Investigating Structural Relationships Between Service Quality, Switching Costs, and Customer Satisfaction

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Recent research has increasingly examined customer switching costs in regards to antecedents and relational outcomes. This study extends current research by testing a framework for understanding the underlying relationships between perceived service quality, switching costs, and customer satisfaction with a service provider. The findings of this study suggest that there is a significant and positive relationship between service quality and switching costs. Perceived switching costs, however, do not appear to lead to customer dissatisfaction. Furthermore, the relationships between service quality, switching costs, and customer satisfaction vary across satisfied vs. dissatisfied consumers.

INTRODUCTION

The importance of both service quality and customer satisfaction to service providers has received considerable attention in the marketing literature in recent years (Ibáñez, Hartman, and Calvo, 2006; Sureshchandar, Rajendran, and Anantharaman, 2002). Both have been associated with positive customer relational outcomes such as increased customer retention, market shares, and profitability. Similarly, customer switching costs have also received recognition as having a potential influence on customer loyalty, retention, and commitment (Burnham, Frels, and Mahajan, 2003; Jones, Reynolds, Mothersbaugh, and Beatty, 2007; Patterson and Smith, 2003), which in turn, could lead to increase market shares and profitability.

This study extends the research related to service quality, customer satisfaction, and switching costs by examining the influence service quality has on the perceived costs customers associate with switching service providers, as well as the impact perceived switching costs have on customer satisfaction. The marketing literature is currently void of such examination. Specifically, the purpose of this study is to assess the structural relationships between service quality, switching costs, and customer satisfaction. In
addition, we will exam the difference in the relationships between these three important constructs for satisfied vs. dissatisfied customers.

LITERATURE REVIEW

Service Quality

Service quality can be defined as the conformance to customer requirements in the delivery of a service (Chakrabarty, Whitten, and Green, 2007). Service quality is important to service firms because it has been shown to increase profit levels, reduce costs, and increase market shares (Parasuraman, Zeithaml, and Berry, 1985). Moreover, service quality has been shown to influence purchase intentions (Sullivan and Walstrom, 2001), and is used by some firms to strategically position themselves in the marketplace (Brown and Swartz, 1989).

Service quality is an abstract and elusive construct, and in the absence of objective measures, consumers’ perception of service quality is commonly assessed. Among the measurement instruments used to assess service quality, SERVQUAL (Parasuraman, Zeithaml, and Berry 1988), SERVPERF (Cronin and Taylor, 1992), and RSQS (Dabholkar, Thorpe, and Rentz, 1996) have been the most prominent and most widely used instruments. Parasuraman et al. (1988) introduced SERVQUAL, a 22-item instrument that assesses five dimensions of service quality. The five dimensions are: 1) Tangibles - physical facilities, equipment, and appearance of personnel, 2) Reliability - ability to perform the promised service dependably and accurately, 3) Responsiveness - willingness to help customers and provide prompt service, 4) Assurance - knowledge and courtesy of employees, and their ability to inspire trust and confidence, and 5) Empathy - caring, individualized attention the firm provides its customers.

The SERVQUAL instrument has demonstrated both excellent validity and reliability (Babakus and Boller, 1992; Bolton and Drew, 1991; Cronin et al., 1992) and applied to different industries, such as professional services (Freeman and Dart, 1993), health care (Lam, 1997), tourism (Tribe and Snaith, 1998), business school (Pariseau and McDaniel, 1997), and information systems (Kettinger and Lee, 1994).

SERVPERF was proposed as a variant of the SERVQUAL measurement scale. SERVPERF uses the same 22 items that comprise the SERVQUAL scale; however, while SERVQUAL focuses on the gap between expectation and perception, SERVPERF takes a performance-only approach. SERVQUAL has been shown to have superior diagnostic power, with SERVPERF demonstrating more convergent and discriminate validity and explaining more variance (Jain and Gupta, 2004).

Dabholkar et al. (1996) developed RSQS, a multi-item scale measuring five dimensions of retail service quality. The scale is comprised of 28 items, 17 of which come from the SERVQUAL scale. The RSQS scale has been applied to numerous studies of retail management, and exhibited strong validity and reliability scores as a measure of retail service quality.

Customer Switching Costs

Switching costs are commonly defined as the sacrifices or penalties consumers feel they may incur in moving from one provider to another (Jones et al., 2007). While switching costs are associated with changing providers, they are not always incurred
immediately upon switching. Current research has suggested that switching costs are multidimensional. Switching costs can include search costs, transaction costs, emotional costs, cognitive effort, as well as social and psychological risk on the part of the buyer.

Burnham et al. (2003) developed a switching cost typology that identified three types of switching costs: 1) procedural switching costs – the time and effort associated with changing to a new provider, 2) financial switching costs – the loss of financially quantifiable resources, and 3) relational switching costs – emotional discomfort due to the loss of identity and the breaking of bonds.

Jones et al. (2007) recently identified three dimensions of switching costs that are similar to those of Burnham et al. (2003). Social switching costs are costs associated with the potential loss of personal relationships that a consumer develops with a firm and its employees. Lost benefits costs are the potential loss of special discounts and unique benefits if the consumer switches from one provider to another. Procedural switching costs relate to the time, effort, and hassle the consumer anticipates would be involved in switching providers.

**Negative vs. Positive Switching Costs**

Jones et al. (2007) also argue that it is important to classify switching costs based on the underlying nature of constraint involved. Negative switching costs are costs derived primarily from negative sources of constraint (e.g., the time and hassle of finding a new provider). Positive switching costs, on the other hand, are costs derived primarily from positive sources of constraint (e.g., the loss of personal bond or the loss of special discounts). Procedural switching costs are types of negative switching costs, while lost benefit switching costs and social switching costs are examples of positive switching costs. The key to the distinction between negative and positive switching costs is whether or not the switching cost derives primarily from benefits and value the consumer will have to give up.

Jones, Mothersbaugh, and Beatty (2002) found that lost benefits and social switching costs are the primary value drivers in service relationships. Therefore, lost benefits and social switching costs are likely to be associated with positive value enhancement (Reynolds and Beatty, 1999). Conversely, procedural switching costs are likely to be viewed as binding elements, causing customers to feel like hostages in the relationship (Sharma and Patterson, 2000). This distinction between negative and positive switching costs is important in order to understand the different mechanisms through which different types of switching costs influence relational outcomes such as retention and customer satisfaction.

**Customer Satisfaction**

Customer satisfaction is defined as a customer’s overall evaluation of the performance of an offering to date (Gustafsson, Johnson, and Roos, 2005). Research has shown that customer satisfaction also has a significant affective component, which is created through repeated product or service usage (Oliver, 1999). Customer satisfaction is commonly considered a prerequisite of customer retention and loyalty, as well as increased profitability and market share.

Customer satisfaction has been operationalized as both a single item and a multiple item scale. Cronin et al. (1992) measured customer satisfaction as a one-item scale that
asks for the customer’s overall feeling towards an organization. Other research has emphasized the multi-facet nature of customer satisfaction and has used multiple item scales to measure customer satisfaction. For example, Patterson et al. (2003) used a four-item scale to measure customer satisfaction, while Shemwell, Yavas, and Bilgin (1998) used a five-item scale.

Proposed Relationships Between Constructs

Research has not reported a direct link between service quality and switching costs; however, service quality has been shown to have a positive impact on a consumer’s intention to remain with a service provider, as opposed to switching to another (Zeithaml, Berry, and Parasuraman, 1996). Some studies even suggest that the creation of switching costs can be used to complement customer retention strategies, as switching costs help businesses to overcome fluctuations in service quality (Jones, Mothersbaugh, and Beatty, 2000). Therefore, organizations may be able to get away with poor service quality at times as customers perceive high costs of changing to another service provider.

Some studies have begun to explore the moderating effect of switching costs on customer satisfaction-loyalty relationships (Bell, Auh, and Smalley, 2005; Burnham et al., 2003; Patterson and Smith, 2003), but none have examined the direct impact of switching costs on customer satisfaction. However, Jones et al., (2000) did report how the impact of satisfaction on repurchase intentions vary under different switching costs conditions. Moreover, a number of studies assume that consumers perceive switching costs and ascribe differences in satisfaction responses to such costs (Anderson and Sullivan, 1993; Fornell, 1992; Klemperer, 1995).

The relationship between service quality and customer satisfaction, on the other hand, has received considerable attention. Sureshchander et al., (2002) argue that service quality and customer satisfaction are closely related, and that an increase in one is likely to increase the other. Moreover, Bitner and Hubert (1994) suggest that service quality, when measured as a function of multiple experiences with the firm, may be a good predictor of overall customer satisfaction. Ranaweera and Neely (2003) also report that service quality is commonly positioned as an antecedent of customer satisfaction.

Hypotheses

Based on the existing literature regarding service quality, switching costs, and customer satisfaction, the following hypotheses are proposed:

Hypothesis 1 - Service quality has a positive effect on social switching costs.
Hypothesis 2 - Service quality has a positive effect on lost benefits switching costs.
Hypothesis 3 - Service quality has a positive effect on procedural switching costs.
Hypothesis 4 - Service quality has a positive effect on customer satisfaction.
Hypothesis 5 - Social switching costs have a positive effect on customer satisfaction.
Hypothesis 6 - Lost benefits switching costs have a positive effect on customer satisfaction.
Hypothesis 7 - Procedural switching costs have a negative effect on customer satisfaction.
The overall framework for the hypotheses is presented in FIGURE 1. Service quality is hypothesized to have a direct influence on all three types of switching costs (social, lost benefits, and procedural). Service quality is also hypothesized to directly impact customer satisfaction. Finally, social switching costs and lost benefits switching costs are proposed to have a positive impact on customer satisfaction, while procedural switching costs are hypothesized to have a negative influence on customer satisfaction.

Figure 1
PROPOSED THEORETICAL MODEL

METHODOLOGY

Data Collection
Data for this study were collected by junior/senior undergraduate business students from a Midwest university who were enrolled in a Marketing Research and Analysis course. Each student was trained to serve as data collectors. A convenience sampling technique was used. Respondents were broken into two groups. Roughly half of the respondents were asked to complete the questionnaire with regards to a service provider they have done business with for quite awhile and feel positive about. The other half of respondents were asked to complete the questionnaire about a service provider they have done business with for quite awhile and feel negative about.

A total of 525 usable questionnaires were collected, with 264 respondents having a positive feeling about a service provider and 261 respondents having a negative feeling about a service provider. Male respondents made up 51% of the sample, with 49% being female. The ages of respondents ranged from teenagers to senior citizens, with the most common age groups consisting of 21-25 year olds (45% of respondents) and over 50 (13% of respondents). The vast majority of respondents were Caucasians (94%).
Measurement of Constructs

The survey instrument used was comprised of 39 items. All scales were sourced from existing literature. Twenty-two items were used to evaluate the level of perceived service quality (Parasuraman et al., 1988). Three items each were used to assess social switching cost, lost benefits switching costs, and procedural switching costs, for a total of nine items (Jones et al., 2007). Four items were used to assess customer satisfaction (Patterson et al., 2003). The final four items included demographic characteristics of respondents: gender, age, marital status and occupation. All constructs were measured using a 5-point Likert-type scale, with 1 indicating “strongly disagree” and 5 indicating “strongly agree.”

Statistical Analysis

The theoretical model proposed in this study was applied to both the positive and negative feeling sample data, and was tested utilizing LISREL 8.72. The measurement and structural models were estimated simultaneously using summed indicators for the constructs. Three types of information were considered in assessing model fit: 1) chi-square, 2) measurement error - RMSEA (root-mean-square error of approximation) and RMR (root mean-square residual), and 3) fit indices - CFI (Comparative Fit Index), IFI (Incremental Fit Index), and NNFI (Non-Normed Fit Index).

RESULTS

Measurement and Structural Model Fit

Given the limited number of items in the measurement model, both the measurement model and the structural model were tested simultaneously for overall fit. The fit indices indicated an acceptable fit for both the positive and negative feeling samples. For the positive feeling sample, although chi-square statistic was significant ($\chi^2 = 1539.09$, df = 553, p < .00), fit indices indicated an acceptable fit (RMSEA = .10; RMR = .08; CFI = .94; IFI = .94; NNFI = .94). Similar results were found for the negative feeling sample, ($\chi^2 = 1510.37$, df = 553, p < .00), (RMSEA = .09; RMR = .08; CFI = .91; IFI = .92; NNFI = .91. In addition, reliabilities (Cronbach’s alpha) for all measurement scales ranged from .72 to .93, indicating satisfactory levels of reliability.

Hypothesis Testing

Hypothesis testing was conducted by freeing up the hypothesized paths. Hypothesis testing was conducted separately for the positive feeling sample and the negative feeling sample. The results are shown in FIGURE 2 and FIGURE 3.

Positive Feeling Sample

As per Hypotheses 1, 2, and 3, service quality was expected to have a positive effect on all three types of switching costs (social, lost benefits, and procedural). The results in FIGURE 2 support all three hypotheses. Service quality had a significant impact on social switching cost ($\gamma = .44$, p < .01); lost benefits switching costs ($\gamma = .24$, p < .01); and procedural switching costs ($\gamma = .21$, p < .01). In addition, Hypothesis 4 was also supported as service quality had a significant impact on customer satisfaction ($\gamma = .76$, p < .01). Surprisingly, social switching costs ($\beta = -.01$, NS), lost benefits switching costs...
(β = .10, NS), and procedural switching costs (β = -.08, NS), were all shown not to significantly influence customer satisfaction, thus Hypotheses 5, 6, and 7 were not supported for the positive feeling sample (satisfied customers).

**Figure 2**

**POSITIVE FEELING SAMPLE**

For respondents who had negative feelings toward a service provider, the results in FIGURE 3 show that Hypotheses 1 and 2 are supported regarding service quality and switching costs; however, Hypothesis 3 was not supported. Service quality had a significant impact on social switching cost (γ = .33, p < .01) and lost benefits switching costs (γ = .29, p < .01), but not on procedural switching costs (γ = -.03, NS). Hypothesis 4 was supported as service quality did have a significant influence on customer satisfaction (γ = .64, p < .01). Social switching costs (β = .04, NS) and procedural switching costs (β = -.01, NS) did not significantly influence customer satisfaction, thus Hypotheses 5 and 7 were not supported.

**Negative Feeling Sample**

For respondents who had negative feelings toward a service provider, the results in FIGURE 3 show that Hypotheses 1 and 2 are supported regarding service quality and switching costs; however, Hypothesis 3 was not supported. Service quality had a significant impact on social switching cost (γ = .33, p < .01) and lost benefits switching costs (γ = .29, p < .01), but not on procedural switching costs (γ = -.03, NS). Hypothesis 4 was supported as service quality did have a significant influence on customer satisfaction (γ = .64, p < .01). Social switching costs (β = .04, NS) and procedural switching costs (β = -.01, NS) did not significantly influence customer satisfaction, thus Hypotheses 5 and 7 were not supported.
However, Hypothesis 6 was supported as lost benefits switching cost did have a significant impact on customer satisfaction ($\beta = .20, p < .01$).

**Positive vs. Negative Feeling Samples**

In comparing the two structural models, although the results are similar, there are a few key differences. For the positive feeling sample (FIGURE 2), service quality influences all three dimensions of switching costs. For the negative feeling sample (FIGURE 3), service quality influences both social switching costs and benefits lost switching costs, but not procedural switching costs. Service quality, however, is shown to significantly impact customer satisfaction for both positive and negative feeling samples.

Another difference between the two samples relates to the three switching costs’ impact on customer satisfaction. For the positive feeling sample, none of the three types of switching costs significantly influenced customer satisfaction. However, for the negative feeling sample, the benefits lost switching costs did influence customer satisfaction. Social switching costs and procedural switching costs did not impact customer satisfaction for the negative feeling sample.
DISCUSSION

Theoretical Contributions
The current study proposes and tests a framework for understanding the underlying relationships between perceived service quality, the potential costs of consumers switching from one service provider to another, and customer satisfaction with a service provider. This study extends existing research related to service quality, switching costs, and customer satisfaction in the following ways. First, we examine the influence service quality has on the various dimensions of switching costs. This goes beyond recent research that has examined the multidimensionality of switching costs (Burnham et al., 2003; Jones et al., 2007) but not in terms of service quality as an antecedent to switching costs. This study suggests that the level of perceived service quality is directly related to the level of switching costs (social, lost benefits, and procedural) that consumers perceive they will incur if they switch from one service provider to another.

Second, his study moves beyond prior research that has focused on switching costs and relational outcomes by assessing the relationships between the different dimensions of switching costs and customer satisfaction. Although previous research has focused on a number of relationship outcomes and switching costs (Burnham, et al., 2003; Jones et al., 2007; Patterson et al., 2003), the current study shows that, for the most part, costs associated with switching from one provider to another do not influence the level of satisfaction a consumer has with a current provider. The only exception being benefits lost switching costs, which may impact customer satisfaction for consumers who already have a negative feeling towards a service provider.

Finally, this study distinguishes between customers who have positive feelings towards a service provider (satisfied customers) and consumers who have negative feelings toward a service provider (dissatisfied customers). This study extends earlier research by focusing on the differences between these two groups of consumers in regards to the structural relationships between service quality, switching costs, and customer satisfaction. The results suggest that there are some differences in the relationships between service quality, switching costs, and customer satisfaction depending on if consumers have positive or negative feelings toward a service provider.

Managerial Implications
The results of this study have clear implications for service firms. First, enhancing service quality may be a way to also increase the perceived cost to customers of switching to another service firm. Since perceived switching costs have been recognized as a way to keep customers in relationships (Bansal, Irving, and Taylor, 2004; Jones et al., 2007), service firms should carefully consider the use of service quality to increase in the minds of their customers the potential costs associated with changing service firms.

Another important managerial implication is that service firms need to recognize the need to design and utilize different strategies for enhancing customer satisfaction depending on whether the customers have positive or negative feeling towards the firm. For example, the potential loss of special discounts (lost benefits switching costs) may improve the satisfaction level of customers who are harboring negative feelings toward the firm, but not for customers who are currently satisfied and have a positive feeling towards the firm. Moreover, imposing additional switching costs of any kind on satisfied
customers appears to have no effect on their overall level of satisfaction, and may even waste company resources. Firms will also need to periodically measure customers’ feelings toward their organization to get a sense of how large each consumer group (positive vs. negative feeling) is, and the demographic profile of each group.

CONCLUSIONS

The findings of this study make three primary contributions to the marketing literature. First, the relationship between service quality and switching costs was found to be significant and positive. Enhancing perceived service quality to consumers will also increase the perceived costs to consumers of switching from one service firm to another. Next, this study revealed that perceived switching costs do not appear to lead to customer dissatisfaction. In other words, a consumer’s satisfaction level with a service firm is not significantly impacted by switching costs associated with that firm.

Finally, the relationships between service quality, switching costs, and customer satisfaction vary across satisfied vs. dissatisfied consumers. Procedural switching costs are not impacted by perceived service quality for consumers with negative feelings towards a service firm, but are influenced by perceived service quality for consumers with positive feelings towards a firm. In addition, benefits lost switching costs significantly impact customer satisfaction for dissatisfied (negative feeling consumers) consumers but do not influence customer satisfaction for satisfied consumers (positive feeling consumers).

LIMITATIONS AND FUTURE RESEARCH

One limitation of this study relates to the sampling method. A convenience sample of consumers was used; therefore, generalizing the findings to the general consuming public should be done with care. A second limitation relates to the scope of this study. This study examined only three types of switching costs. There are a number of other types of switching costs that research should investigate as they relate to service quality and customer satisfaction. Finally, we assessed the relationship between service quality, switching costs, and customer satisfaction at a single point in time. This relationship may change over time.

Additional research might also examine the relative importance of the five dimensions of SERVQUAL in influencing the three types of switching costs. Different dimensions of service quality may be found to have greater impact on different types of switching costs. In addition, future research could examine the influence service quality has on switching costs, and the impact switching cost have on customer satisfaction across different types of service providers such as banks, hotels, restaurants, and phone companies. A longitudinal study might also provide insight into how different types of switching costs change over time for the same service provider. Finally, additional research is needed on the relationships between service quality, switching costs, and customer satisfaction across cultural boundaries. Do the relationships between these constructs change depending on cultural values and norms, or are they universal in nature?
REFERENCES


