that trust can be self-heightening *or self-deflating (Dwyer and Lagace 1986; Zand 1972).* Researchers found a positive relationship between customers' trust of the salesperson to satisfaction with that salesperson. The more trusting a relationship, the more valued it becomes, and both parties prefer to maintain the relationship than to begin a new exchange process where uncertainty exists (Macintosh, Anglin, Szymanski, and Gentry 1992). If the buyer trusts the seller, he or she will be more inclined to want to work with the same seller again (Morgan and Hunt 1994). Similarly, buyer-seller interactions that result in positive experiences should lead to the continuation of the relationship (Crosby et al. 1990). Hence, if a customer is satisfied with the salesperson, he or she would want to continue doing business with that salesperson.

However, the study conducted by Rosemary and Ravipreet (1997), supports the notion that customer perceptions of salesperson listening behaviour play a pivotal role in enhancing relational outcomes. In a business era where building lasting relationships is critical, the knowledge that communication skill can effect these relationships is indeed useful to practitioners and academics. The study also shows that there is a strong, positive association between listening perceptions and trust in the salesperson. When customers feel that a salesperson is listening to what they are saying, it enhances their trust in that salesperson. It also shows that perceptions of listening have a significant positive effect on customer's anticipation of future interaction with that salesperson. As many businesses have learned that retaining existing customers is more efficient than getting new ones. Contrary to expectations, perceived salesperson listening behaviour does not have a significant direct effect on customer satisfaction. There is however, a significant indirect effect of perceived listening on satisfaction through trust. This highlights the importance of trust as a mediating variable and suggests that perceived salesperson listening enhances customer satisfaction indirectly by building trust.

It also shows that customers' trust in a salesperson leads to a greater satisfaction with that salesperson. When customers feel that a salesperson is honest and sincere, they are likely to be satisfied in their dealings with him or her. Similarly, trust in the salesperson increases customers' anticipation of future interaction with that salesperson. Customers who trust a salesperson would want to deal with him or her again. Finally, it indicates that customers' satisfaction with a salesperson leads to a greater anticipation of future interaction with that salesperson.

A summary of the research findings reviewed in this chapter is provided in Annex 2.