

Integrating process, structure, and change in relationship development: An approach to create new customers

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## **Abstract**

How do relationships work? One set of researchers has examined this question by creating models to structure the stages of a relationship. A second set of researchers has created models to detect the processes that unfold when parties in a relationship interact. The current paper discusses briefly both stage and process models of relationship development and then proposes an integrative model that incorporates both features of a relationship. A Stages of Change framework is applied within this integrative model to provide insights on the processes needed for a relationship to move from one stage to another. This approach is a first step to understand how to create new customers and the strategies to motivate change. An illustration of this approach is applied to customer relationship development.

## **Integrating Process, Structure, and Change In Relationship Development: An Approach To Create New Customers**

An analysis of the scope and depth of business relationships provides a useful framework to understand marketing phenomena. In this area of research, two distinct approaches have been proposed to examine these relationships. One approach focuses on the structural aspects of a relationship, and the second approach examines the processes that underlie these relationships. Collectively, these approaches provide insights into the different mechanisms and stages in a relationship. Despite the substantial research in this field, however, researchers have not developed an integrated model that describes both the structure and processes in a relationship, and how participants *move* from one stage of a relationship to another.

In the sections that follow, we present a brief review of the structural and process models of relationships. Several of these models will be quite familiar to the reader (e.g., Dwyer, Schurr, and Oh 1987; Sheth 2000). Some models may be somewhat less familiar (Foa and Foa 1974). We will also discuss an approach, developed in the area of behavior change, which describes the processes that are necessary to move through various stages of a relationship. Our intent is to use these models as a foundation for a more integrative models that we present later in the paper. We will conclude our discussion with an application of this integrated model to the area of customer relationship management.

### Structural Models of Relationships

Several authors have proposed models that describe the stages or phases in the development of a relationship. We will present a brief overview of three such models.

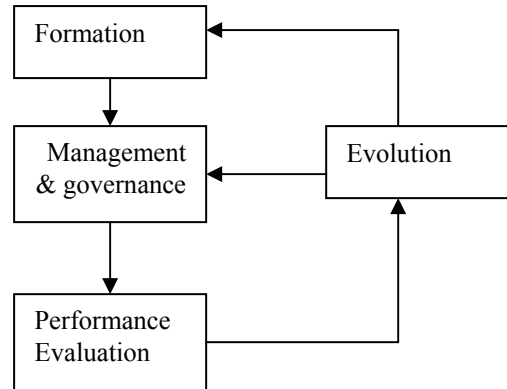
*Dwyer, Schurr, and Oh* (1987) propose a five stage model of relationship development: 1. *Awareness*, 2. *Exploration*, 3. *Expansion*, 4. *Commitment*, and 5. *Dissolution*. In the awareness phase, party A recognizes that party B is a feasible exchange partner, although there

is no actual interaction. As we will discuss in a subsequent section, there is no formal pre-awareness stage in which the party is unaware of the need to initiate the search for a relationship. In the exploration phase, the two parties begin to consider obligation, burdens and benefits associated with the possibility of exchange. This second phase is conceptualized by the authors to contain five sub-processes: attraction, communication and bargaining, power and justice, norm development, expectations development. These sub-processes are considered important aspects of the exploration phase because they enable each party to gauge and test the goal and compatibility, integrity and performance of other. The outcome of the second phase is an initial decision to develop a relationship, although the links between the parties are relatively weak, and either party can withdraw from the relationship with limited loss.

The five sub-processes still occur in the third phase, but with a greater range and depth than the previous phase. During the expansion phase, the costs of withdrawing from the relationship increase as does the level of trust and joint satisfaction. The third phase is characterized by a continual increase in benefits obtained by exchange partners and to their increasing interdependence. At the end of the third phase is an “implicit or explicit pledge of relational continuity between exchange partners.” The authors do not provide a more micro-level analysis of the shifts in the actual processes that occur within the second or third phase (e.g., an increase in attraction and a decrease in norm development), nor do the authors describe what processes are needed to move from an exploration phase to an expansion phase.

In the fourth phase, the relationship is characterized by a greater range of resources that are considered fungible (e.g., material resources, status, emotional expression, services), durable (remains functional over a period of time and environmental uncertainty), and consistent (e.g., expectation of similar responses over time and context). Both parties invest substantial resources in the maintenance of the relationship. During the last phase, one (or both) party evaluates the dissatisfaction with the other party, concluding that the costs of continuation or modification outweigh benefits.

*Sheth* (2000) develops a model to describe the development of cooperative and collaborative relationships with customers. The author developed a generic four stage relationship marketing process model



*Figure 1: Four stage relationship marketing process model*

The basic components of this model are similar to the five phase model developed by Dwyer, Schurr, and Oh (1987), with the exception of a dissolution phase. Neither model contains a pre-relationship phase. In the formation stage, each party assesses their current status and then scans the environment to determine whether a partner exists that will improve their performance. In terms of classic small group behaviour (Thibaut and Kelly 1959), each party seeks to determine whether the comparison level for alternatives ( $CL_{alt}$ ) exceeds the current situation (i.e., comparison level –  $CL$ ). The outcome of this phase is the selection of a partner and the development of structure to guide the relationship.

In the second phase – management and governance – both parties create shared norms of governance. In this phase, the most important issues for the parties involved are: role specification, communication, common bonds, planning process, and process alignment. *Sheth* (2000) argues that if the process is implemented to the satisfaction of both parties, it will ensure the continuation and enhancement of the relationship. In the third phase, feedback mechanisms are used to determine whether the programs are meeting expectations and are sustainable in the long run. The final phase focuses on the evolution of the relationship. During this phase, the parties make decisions regarding continuation,

termination, enhancement, and modifications of the relationship. Sheth (2000) states that the performance of and satisfaction with the relationship is likely to have a significant impact on the survival of the relationship.

In a recent article, Rao and Perry (2002) classified the numerous schools of thought about relationship development into two approaches: stage theory and states theory. Stage theory considers relationship development as an evolution and progression through increasing resource commitment and interdependence (e.g., Ford 1980; Dwyer *et al.* 1987). This process is described as a gradual development taking place in a sequential manner and over long periods of time. According to the authors, models that have influenced stage theory are: life-cycle models (Porter 1980; Quinn and Cameron 1983; Easton *et al.* 1993), and growth stage models of inter-firm relationships (Ford 1980; Dwyer *et al.* 1987; Larson 1992; Kanter 1994). Several assumptions limit the usefulness of this model. First, relationship development is assumed to occur in a sequential, incremental, and irreversible manner. Second, the simplicity of stage theory does not allow it to explain fully complex inter-firm relationships, particularly at the boundaries between stages; that is, it provides little explanation for the transition from one stage to another. In a later section, we will present an approach that allows us to specify the processes that facilitate transitions between stages.

States theory focuses on the unpredicted state of the relationship at any point in time because strategic moves of exchange actors occur in an unstructured and unpredictable manner. The difference between state and stage theory is the proposed orderly progression of phases over time in stage theory and the importance of circumstance/opportunities at a given point in time for state theory. Figure 2 contains an illustration of this model.

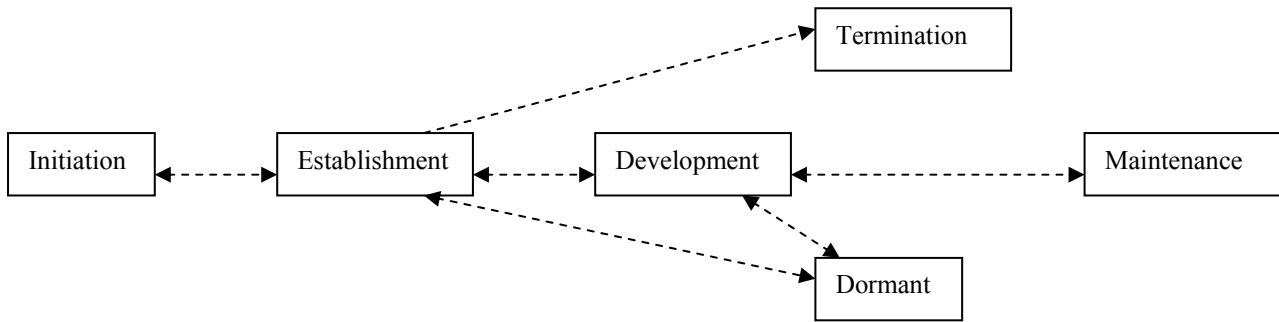


Figure 2: State Theory Model

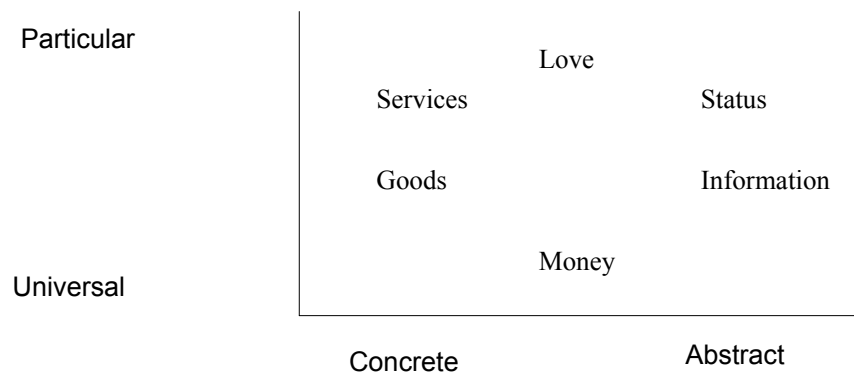
We have presented three models, each of which contains similar stages. Although these models do address the activities that might occur in each stage, they do not address the pattern among these activities. Each model is also silent with respect to the movement between the stages, and to the need to consider a pre-contemplation phase of a relationship. In the following section, we will discuss process models for understanding the interactions within a relationship.

#### Models that describe the processes in a relationship

The basic tenet of marketing has been described as an exchange between two or more social units. Several researchers have debated the form and components of marketing exchange theories. Much of this debate concerns the boundaries associated with the concept of exchange, the testability of exchange theories, and what is exchanged (e.g., Bagozzi 1975). In his model, Bagozzi treats market goods and services, time, psychological characteristics of the actors, and social forces as endogenous variables influencing the utility of the dyad, and four other factors as exogenous: situational constraints, social influences between actors, third-party influences, and characteristics of the actor.

Foa and Foa (1974) identify six resources that may be exchanged among parties in a relationship: Love, status, information, money, goods, and services. These resources are organized along two dimensions: universal-particular and abstract-concrete. The fundamental hypothesis, which has received support in the marketing literature (e.g.,

Brinberg and Wood 1983), is that resources perceived as similar are more likely to be exchanged. From a marketing perspective, the value of this framework is that the specification of resources exchanged between two parties goes beyond the simple notion of an exchange of money for goods and services. The circumplex model that underlies this theory can be found in Figure 3.



*Figure 3: A circumplex model of exchange*

In addition to the content of the exchange, however, is the motivation that influences the interactions in a relationship. Social exchange theory (Thibaut and Kelley 1959) uses the economic metaphor of costs and benefits to predict behavior. It assumes that individuals and groups choose strategies based on perceived rewards and costs. Social exchange theory asserts that people consider the consequences of their behavior before acting. In general, people want to keep their costs low and their rewards high.

Consider people interacting under conditions in which outcomes for each depend not only on their own behavior but on the other's behavior as well. If two people, A and B, are behaving in a common space, the results A will get from whatever he does will be affected by what B does and, of course, vice versa. Gaining satisfaction from an interaction usually requires some degree of cooperation and coordination of behavior by the others involved in that interaction.



When two people interact over a period of time, exchange theory supposes each of them wants to maximize his own “pay-off” (i.e., the degree to which reward exceed costs). There are objections to the pay-off maximizing proposition. There is considerable evidence, mostly regarding economic behavior, that people very often do not try to maximize gain but instead use other criteria for making choices. For example, they may try to minimize loss rather than maximize gain. Or they may “satisfy” rather than continue the process in order to maximize gain. Another objection is that choices are not based on elaborate calculations, however rapid, of gains, costs, differences and alternatives. Furthermore we often find ourselves facing comparisons of things we cannot compare.

If two people have potential behavioral control over each other, yet each wants to maximize their own pay-off (higher rewards, lower costs), they are in a mixed-motive situation. Each person is motivated both to cooperate with and to compete against the other. What determines whether the members of a dyad continue to interact, or cease to do so? The dyad will continue so long as it yields high pay-offs to both members. The Comparison Level (CL) is an “average” level of pay-offs that the person has come to expect in this kind of interaction situation. Person A compares the pay-offs being received from the present relation (e.g. level X) to this comparison level (CL). To the extent that CL exceeds present level X, A is dissatisfied. To the extent that X exceeds CL, A is satisfied. But since CL is an adaptation level that changes as a function of experience, if A were to stay in the relation for a long time, at X level of pay-off, CL would approach X.

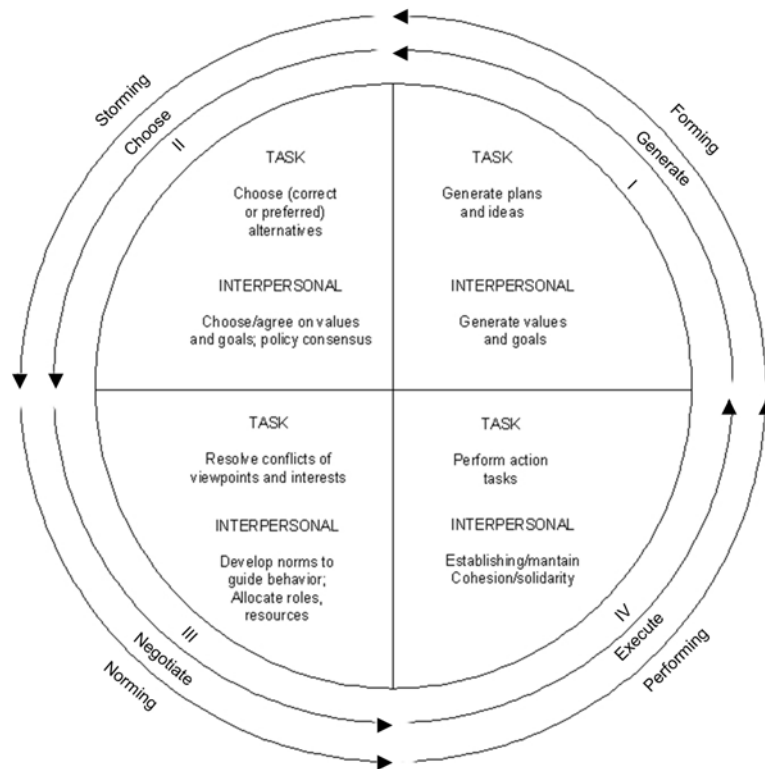
In sum, we have seen a distinction between stages and processes, and between content and motivations that underlie a relationship. None of the theories to date have integrated the stages and processes, as well as the activities within each stage. In the next section, we will present a framework developed by McGrath (1984) that provides an integrated perspective of these constituent components of relationships.

## Integrating Stages and Processes

McGrath (1984, p. 161) illustrates that structures, processes and objectives of groups are considered together in their development. McGrath's aim is to bring all these components together and create a new model.

The model contains four stages that are related to interpersonal activities in a relationship: forming, storming, norming and performing. In addition, there are four task-oriented stages: generate, choose, negotiate, execute. The value of the model is the explicit integration of stages and specific within-stage relationship processes. The integrated model is silent, however, on the processes needed to motivate a relationship to move across stages.

Figure 4 contains this integrated model.



*Figure 4: An integrated model of stages and processes*

As in the previous models, however, no consideration is given to pre-relationship issues or the actions necessary to move from one stage to another. Despite the strengths of this integrated model, additional insights are needed to understand the impact of pre-

relationship issues on the initiation (forming) of a relationship. Further information is also needed on strategies to move across stages. In the next section, we will discuss the Stage of Change Model as framework to organize the motivations associated with behavioral change.

### Stages of Change

The Stages of Change Model is a subset of Prochaska and DiClemente's (1984) Transtheoretical Model and states that people move through a series of five stages when modifying behavior on their own or with the help of formal interventions. The full model includes both the Stages of Change and the Process of Change and it originated as a psychoanalytic framework to explain how individuals change. The Stages of Change represent a temporal dimension that allows us to understand when particular shifts in attitude, intentions and behaviors occur. The processes of change are a second major dimension that enables us to understand how these shifts occur.

Although the number of stages has been modified and refined, the stages can generally be described in the following progression:

1. *precontemplative*: there is no intention to change or to adopt a behavior (or in our case no intention to enter into a relationship);
2. *contemplative*: there is the consideration of a change in future;
3. *preparation*: there is an intention to adopt the behavior in foreseeable future (or in our case the intention to enter into the relationship in the foreseeable future);
4. *action*: there is the adoption of behavior (or in our case the initiated relationship);
5. *maintenance*: the behavior becomes a routine part of life.

Most applications of the SOC model are in the health field. For example, studies have examined the effect of stage of change on cue reactivity in continuing smokers, predictors of motivation to change after medical treatment for drinking-related events in adolescents, or

stage-relevant messages to modify people's decisions to reduce their fat consumption. This model is designed to be a generalizable approach toward behavior change.

**If one views the stages and processes in a relationship as a dynamic, ongoing series of behavior changes, as viewed in the model developed by McGrath (1984), then the Stages of Change model can be incorporated with the stage and within-stage processes describe in Figure 4 to identify the motivation needed to move from one stage to another.** In the next section, we will propose an approach to apply a Stages of Change perspective to relationship creation and development.

#### Stages of Change and Relationship Development

Precontemplation is a period in which the consumer is not thinking about making any changes (either in their current relationship or in entering a new relationship). Contemplation is the period of time in which the consumer considers the benefits and risks associated with a change in the relationship (or the initiation of a new relationship). Preparation is the time in which the consumer, who has thought about relationship changes, begins the actions needed for change. Action is a period when these behaviors are enacted. Maintenance is defined as the period after action has started and behaviors have become routine. Prochaska and DiClemente (1984) note that for many behaviors, the change process is not linear, but will involve several returns to earlier stages before sustained behavior change is attained.

The Processes of Change are divided according to the transitions between stages. For example, the processes used to move individuals from preparation to action will not be the same as those used to move from action to maintenance.

The model suggests that:

- a) to move precontemplatives to contemplation consciousness raising and environmental reevaluation should be used;
- b) to move from contemplation to preparation the model suggests self-reevaluation;
- c) to move from preparation to action needs self-assessment;

- d) to move from action to maintenance contingency management, counter-conditioning and stimulus control should be used.

When applied to marketing, these steps might be considered as follows:

- a.1 Consciousness raising involves increasing the awareness of a particular need through information concerning causes and consequences.
- a.2 Environmental reevaluation concerns both emotional and cognitive assessments of how one's behavior affects one's relationships and how changing would affect the relationship.
- b.1 Self-reevaluation concerns how the individual would feel and think if his need would be satisfied.
- c.1 Self-assessment involves the belief that the individual is capable of change and the commitment to change.
- d.1 Contingency management is related to reinforcement structures such as rewards and punishment.
- d.2 Counter conditioning is the process of learning the new behaviors, which will replace the current behavior.

There are eight basic determinants to produce behavior and behavior change. The specific importance of each determinant will depend on the individual, behavior, and context (Fishbein *et al.* 2001). Generally speaking, the first three are necessary for producing any behavior change. The remaining five will influence the strength and direction of the intention to perform the behavior.

1. Intentions to perform the behavior
2. Environmental constraints preventing behavioral performance
3. Skills necessary for behavioral performance
4. Behavioral beliefs, outcome expectancies, costs and benefits, perceived consequences
5. Perceived normative pressure

6. Self-standards and sanctions
7. Emotional reactions
8. Self-efficacy

#### An extended example in the area of Customer Relationship Management

While previous marketing efforts were focused on increasing market share based on a single transaction, the past few years have focused more on relationship marketing. One specific relationship focuses on selected customers who are more profitable for the firms. With changing forces such as globalization, deregulation, and convergence of industries, firms have discovered that treating existing customers well is the best source of profitable and sustainable revenue growth (Brown 2000).

CRM is a business strategy that aims to understand, anticipate and manage the needs of an organization's current and potential customers (Brown 2000). Using this strategy, organizations can develop a marketing program that best fits a customer's attitude towards the company and willingness to purchase its products and services.

Brown (2000) distinguishes the application of CRM strategy into four customer profiles. These profiles do not provide a clear and consistent separation of the processes and stages in the development and maintenance of a relationship. For instance, one profile focuses on a stage in a relationship (i.e., prospecting or forming a relationship), whereas another profile focuses on the processes for strengthening an existing relationship (e.g., loyalty). A brief description of these profiles follows.

- *Prospecting* is the effort to win new, first time customers. Or, in relationship terms, the formation stage. In this phase, segmentation procedures allow the organization to target its offer to relatively homogenous groups of consumers, and to focus on profitable customers.

- *Win back or save* is a process to convince a customer to stay with the organization when they are discontinuing service or to rejoin once they have left.
- *Loyalty* is a process used to reduce the likelihood that a customer will leave the organization.
- *Cross-sell / Up-sell*, is a process designed is to enhance an offer, typically, with complementary products.

The CRM model uses a company's perspective to create and manage relationships, although different strategies and customer segments may be used based on a stage of change framework. The Stage of Change model focuses on relationships from the consumer's point-of-view and allows the marketer to combine both the processes within a relationship and the specific stages in the creation, development, and maintenance of the relationship.

Both perspectives are necessary to develop a more complete understanding of CRM. The traditional CRM perspective uses static tools, such as segmentation, to identify target markets. The result is that often CRM projects are highly fragmented and lack of customer focus (Brown 2000). The SOC, on the other hand, is more dynamic by focusing on the processes needed to move from one stage in a relationship to another. In the current business climate, the marketing problem is to develop multidimensional segmentation to incorporate customer value, life stage, channel preferences and attitude in a dynamic way and to go beyond segmentation to influence the customers' decision to keep or drop a product or a service (Lemon; White, and Winer 2002). For example, one might propose, based on past research (Hampton 2002), that when a customer has not considered the development of a new relationship (i.e., pre-contemplative), an emotional appeal would be more effective in moving the customer to the next stage. When the customer is contemplating the formation of the relationship, however, a more cognitive message might be more effective.

Another limit of CRM is its focus on the growth and maintenance of stages in a relationship because in the phase of initiating a relationship, segmentation is insufficient to get closer the customer (Nairm 2002). Future research could be addressed to use Stage of Change model also to look for new strategies to capture new customers.

### Conclusions

In sum, we have examined traditional models of both structure and process in the development and growth of a relationship. A limitation in these traditional perspectives is the separation of processes and structure. We have proposed an alternative approach that combines both the structure and process of relationship formation and development with a stage of change model that provides insights on the processes needed to move across the different stages. A specific type of relationship – CRM – has been discussed briefly in the content of this more integrative model.



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