# Chapter 20
# Relational Dynamics and Outcomes in Small and Large Service Organizations

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## ABSTRACT

*The rapid growth of the service sector and servitization of the manufacturing sector have both contributed to rising competition and have forced managers to look for effective ways to differentiate their services from competitors and competitive edge. Consequently, the value of establishing closer and lasting relationship with customers have come to the fore, and researchers as well as industry practitioners are trying to better understand the best strategies for achieving this goal. This paper evaluates two strategies firms have adopted in trying to build lasting relationship with customers, namely respect and rapport. The purpose of this chapter is to examine the concept of respect and rapport and how they affect customer loyalty. The study draws from existing literature and surveys customers of two service sectors in Asia. The research hypotheses connecting the three dimensions of respect and two dimensions of rapport with customer loyalty were tested using Pearson correlation and multiple regression analysis. These findings lead to research and managerial implications that conclude the chapter.*

## INTRODUCTION

Today's rapidly changing business environment is creating new challenges for service organisations to seek for more creative and flexible ways to win the competition. Managers are not only looking for new strategies to handle competition, but also ways to delight customers and retain them for the long term. Initially, these included delivering the best possible quality of service, but more recently building long-term relationships through interpersonal relations. Previous research has suggested that as

customer relationship lengthens, companies can increase profit considerably by retaining just five per cent of their customers (Reicheld & Sasser, 1990). We argue that the presence and quality of service provider and consumer interpersonal relationship play a significant role in gaining customer loyalty. We tested such supposition in two services sectors in Asia.

It is germane to jog the reader's mind that good interpersonal relationship is considered as a key element of any service offering (Czepiel, 1990; Berry, 1995) and has a positive impact on customer-to-firm relationship. This paper extends the findings of previous research stating that the closeness of interpersonal friendship is a potential antecedent of customer loyalty towards the firm (Butcher et al., 2001). However, one big question mark remains – what are actually the right dimensions of interpersonal relationship? Based on theories and extant literature from social psychology, and relationship marketing, we identified 'respect' and 'rapport' as key dimensions in building interpersonal relationships with customers. We then explained their link with customer loyalty through the lens of the justice theory.

## THEORY, CONCEPTUAL FRAMEWORK, AND PROPOSITIONS

The relationship between interpersonal relational dynamics (namely respect and rapport) and customer loyalty can be better understood from the perspective of justice or fairness theory. Research on organizational justice shows that perceived organizational fairness enhances commitment to the organization (Folger & Konovsky, 1989). When customers have difficulty in collecting information about the fairness of the organization as a whole; they tend to rely on perceptions of distributive, procedural and/or interactional justice to infer about overall organizational fairness (Ali & Ndubisi, 2011). The fairness theory suggests that customers expect a certain level of distribu-

tive, procedural and/or interactional fairness in exchange relationship (Adams, 1963; Anderson and Patterson, 2008). Perceived fairness is thought to have important implication on customer satisfaction or dissatisfaction (e.g., Anderson and Patterson, 2008); customer value (Nasution, Mavondo, Matanda & Ndubisi, 2011), commitment (Ndubisi, 2011), and customer loyalty (Ndubisi, 2007; 2012). Against this background, we reason that if employees of service organisations respect and build rapport with customers, they (customers) will perceive interactional fairness leading to loyalty. Similarly, they will increase their loyalty if they perceive distributive or procedural fairness in the outcome or process of the service encounter respectively. Because the focus of this research is on interpersonal relational dynamics, we will focus on interactional justice in the analysis. We thus argue that if service providers apply respect and rapport in their interactions with customers, such gestures are often reciprocated through greater commitment or loyalty to the fair service provider. Such reciprocal behavior is the underlying argument of other social science theories such as the social exchange theory and equity theory. On the flip side, if one party (the customer) feels s/he has not received a fair interactional outcome or, in equity theory terms, her/his input-output ratio is inferior to that of the service provider or other social actors (Anderson and Patterson, 2008), there will be a lack of commitment and greater likelihood of defection. Thus, justice theory provides a succinct and compelling lens for viewing key aspects of interpersonal relational dynamics, and can be used to understand the influences of respect and rapport on customer loyalty.

### Customer Loyalty

Loyalty is not only about future patronage, but also loyal customers producing huge amounts of revenue and demand less time and attention, and thus making them an important asset for a company (Yang & Peterson, 2004). In this stream

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