WHY CUSTOMERS LEAVE

OR DECIDE NOT TO LEAVE –

Much research has focused on how to improve a service provider's quality of service and how to attract and maintain customers (particularly with the use of service recovery techniques).

A major factor that affects customers' perception of a service provider is the number and extent of the problems they encounter and how these problems are handled.

A problem a customer has with a service can be called a "service failure". When customers encounter a service failure, they can either not complain, or complain and give the service provider an opportunity to rectify the problem. If they do not complain, they may remain with the provider, despite their dissatisfaction, or exit. If they do complain, they may also choose to stay or leave, and this is influenced by how the situation is handled by the service provider (i.e. the service recovery).

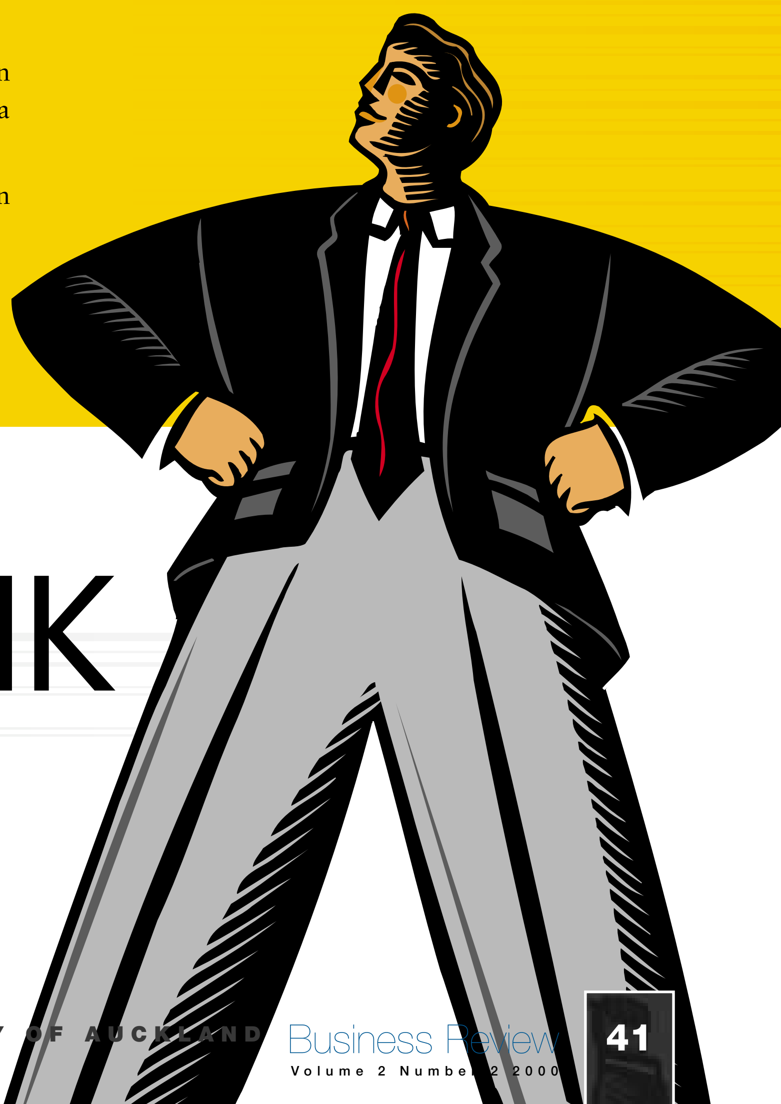
Service recovery includes all actions taken by a service provider to try to resolve a customer's problem.

There is a strong focus in the literature on managerial ways to improve service recovery. For example, much research looks at what aspects of service recovery encourage a customer to stay. This plethora of literature leads us to believe that service recovery is the most important factor in driving a customer to exit or stay after a service failure. This, however, is not the case.

The aim of this paper is to generate a model of how customers react to service failure by gaining a more detailed understanding of what drives a customer to remain or exit after a service failure.

It is important that we compare customers in the same service context (i.e. same industry and same segment of customers) so that we obtain more comparative results. The extant literature does not investigate this area fully, but instead tends to focus on one dimension of this research field (e.g. service recovery or exit).

This leads us to the research question: **Why do some customers exit their service provider after a service failure, while others stay?**



THEIR BANK

BY MARK COLGATE
AND MELISSA NORRIS

> Spurious loyalty … has been neglected by managers and academics alike

This paper is broken down as follows:

- An examination of the literature on all aspects of service failure.
- Propositions for the study, based on the literature review.
- The results of interviews with customers who have stayed after a service failure and with customers who have exited.
- Development of a model, based on the results of the interviews, that aims to present a more complete picture of the outcomes of service failure.
- Implications of this research, both academic and managerial.

SERVICE FAILURE

The differing reactions customers may have to service failure have been discussed throughout the literature. These include loyalty, voice (e.g. complaining to the service provider or another party) and exit.

LOYALTY

A service provider develops loyalty over time by consistently meeting, and sometimes exceeding, customer expectations.

Loyal customers are good for business. They "often cost less to service, spend more as their time with the firm lengthens and provide a good source for new business" (Levesque and McDougall, 1993: pg 40). Customer loyalty usually leads to lower marketing costs, more efficient operations and higher profits.

Loyalty comes in several differing forms, including pure loyalty, latent loyalty and spurious loyalty (Dick and Basu, 1994).

Pure loyalty is patronising a company often as well as thinking highly of it. This is the kind of loyalty most people associate with the term.

Latent loyalty is when a customer has low repeat patronage, but thinks highly of the organisation.

Finally, spurious loyalty is the opposite – a customer has high repeat patronage, but a relatively low opinion of the company. Hirschman (1970) describes this as "remaining with a company despite dissatisfaction". It is this notion of spurious loyalty that is of the most interest as it has been neglected by managers and academics alike.

Initially, the choice by a spuriously loyal customer to remain with a provider does not threaten profits, but with continued dissatisfaction they may spread negative word-of-mouth or exit (Hirschman, 1970).

Companies need to understand why a customer still patronises them, as it may not necessarily be a positive, conscious choice. Customers may stay with an organisation even if they are dissatisfied because they perceive they have no choice. Hence, a "loyal" customer may not necessarily be a satisfied customer.

The findings from a study conducted by Levesque and McDougall (1993: pg 52) suggested that "even when a problem is not solved, approximately half of the respondents would remain with the firm". This may be due to switching costs, lack of perceived differentiation of alternatives, locational constraints on choice, time or money constraints, habit or inertia.

Hirschman (1970) also proposes that dissatisfied customers may choose to remain with a service provider because they think that the likelihood of an improvement outweighs the cost of searching for another supplier.

The literature suggests, then, that loyalty is one of the responses a customer makes to a service failure. But we should not believe that loyalty is one-dimensional. Customers may stay with a service provider because they generally have a high opinion of the provider and see the service failure as an aberration. Or they may be spuriously loyal – they feel trapped, are apathetic or feel that there are no alternatives.

VOICE

The terms “voice” and “exit” were introduced by Hirschman (1970) when he suggested that dissatisfaction can provoke two active negative responses: voice and exit.

Day and Landon (1977) extended the notion of “voice” by explaining that it can be complaining to the service provider, complaining to acquaintances (negative word of mouth), or complaining to third parties to seek redress.

Any problem a customer has with their service provider will arouse some emotion, whether they complain about it to the provider or not. If they do make such a complaint, they give the service provider a chance to rectify the problem. A customer must have sufficiently strong emotions about a situation before they make an effort to complain, however.

High transaction costs are another reason consumers choose not to complain. “These [costs] include the time, cost and effort involved, uncertainty about how to complain, and beliefs that redress will not be provided” (Day and Landon, 1977).

> A complaining customer gives the company an opportunity

Service providers must provide open lines of communication if they want customers to complain, so they can try to solve their problems. If a customer “voices” by any other means, such as complaining to a business colleague, or exits, it is difficult for the service provider to find out why that customer was unhappy.

The literature identifies customer complaints (or lack of) as an integral part of service failure. A customer who does not complain may either exit and give the

> Any problem a customer has with their service provider will arouse some emotion

organisation no chance to “save” the customer, or stay and “fester”. Neither is desirable. But a complaining customer gives the company an opportunity, which should be seen as such.

STAY OR EXIT?

A customer’s final decision after a service failure is to stay or exit. To exit in response to a service failure, the customer must be motivated and must expend effort (Singh, 1990; Stewart, 1998).

Customer exit can cost the seller a great deal through decreased income from the customer’s future spending, higher costs in attracting new customers, loss of free advertising through word of mouth, and decreased employee retention.

The benefits of customer retention have also been emphasised. For example, Reichheld and Sasser (1990) found that by retaining five per cent more customers, a service provider can increase profits by almost 100 per cent.

Many factors influence a customer’s reaction when they face a problem with their service provider. This paper uncovers what these factors are and how they interact, leading to the decision by the customer to leave or stay.

Service Recovery

If the above reactions to service failure, voice, when it involves complaining to the service provider, creates the potential for the customer and the organisation to resolve the problem. Gronroos (1990) defined service

recovery processes as "those activities in which a company engages to address a customer complaint regarding a perceived service failure". It encompasses all the actions taken to get a disappointed customer back to a state of satisfaction.

Several reasons are posited throughout the literature for the growing tendency for companies to invest in service recovery efforts. If service recovery is not regarded as important or handled well, customer satisfaction can be eroded. Ultimately, the service provider's profitability may diminish.

Results from Boshoff (1997) support this. He showed that poor service delivery cannot be compensated for by great service recovery, although service recovery can help significantly in limiting the harmful impact of poor service delivery.

MODELS OF THE SERVICE RECOVERY PROCESS

Two models directly relate to this paper: Stewart's (1998) customer exit process model and Boshoff's (1997) service recovery model.

Stewart developed a comprehensive model of the customer exit process, designed to help management understand the process. She notes that customers usually make complaints before exit and go through a series of emotions.

The availability of alternatives and the relationship the customer has with the service provider are also considered, as well as the complaint handling, before exit is invoked.

She suggests that by the time a customer has decided to exit an organisation, it is too late to recover them. Often they are leaving because of the organisation's lack of responsiveness. If the organisation does respond when they have decided to leave, this is viewed as ironic.

Stewart's model, although most insightful, focuses solely on a customer's decision to exit. It needs expansion when applied to the service failure process as a whole.

Boshoff (1997) introduced a model of service recovery, not just the customer exit process. He attempted to bring together all the aspects of service recovery identified by earlier authors.

The model also depicts, to some extent, customers' different types of reactions to dissatisfaction. Customers are broken down into:

- Those who have seriously considered leaving the service organisation and do not complain, but value loyalty, so they stay.
- Those who do not complain, but just exit.
- Those who do complain and, depending on the outcome of their complaint, either stay because of satisfaction or loyalty, or leave.

Despite the importance of these models other research suggests they are incomplete. Our research attempts to tie together all the disparate areas of research. Only then can the outcomes of service failure be fully understood.

SERVICE FAILURE OUTCOMES

A customer may stay after experiencing a problem because they have complained and they are satisfied with the service recovery process. This is the ideal situation for service providers who plan for good service recovery.

Many times, however, customers stay even though they are dissatisfied with the service recovery they have received. This spurious loyalty may result from a customer's perception that the barriers to exit are high and/or that the quality of alternative providers is no better.

The spuriously loyal are "prospective switchers". Given a change in the rules (e.g. more alternatives come along), they may leave immediately.

The other outcome, when a customer experiences a service failure, is to leave. They may have complained, but the service provider's recovery efforts may have been poor, causing the customer to be even more dissatisfied and leave.

> Service providers are not always aware that a problem has occurred

Alternatively, the customer could be satisfied with the recovery they have received, but still exit. This could be due to a perceived lack of barriers to exit, a sense of apathy about which provider they use, variety seeking, or the feeling that the recovery could not make up for the problem they have experienced.

Hence, service recovery may not be the main reason why a customer remains or exits.

Furthermore, service providers do not always get the opportunity to conduct service recovery, as they are not always aware that a problem has occurred. A customer may experience a problem, not complain, and stay. This could be because of loyalty towards their service provider, or spurious loyalty. Or a customer may leave without complaining.

In light of the literature review, six propositions are presented:

P_1 = Customers exit without complaining, thus offering the service provider no chance to conduct service recovery.

P_2 = Customers exit after they have complained, because they have received poor service recovery.

P_3 = Customers exit after they have complained, even though they have received good service recovery.

P_4 = Customers stay with a service provider even though they encountered a service failure and did not complain.

P_5 = Customers stay with a service provider when they complained and received good service recovery.

P_6 = Customers stay with a service provider even though they complained and received poor service recovery.

These can been seen in **Figure 1.**

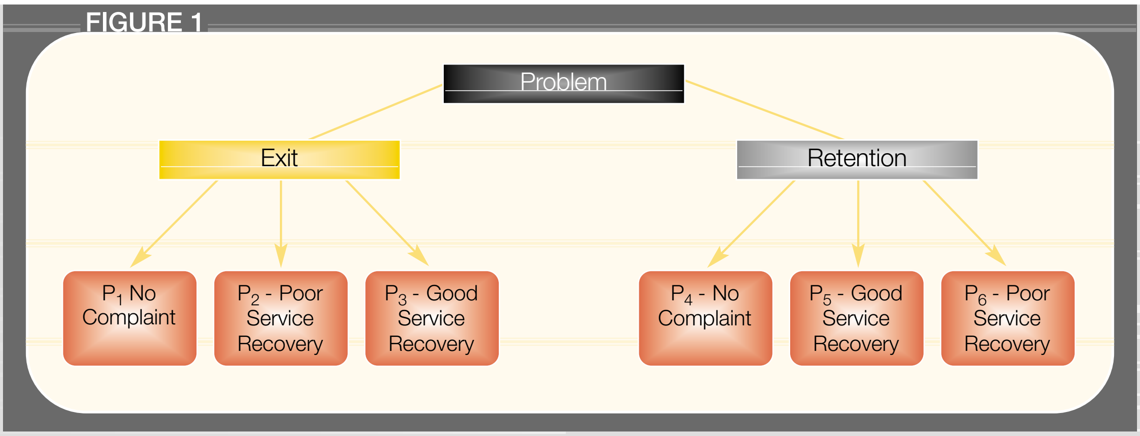
METHODOLOGY

Qualitative research is the most appropriate for these propositions. Research into the service failure process is inconclusive and additional outcomes of service failure may exist, given the absence of research in this area.

Also, quantitative research does not allow customers to express their true feelings about a situation, so it may not be possible to understand what has really happened without the use of qualitative research.

We looked at small-business customers of the banking industry. Banking for this group has a strong relationship/loyalty aspect to it, making the customer's decision to exit a harder, more thought-involving process.

FIGURE 1



There was a general feeling of dissatisfaction with the banks' service recovery efforts

As well, small-business customers are a relatively unresearched group, making the findings from this research more important. Narrowing down our focus made it easier to collect data.

Respondents fall into two different groups: those who left their bank after a service failure and those who remained with their bank after seriously considering leaving (a service failure had to have occurred).

We adopted Stewart's (1998) definition (with a slight revision), so that to leave meant that the customer had shifted their main account to another provider. A main account is defined as "the account where most of your transactions take place".

Those who remained but seriously considered leaving still kept their main current account and did most of their transactions with the service provider. The problem did not adversely affect the amount of business they had with that provider.

Most of the studies conducted to date about service failure tend to ask behavioural intentions questions. They ask what customers expect will happen in a service failure situation.

It has been proven that this style of research does not accurately reflect what customers actually do when faced with the problem. Therefore, this study investigates those customers who have **actually** remained or exited.

Twenty respondents were selected. Ten had left their service provider recently after experiencing a service failure and 10 had remained after recently experiencing a service failure and seriously considering leaving.

We conducted face-to-face in-depth interviews which had been arranged over the telephone. A total of 435 small businesses were telephoned and if there was no reply or the contact was busy, up to three call-backs were made. A stratified random sample (by Auckland region) was used and the companies were selected from a small-business database purchased from a third party.

Approximately one in 16 companies contacted had encountered at least one service failure large enough to make them seriously consider leaving or actually leave their bank. Out of those companies, one in four refused to participate in the research.

The results from these interviews were transcribed and then the content analysed using a number of methods, including checklist matrices, "eyeballing" and searches in NUDIST (a software program).

RESULTS

THE "REMAIN" GROUP

The majority of the respondents in the "remain" group were emotional about the service failure they had experienced and this led eight out of 10 to complain to the bank. There was a general feeling of dissatisfaction with the banks' service recovery efforts.

Of the eight respondents who gave their bank an opportunity to conduct service recovery, only three were satisfied with the recovery. Even then, they were still not entirely satisfied, but acknowledged that the bank had made a concerted effort to rectify the situation.

More than half of the respondents in the "remain" group felt their relationship with their bank was not close. The four respondents who had relatively close relationships tended to have been with that bank for more than 10 years and they expressed moderate to strong levels of loyalty.

The lack of a close relationship with the bank will have contributed to the low sense of loyalty half of the respondents in the "remain" group felt towards their bank. This suggests that these respondents remained for reasons other than loyalty.

Seven out of 10 respondents in this group perceived high barriers to exit and an additional two perceived moderate barriers. The barriers mentioned included: the amount of time and hassle it would take to change; having to get new cheque books and transfer funds; and having to learn a new cash management system.

The amount of paperwork involved, issues with existing loans and guarantees and a good history and rapport with their current bank seemed also to be factors. This was accentuated by the overall feeling by most of these respondents that the alternative banks were of the same (or a similar) quality as their own.

THE "EXIT" GROUP

The majority of the respondents in the "exit" group complained to their bank about the failure. Only three out of the eight who complained were satisfied with the recovery efforts of their bank.

There appeared to be correlation between the length of time the relationship had existed and the closeness of the relationship. The length of relationships between these respondents and their banks varied from four to 52 years.

Seven of the respondents in the "exit" group perceived the barriers to exit to be low, with eight of the respondents indicating that alternative banks were of a marginally or clearly better quality.

Finally, the general trend experienced by this group was to encounter a progression of problems over time rather than a single critical incident.

DISCUSSION

The literature implies that a direct relationship exists between service recovery and how customers react. If a service recovery is satisfactory, a customer will remain, but if it is unsatisfactory, a customer will exit. This is not always the case, however, as our results show.

Our interviews revealed that three major factors influence a customer's decision to remain or exit after a service failure. These are:

satisfaction with recovery (if the customer complained), loyalty towards the provider, and perceptions of barriers to exit. Each of these is discussed below.

SATISFACTION WITH RECOVERY

A number of customers in the "exit" group left despite satisfaction with service recovery and a number of customers in the "remain" group stayed despite dissatisfaction. This indicates that service recovery does not always make a difference.

Our results show that if a customer is dissatisfied with recovery they will exit, except when other factors such as loyalty and barriers to exit are high, enticing the dissatisfied customer to stay.

Great service recovery can limit the harmful impact of service failure, as Boshoff (1997) suggests. Still, factors other than satisfactory recovery seem to be more important in driving a customer's decision to remain or to exit.

Similarly, Stewart (1998) suggests that by the time a customer has decided to exit an organisation it is too late to recover them. Even if recovery efforts are satisfactory, the customer may exit because they have already made their decision.

Our results support the concept that a customer may receive satisfactory recovery but still exit. Three of the respondents in the "exit" group exited despite satisfactory recovery, implying that they had already decided to exit before the recovery was provided.

Some stay because of loyalty and some because of perceived barriers to exit

LOYALTY

We found that customers who felt a strong sense of loyalty to their bank do not always remain after service failure – although the majority do. When service recovery fails, the degree of loyalty seemed to moderate the customer's decision to exit or stay.

This loyalty may result from the customer's reliance on the relationship they have formed with the service provider (Gwinner, Gremler and Bitner, 1998); it may reflect how long the relationship has existed; or it may be that the customer feels their provider is giving them the "best deal".

The results also showed, however, that some previously loyal customers still left. The service failure is often strong enough to force these customers to leave, despite the strength of the relationship.

Alternatively, the loyal customers who left sometimes felt that the bank was not reciprocating their sense of loyalty. They left because they had a feeling of almost betrayal, especially after many years of relationship with that bank.

PERCEIVED BARRIERS TO EXIT

The results from this study support the theory in the literature that if a dissatisfied customer is not loyal and has a perception that the barriers to exit are low, they will exit rather than remain. All customers who remained either perceived that there were at least some barriers to exit or felt at least a moderate sense of loyalty towards their bank.

A further dimension of barriers to exit is a customer's perception of alternative providers. We found that a far greater number of customers in the "exit" group than in the "remain" group perceived alternative banks to be of a better quality than their current bank. Customers who remained tended to perceive all banks as the same or other banks as being only slightly better.

In terms of the propositions, evidence suggests that all are supported, albeit weakly given the nature of the data. Interestingly though, new categories seem to exist that were not fully accounted for in the propositions.

Some customers stay after poor service recovery because of perceived barriers to exit while some stay because of loyalty. Similarly, of the customers who do not complain after a service failure, some stay because of loyalty and some because of perceived barriers to exit.

Finally, some customers may exit, even after good service recovery, because of low levels of loyalty (i.e. variety-seeking behaviour) or because of a perception of low barriers to exit.

All of these categories can be built into a model of customer reactions to service failure, which appears in **Figure 2**.

Most of the research into customer retention and customer exit investigates the processes separately, not linking the two processes. By building on the models of Stewart (1998) and Boshoff (1997) and by incorporating the relevant literature and the summary of the results above, this model shows the different ways customers react to service failure with their service provider.

EXPLANATION OF THE MODEL

There are four concepts in the model that cover exiting (**Boxes 1-4**). In the first of these, a customer exits without complaining because they are dissatisfied. This stems from the research that says customers can have two active negative reactions to dissatisfaction: voice and exit. In this instance, customers have chosen not to voice and exited instead.

The next three exit concepts encompass the idea that if a customer is dissatisfied with a provider they usually complain in the hope that their problem will be resolved (i.e. they hope to receive satisfactory service recovery efforts).

Even if a customer is satisfied with recovery efforts, they may still exit. Sometimes, this is because they perceive the barriers to exit to be low. A change to an alternative provider is not perceived to be difficult.

Other times, the customer may feel little loyalty to their provider. "A satisfied customer may be willing (or even eager) to patronise alternative suppliers, hoping to receive even more satisfying results" (Rust and Zahorik, 1993). This implies that the factors that make a customer loyal are different from those that make them satisfied.

The final exit concept refers to the scenario when a customer leaves after being dissatisfied with the service recovery from their provider. This makes sense given that it is the second time the service provider has failed to meet the customer's expectations.

The other reaction a customer may have to a service failure, after seriously considering leaving, is to remain. The next five concepts (**Boxes 5-9**) capture the different iterations of remaining.

If a customer complains, they may remain because they are satisfied with the recovery they have received. The loyalty the customer perceives in the ninth concept is contributing to their decision to remain.

Concepts five through to eight are characterised by a customer remaining, despite dissatisfaction. This could be dissatisfaction with the service recovery efforts of their provider after a complaint was made (**Boxes 5** and 7), or dissatisfaction with the provider that has not been remedied because the customer has not complained (**Boxes 6** and 8).

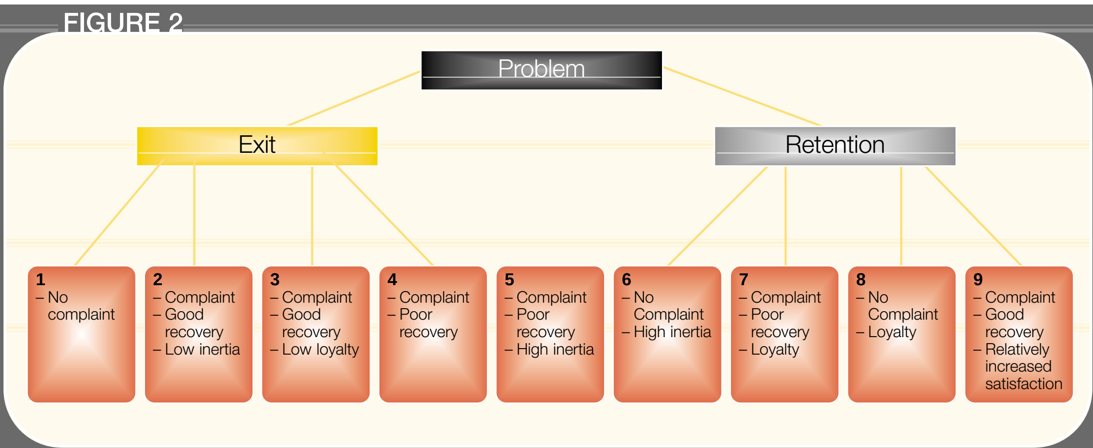
> "A satisfied customer may be willing (or even eager) to patronise alternative suppliers"

Concepts five and six have spurious loyalty aspects to them because of the perception that the barriers to exit are high (Dick and Basu, 1994). On the other hand, concepts seven and eight have genuine loyalty aspects to them. Customers remain, despite dissatisfaction, because they are loyal and the incident they encountered was not harmful enough to make them exit.

IMPLICATIONS

The aim of this paper was to investigate service failure more fully than previously, and to provide a more complete picture of its outcomes – which is represented in **Figure 2.**

FIGURE 2



> The discovery that more research is required within this area is an important implication

The purpose is to draw the attention of managers and academics alike to the importance of understanding fully what drives certain service failure outcomes.

A customer's perceptions of barriers to exit, perceived value of the relationship, perception of service recovery, and feelings of loyalty to the provider will all affect the decision to exit or stay.

Managers, therefore, need to understand the role barriers to exit play in their industry, the extent to which loyalty can be built to isolate the effects of service failures and the power of service recovery.

This suggests that even before customers encounter a service failure, providers should develop (and endeavour to sustain) close relationships with their customers. Relationship strength and loyalty are driving factors when customers are deciding whether to remain or exit.

This is not to suggest that service recovery is not important. Far from it. Given that marketers need to increasingly justify their investments in service quality improvements, however, it is essential for managers to realise exactly how powerful service recovery can be and that there are other ways of insulating a company from service failures.

For academics, the results indicate that investigating the "mix" of factors that drive the outcomes of service failure is important. This research suggests that perceived barriers to exit, loyalty and service recovery all play a role in service failure outcome decisions. The discovery that more research is required within this area (particularly on spurious loyalty) is an important implication of this paper.

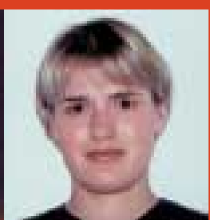
It is important to note the limitations of this study. One is the size of the interview sample. With only 10 respondents in each of the two groups, the findings from their interviews are not very generalisable. The aim of the research was not to generate generalisable results, however, but rather to provide evidence that service failure is a multi-faceted construct that is inherently complex.

A second limitation is that the results were collected from only one industry – the banking industry. This may be particularly important given that the banking industry is characterised by high levels of customer inertia. The results, therefore, may be unique to this industry.

CONCLUSION

Research into services is growing rapidly and still-unexplained phenomena need to be investigated. A review of previous research, both theoretical and empirical, demonstrated a need for further knowledge of how customers react to service failures.

We identified three major factors that affect a customer's decision to remain or exit. They are:



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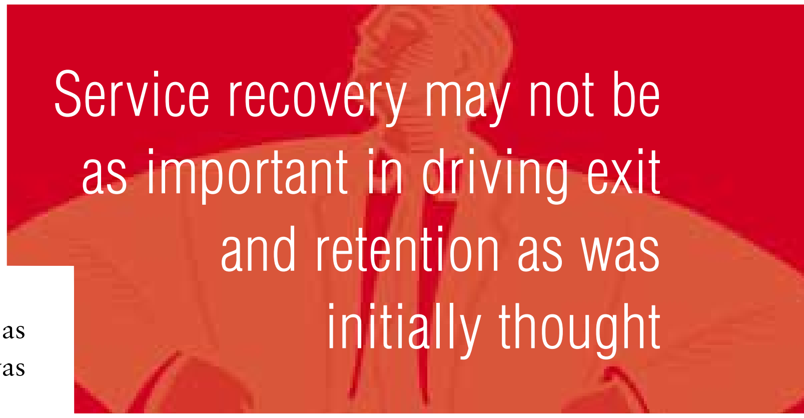

the customer's satisfaction with recovery efforts; their sense of loyalty to the provider; and their perception of the barriers to exit. Service recovery may not be as important in driving exit and retention as was initially thought.

By using these factors, we have proposed a model that encapsulates all the major reasons a customer may stay or leave a service organisation after a service failure. The aim of the model is to develop a more in-depth explanation of how and why customers behave as they do, after experiencing a service failure.

With this knowledge, service providers should ultimately be able to deliver a more effective service.

FURTHER READING

For further reading on service recovery, Hart et al (1990) is a worthwhile overview for managers, while Tax et al (1998) provides a more academic, but very insightful, analysis of service recovery. Keaveney's (1995) article is excellent and concerns the reasons why customers switch from service organisations.

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