Antecedents of Customer Relationship Termination

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Abstract

To end business relationships, or to more actively terminate relationships, has long been acknowledged as part of customer relationship management. However, compared to other elements such as initiation and maintenance of relationships, little is known about the termination of business relationships as a managerial task. This paper contributes by (1) developing a conceptualization of relationship termination competence and (2) analyzing its antecedents. The empirical results identify termination acceptance, definition non-customers, organizational relationship termination routines, and motivation as significant antecedents. Because of this, managers need to develop their organizations in order to use relationship termination as a vital strategy.

Keywords:Unwanted customer relationships, Relationship termination competence, Antecedents

Introduction

Managing customer relationships has for a long time been a very central topic in marketing (e.g. Campbell & Cunningham, 1985). The IMP group (e.g. Håkansson, 1982) has very early highlighted the fact that business markets are comprised of inter-firm relationships. Various aspects of how to attract and maintain customers are well covered within the existing literature and research under terms like "relationship marketing" (Berry, 2002) or "relationship development" (Dwyer, Schurr and Oh, 1987; Ford, 1980; Morgan and Hunt, 1994). The increased focus on customers and the firm's relationships with its customers has lead to a redefinition of marketing away from a focus on products, price, promotion and place towards a focus on customer relationships (see table 1).

American Marketing Association, 2006	"Marketing is … a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders."
Berry, 1983, p. 25	"Relationship marketing is attracting, maintaining and enhancing customer relationships."
Morgan and Hunt, 1994, p. 22	"Relationship marketing refers to all marketing activities directed towards establishing, developing and maintaining successful relational exchanges."

Table 1: Selected definitions of marketing and relationship marketing

As illustrated in table 1, there is a positive focus on business relationships. But not all customers contribute to the firm’s success. Customer relationships have different degrees of value potential for the supplier (Walter, Ritter & Gemünden, 2001). Likewise, not all relationships are unproblematic and easy to manage. This observation has led some researchers to refer to customer relationships as burdens and barriers. Beyond developing such relationships towards higher value potential and better processes, the termination of low-value customer relationships comes into focus.

Although Dwyer, Schurr, and Oh (1987) explicitly introduce a dissolution phase, this final stage of a business relationship has only recently attracted academic attention under varying terminology (table 2). Within this stream of research, three different perspectives have been taken:

1. Stage or phase of a business relationship: Termination is seen as the final stage of a business relationship during which the two exchanging partners discontinue their business transaction (e.g. the dissolution stage in Dwyer, Schurr, and Oh (1987)).
2. Process of business relationship termination: Termination is seen as a multistep process in which the two actors disentangle their business interactions (e.g. Tähinen, 2002).
3. Managerial activities for terminating a business relationship: Termination is seen as a managerial activity as part of relationship management (e.g. Reinartz, Krafft, and Hoyer, 2004).

Term	Term used or mentioned in
Break-down	Beloucif et al. (2006) Reinartz, Krafft & Hoyer (2004)
Disengagement	Baxter (1979)
Dismembership	Duck (1982)

Dissolution	Alajoutsijarvi, Möller &Tähtinen (2000); Dwyer, Schur & Oh (1987); Havila & Wilkinson (2002)
Ending	Havila & Salmi (2009, "project-ending"); Tähtinen (2002); Tähtinen & Halinen (2002)
Exit	Alajoutsijarvi, Möller & Tähtinen (2000)
Firing	Reinartz, Krafft & Hoyer (2004)
Outsourcing	Sheth & Sisodia (1999)
Termination	Reinartz, Krafft & Hoyer (2004)
Switching	Beloucif et al. (2006)
Unbonding	Dwyer, Schur & Oh (1987)
Withdrawal	Dwyer, Schur & Oh (1987)

Table 2: Different terminology for relationship termination

Interestingly, only Halinen and Tähtinen (2002) explicitly define dissolution of inter-organisational relationships as the stage "when all activity links are broken and no resource ties and actor bonds exist between the companies". This definition focuses on the organisational level but does not take into consideration that there might still be social relationships between human actors. Havila and Wilkinson (2002) argue that there can be a lot of energy left after two firms have stopped doing business with each other, i.e. dissolved their business relationship. This aftermath phase also received some attention by Alajoutsijarvi et al. (2000) who discuss the importance of "beautiful exits", avoiding the future, potentially damaging effects when dissolving a relationship.

Despite the above contributions, the literature is still short of an understanding of relationship termination as a managerial issue, the third perspective. This paper contributes to the current academic discussion by developing a conceptualization of relationship termination competence at the level of the individual sales representative. In addition, the paper develops and tests hypotheses about antecedents of relationship termination competence and develops managerial implications.

Relationship termination competence

We define *relationship termination competence* as a set of deliberate activities to dissolve a business relationship, i.e. when an actor actively engages in managerial actions to end a business relationship. In this paper, we adopt a supplier perspective and, thus, we are concerned with customer relationship termination, i.e. when a supplier actively attempts to end a customer relationship. We consider activities on an individual level, i.e. we focus on the competence of a sales representative to end a relationship with a customer.

Based on social relationship termination literature, the literature on the process of terminating business relationships has identified four different subprocesses (table 3). "Customer evaluation is the first subdimension of each primary [customer relationship management] dimension" (Reinartz, Krafft & Hoyer, 2004) which "is composed of the actor's total decision making behavior (including information seeking and uncertainty reduction)" (Tähinen, 2002). This initial, mainly single actor, activity is followed by a dyadic interaction process in which the two parties communicate their points of view and negotiate the terms and conditions of the termination. The eventual implementation of the termination often affects more actors than the two direct parties in the relationship due to the connectedness of the relationship. Finally, an "aftermath" and "recovery" phase is suggested which includes post-rationalization (sensemaking) and the development of alternative relationships to replace the original one. These different phases may occur sequentially but can follow any other order, just as the different subprocesses can occur at different times during a relationship termination process.

Our subprocess definitions	*Awareness & Analysis*	*Communication & Negotiation*	*Implementation*	*Follow-up*
Duck (1982); Baxter (1979,	Intrapsychic phase: one	Interactive phase:	Social phase: presentation of	Recovery phase:

1983)	side evaluates privately	negotiation	termination to public	setting up the new system
Halinen & Tähinen (2002); Tähinen (2002)	Consideration	Communication	Enabling & Disengagement	Sensemaking and aftermath
Examples of subprocess studies	Grønhaug et al. (1999)	Alajoutsijärvi et al. (2000); Giller & Matear (2001)		

Table 3: Conceptualization of Termination Process

Because the follow-up phase includes building other relationships and, thus, goes beyond the relationship in focus, we have chosen not to include this phase in our operationalization. Thus, we consider three different dimensions of relationship termination competence:

- Identification: An essential activity is to identify unwanted customers which should be terminated.
- Timing: After identification, the sales representative needs to find a point in time to initiate the termination process.
- Process: Finally, we consider the process of terminating as a dimension of competence.

Hypotheses

Termination Acceptance

We define as a firm's termination acceptance as the degree to which the firm sees termination as a valid managerial option and does not remain in unwanted customer relationships. Termination acceptance does not mean that firms terminate all troublesome relationships regardless of their potentials for development. It is merely accepting termination as one option in managing its relationships.

If termination is not a valid option in a firm, sales representatives are not likely to propose ending customer relationships, let alone implement such measures. The lack of termination acceptance will make a firm and its employees oblivious of this option, thus lowering the likelihood for termination and for developing relevant qualifications.

<u>Hypothesis 1:</u> The higher a firm's termination acceptance, the higher a sales person's relationship termination competence.

Non-customer definition

Many firms work extensively on defining their key customers, i.e. those customers they particularly wish to attract and retain. In contrast, a definition of customers which are not welcomed in the firm is often missing. This leads to a situation in which employees do not know which customers to attract, which to maintain, and which to reject.

This organizational problem makes it difficult for the individual to spot unwanted customers effectively. The lack of an agreed non-customer definition increases the likelihood that sales people do not terminate relationships thus giving them no opportunity to practice this activity.

Hypothesis 2: The clearer and more widespread a firm's non-customer definition, the higher a sales person's relationship termination competence.

Termination Routines

We define routines as processes (series of activities and/or events, Van de Ven, 1992) which are institutionalized at the organizational level and build up capabilities (Winter, 2003). Routines refer to organized processes and systems which support employees in their task execution.

Termination routines refer to process and systems which are implemented in the organization to enable termination execution. Reinartz et al. (2005) documented that the existence of termination processes and systems have a positive impact on firm performance. This impact presupposes that the organizational routines are enacted by employees to produce results.

Hypothesis 3: The more established a firm's termination routines are, the higher a sales person's relationship termination competence.

Termination Motivation

Termination motivation is defined as the degree to which employees are rewarded for terminating unwanted customer relationships. Rewards may be either material rewards (i.e. bonus) or they may be immaterial rewards (i.e. acknowledgements by managers).

Motivation is an essential element of achieving results in organizations. Many studies have shown a direct link between motivation and execution.

<u>Hypothesis 4:</u> The higher a firm's termination motivation, the higher a sales person's relationship termination competence.

Value of Customer Portfolio

The value of customer relationships has received a lot of interest over the past decade (for a review, see Lindgreen & Wynstra, 20005). Value is seen as the trade-off between benefits and sacrifices (Anderson & Narus, 2004; Eggert & Ulaga, 2006; Walter et al., 2001). Customer relationships can create value, i.e. contribute to a firm's profitability, either directly or indirectly (Andersen et al., 1994) whereby the direct value-creating functions are defined as payment, volume, quality, and safeguarding and the indirect value-creating functions are suggested as innovation, information, access, and motivation (Walter et al., 2004). For the purpose of this study, we define direct (indirect) value of customer portfolio as the percentage of a sales representative's customers which create direct (indirect) value for the sales representative's firm.

Given the combination of identification of unwanted customers with activities to terminate such relationships, we expect a positive impact of relationship termination competence on customer portfolio value. Logically, with the termination of low-value customer relationships, the percentage of valuable customers will increase.

Hypothesis 5a+b: The higher sales person's relationship termination competence, the higher the (a) direct and (b) indirect value of his/her customer relationship portfolio.

Empirical Study and Results

Database

The survey was conducted in association with a business association for sales professionals. The organization represents more than 28,000 people working in sales. This business association provided access to its member panel who were invited to participate in an online study. Out of 2,500 panel members, over 840 members participated yielding 837 usable responses.

Operationalization

All items were measured using a 7 point Likert scale (see appendix for list of items). The only exception was the measure of the value of customer relationship portfolio which was measured in percent. In order to control for firm size, the total number of customers and the number of employees were included. For controlling for respondent background, experience (measured in number of work experience in sales and marketing) and customer portfolio breath (measured in number of customers for which the respondent is responsible).

Results

In order to test the first set of hypotheses, we performed a regression analysis with the respondents' termination competence as dependent variable (table 4). The results indicate strong support for all four hypotheses: A sales person's relationship termination competence is driven by the level of termination acceptance, the degree to which a definition of non-customers exists across the organization, and the degree to which termination routines are in place and motivation is offered. Termination competence is not influenced by firm size. Personal experience within sales and marketing does have significant positive influence.

Independent Variable: Relationship Termination	**Model 1**	**Model 2**
Termination acceptance (H1)		.22***
Non-customer definition (H2)		.16***
Termination routines (H3)		.12**
Termination motivation (H4)		.08*
<u>Control variables</u>		
Number of customers	.00	.01
Number of employees	.05*	.01
Experience	.22***	.13***
R^2	.05	.26

*** p < .001; ** p < .01; * p < .10 (one-tailed test)

Table 4: Regression results for relationship termination competence (Model 1: control variables; Model 2: full model)

Tables 5 and 6 document the results of the regression analyses with direct and indirect value creation of customer relationship portfolio. In order to control for direct effects of the antecedents, they are included in the model. Hypothesis H5 is supported in both models, i.e. the sales person's relationship termination competence has a significant, positive impact on value.

Independent Variable: **Direct Value of Customer Portfolio**	**Model 1**	**Model 2**	**Model 3**
Relationship Termination Competence (H5)			.07*
Direct effects of antecedents			
Termination acceptance (H1)		.00	-.01
Non-customer definition (H2)		.13**	.12*
Termination routines (H3)		-.01	-.02
Termination motivation (H4)		.01	.01
Control variables			
Number of customers	-.01	-.01	-.01
Number of employees	.09**	.10**	.10**
Experience	.01	-.02	-.03
R^2	.01	.02	.03

*** p < .001; ** p < .01; * p < .10 (one-tailed test)

Table 5: Regression results for direct value of customer portfolio (Model 1: control variables; Model 2: control variables and antecedents; Model 3: full model)

Independent Variable: **Indirect Value of Customer Portfolio**	**Model 1**	**Model 2**	**Model 3**
Relationship Termination Competence (H5)			.07*
Direct effects of antecedents			
Termination acceptance (H1)		.08*	.06*
Non-customer definition (H2)		.14**	.13**
Termination routines (H3)		-.07*	-.08*
Termination motivation (H4)		.01	.00
Control variables			
Number of customers	.00	.01	.00
Number of employees	.04	.05	.04
Experience	.02	.00	-.01
R^2	.00	.02	.03

*** p < .001; ** p < .01; * p < .10 (one-tailed test)

Table 6: Regression results for indirect value of customer portfolio (Model 1: control variables; Model 2: control variables and antecedents; Model 3: full model)

Both models indicate support for hypothesis H5 but only tentatively and at very low levels of explained variance. For direct value (sales volume and safeguarding), the definition of a non-customer has a direct positive impact. Sales representatives in larger firms seem to be able to create more direct value from their portfolio which could be related to their potentially higher power and higher attractiveness for their relationship partners.

For indirect value (innovation, information, access and motivation), termination acceptance and non-customer definition shows positive support. Interestingly, termination routines have a tentative negative impact which potentially highlights problems of rigorous systems which are unable to handle softer value creation functions. This supports earlier findings on the impact of value creating functions on value perceptions (Walter, Ritter & Gemünden, 2000).

Managerial Implications

Given the widespread problem of unprofitable customers, firms need to consider relationship termination as a valid option and prepare themselves to exercise this option. One of the most significant barriers is a firm’s termination acceptance, i.e. that the firm is willing to terminate customer relationships. Many firms regard all customers as equally important and continue to maintain unwanted relationships.

Another important factor is the development of a clear definition of an unwanted customer. Firms need to develop and communicate a non-customer definition. Without a definition of the non-customer, how can employees terminate relationships with them? In addition, systems and processes for identification and treatment of unwanted customers should be developed. Finally, employees need to be motivated to apply the termination routines to the relevant customer relationships.

Outlook

Our findings provide a number of avenues for future research in this area. One, research into the internal organization of termination activities may offer concrete guidelines for firms in terms of the importance of internal coordination and in terms of the profile, selection, and education of “relationship terminators”. In what way are relationship terminators different from relationship promoters?

Alternatively, how can firms avoid entering into unwanted customer relationships? Such pre-relationship screening would minimize the need for termination and might be a more effective option than to use resources for establishing a relationship only to break it later.

Relationship termination is a very important activity for increasing the profitability. Firms waste important resources in maintaining unwanted relationships, resources that could have been used for more productive and profitable purposes. Being able to terminate unwanted relationships is as important as being able to establish and develop relationships.

Appendix: Measures

Termination Acceptance			
	My firm is completely prepared to dissolve customer relationships if necessary.		
	My firm stays in customer relationships even though they do not create any value. [reverse item]		
	My firm focuses on improving profitability with existing customers.		
Definition of none-customers			
	We do have a clear definition of what an unwanted customer is.		
	In my firm, everybody knows who the good and the bad customers are.		
	We have a very clear picture of customer we do not want to deal with.		
Termination routines			
	We have a well-defined process for at monitor potentially unprofitable customers.		
	We have good systems for identifying and monitoring bad customers.		
	We have a well-defined process for dissolving relationships with unwanted customers.		
Motivation			
	We do get incentives for discontinuing relationships with bad customers.		
	Our managers always points out that we must indentify and terminate unprofitable customers.		
	Our managers always point out that a bad customer is better than no customer. [reverse item]		
Relationship termination competence			
	I am very competent in identifying unprofitable customers.		
	I have difficulties in finding the right point in time to dissolve a customer relationship [reverse item].		
	I am very competent in terminating an unwanted customer relationship.		
Direct value of customer portfolio			
	Percentage of customers why buy large volumes		
	Percentage of customers demanding product		

	qualities which we can and will deliver		
	Percentage of customers paying regular prices by the agreed deadline.		
	Percentage of customers buying extra volume in case we have access capacity		
Indirect value of customer portfolio			
	Percentage of customers giving access to new customers		
	Percentage of customers offering information about market trends		
	Percentage of customers contributing to our innovations		
	Percentage of customer driving my and my colleagues' motivation		

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