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Social Identity and the Service Profit Chain

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Abstract

The conventional service profit chain (SPC) proposes that a firm's financial performance can be improved via a path that connects employee satisfaction, customer orientation, customer satisfaction and customer loyalty. In this paper, a complementary SPC is introduced which is built on both a conventional path as well as a social identity-based path. The latter SPC part centrally builds on customer and employee company identification as a core construct. On the basis of a large scale triadic data set that included data from employees, customers and firms, we find strong support for the extended SPC, which accounts for important customer (loyalty and willingness to pay) and firm outcomes (financial performance). Also, the effects of company identification exist incrementally beyond the effects of the conventional SPC path.

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1 Introduction

A strong focus in contemporary sales and service management has been on the service profit chain (SPC) which refers to a causal chain linking employee satisfaction to a firm's financial performance through mediating constructs such as customer satisfaction and customer loyalty (Heskett et al. 1994; 2003; Loveman 1998; Anderson and Mittal 2000). According to Heskett et.al. (1994; 2003), internal service quality leads to employee satisfaction which then drives employee loyalty and productivity. Employee productivity, in turn, drives value which is the basis for customer satisfaction. Customer satisfaction determines customer loyalty which leads to profitability and growth. This conventional SPC logic stands as a widely accepted element of current management wisdom, especially in contexts where employee-customer interaction occurs. As Rucci et al. (1998, p. 84) note in their widely acknowledged paper: "The basic elements of an employee-customer-profit model are not difficult to grasp. Any person with even a little experience [...] understands intuitively that there is a chain of cause and effect running from employee behavior to customer behavior to profits [...]."

As we will detail below, there has been a considerable amount of academic research which has examined specific links in this SPC as well as the entire chain (Loveman 1998; Kamakura et.al. 2002). Many of these studies find support for the proposed chain linkages. However, not all of the academic research on the conventional SPC has been positive. Some studies report either small effect sizes or non-significant effects (e.g., Brown and Chin 2004; Brown and Mitchell 1993; Herrington and Lomax 1999; Szymanski and Henard 2001). Thus, despite the widespread appeal and interest in the conventional SPC, further research is needed.

Moreover, from a practical perspective, there are some implementation problems related to the conventional SPC. These are mainly related to the construct of customer satisfaction which, as mentioned above, stands at the heart of the conventional SPC. Even though the fundamental role of customer satisfaction remains undisputed, it has been acknowledged that a permanent increase in customer satisfaction is becoming increasingly difficult to achieve and firms are therefore searching for alternative ways to raise customers' loyalty.

A key reason for this centers on customer expectations. According to the most common view, satisfaction results from a comparison of expectations to performance (e.g., Bearden and Teal 1983; Oliver 1980; Oliver and DeSarbo 1988). If performance meets expectations, the customer is satisfied; if not, dissatisfaction results. Thus, a core assumption is that by

improving performance one can also increase satisfaction. A problem with this view is that performance at time 1 sets the expectations for time 2 (Bolding et. al. 1993; Bolton and Drew 1991a; Mittal et al. 1999). This is illustrated by the following quote from the industry: “Customers expect what they are now receiving, and in a sense, they keep upping the ante” (Horowitz 2005, p. 38). As a result, it is becoming increasingly difficult to meet or exceed customer expectations. In fact, some authors have even proposed the need to go beyond customer satisfaction to ‘delight’ customers (Oliver, Rust, and Varki 1997; Rust and Oliver 2000). Unfortunately this usually requires a considerable amount of effort and investment in financial resources and it is not clear whether the performance outcomes justify this investment.

The natural limits of customer satisfaction management lead to the question of whether there are additional ways to foster strong customer-company bonds in order to improve financial performance (Ahearne et al. 2005). Representing this view, Bhattacharya and Sen (2003, p. 76) aptly state: “In their quest for sustained success in a marketplace [...] more and more companies are attempting to build deep, meaningful, long-term relationships with their customers.”

In response to this view, we propose and test a complementary SPC which is built on social identity theory (Tajfel and Turner 1986). The two additional constructs in this SPC are customer and employee company identification which involve the degree to which customers and employees identify with a company to fulfill self-definitional needs and the resulting emotional reactions from this identification (e.g., Ahearne et al. 2005; Bhattacharya and Sen 2003, Mael and Ashforth 1992, Reed 2002). Accordingly, customer company identification represents a different aspect of the customer-firm relationship relative to the classic customer satisfaction construct. Because of the self-definitional and emotional components of customer company identification, we propose it as an additional driver (on top of customer satisfaction) of a firm’s customer outcomes (e.g., loyalty and willingness to pay) and financial performance. Similarly, we suggest that employee company identification may be a powerful predictor of relevant outcomes in addition to job satisfaction.

We propose that the two SPC-paths (i.e., conventional and the social identity-based) are complementary. In other words, we argue that firms that successfully manage both SPC paths will generally perform better than firms that are successful in only managing either the

satisfaction or the social identity-based path. That is, we argue in favor of an extended model which includes both the ‘old’ and the ‘new’ SPC paths.

In the present study, we tested the extended SPC on the basis of a large scale triadic data set. This set included matched responses from 258 employees and 597 customers of 109 travel agencies as well as secondary data on the financial performance of the travel agencies.

This study has two important assets which are different from most previous studies on SPC-issues. First, we tested both the social identity-based SPC and the conventional, satisfaction-based SPC paths *simultaneously*. This addresses calls for comprehensive approaches for modeling the (conventional) SPC, “as most studies have only focused on discrete aspects of the SPC” (Kamakura et al. 2002, p. 294).

A second important feature of our study is that we collected data from employees, customers and firms. Previous research has indicated that this is important in relating service aspects to customer variables (Schneider et al. 1980; Loveman 1998). It is also in line with recent calls to connect individual customer data with data of employees and the firm (e.g., Payne and Webber 2006) because previous research was mostly based on aggregate or single-level analyses.

This study has important academic implications because the customer and employee company identification constructs have received little research attention in marketing. Despite this, it is a very important construct because it represents an alternative potential means of developing a strong bond with customers, an issue that has been of great relevance and importance recently in academic marketing theory and research. In addition, our study should help researchers to broaden their perspective on the SPC by developing an additional, social identity-based SPC-logic.

For practitioners, the social identity-based SPC extension has important managerial implications since it offers an additional way to influence firm profits relative to the conventional SPC. Compared to the management of a satisfaction-based SPC, the management of social identification would require a largely different approach.

2 Overview of Framework

Our research framework is presented in Figure 1. This framework incorporates two paths to a firm's financial success. The upper part of the framework presents the conventional, satisfaction-based SPC (job satisfaction – customer satisfaction – customer outcomes [e.g., loyalty and willingness to pay] – firms' financial performance), while the lower path depicts the complementary, social identity-based SPC (employee company identification – customer company identification – customer outcomes [e.g., loyalty and willingness to pay] – firms' financial performance). Both paths have a commonality in the construct of customer orientation which mediates between employee and customer variables. We include this construct because recent studies on the conventional SPC have found customer orientation to mediate between job satisfaction and customer satisfaction (e.g., Homburg and Stock 2004).

In the following, we first briefly describe the constructs of the conventional SPC and summarize the related research on SPC-linkages. However, because the linkages of this chain are well known in the literature we do not develop explicit hypotheses for them. Thereafter, we introduce in more detail, the theoretical foundation for the social identity-based SPC and derive specific hypotheses with respect to the linkages between employee company identification, customer orientation, customer company identification and firms' financial performance.

----- Insert Figure 1 about here -----

2.1 The Satisfaction-Based Path of the Service Profit Chain

As mentioned earlier, the key constructs in the conventional SPC part are employee job satisfaction, customer orientation, customer satisfaction, and customer loyalty. *Employee job satisfaction* is defined as a positive attitude which results from a positive evaluation of one's job experiences (e.g., Brown and Peterson 1993; Homburg and Stock 2004; Locke 1976). *Customer orientation* "refers to the employee's behaviors that are geared toward satisfying customers' needs adequately" (Stock and Hoyer 2005, p. 536). *Customer satisfaction* occurs when the performance of a product or service meets the customer's expectations (e.g., Bearden and Teal 1983; Oliver 1980; Oliver and DeSarbo 1988). Finally, *customer loyalty* is "a deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same-set purchasing, *despite* situational

influences and marketing efforts having the potential to cause switching behavior” (Oliver 1997, p. 392). *Willingness to pay* can be defined as the maximum price that a customer is willing to spend for a product or service (e.g., Cameron and James 1987; Krishna 1991).

Interestingly, SPC research represents an intersection of research in human resources, organizational behavior, and marketing. The initial part of the chain deals largely with human resource issues. In other words, in order for employees to deliver high levels of service, it is critical that companies pay attention to issues such as employee selection, training, and support. In doing so, they create higher levels of employee satisfaction which in turn, leads to higher employee loyalty (Schlesinger and Heskett 1991a, b). Snipes et al. (2005) also found that job satisfaction has a significant positive impact on internal service quality. Similarly, according to Hartline and Ferrell (1996) employees’ job satisfaction is needed to produce customer perceptions of service quality.

There is also evidence for the employee satisfaction – customer satisfaction link. This effect has been demonstrated in the insurance (Schlesinger and Zornitsky 1991) and banking industries (Rucci et al. 1998; Schneider et al.1980; Schneider and Bowen 1985).

Considerable support for the link between customer satisfaction and customer loyalty can be found in a variety of areas. A multi-industry study by Zeithaml et al. (1996) found strong evidence for the link between service quality and several behaviors related to customer loyalty including customer retention and willingness to pay. Research on the Swedish and American Customer Satisfaction Index has found a strong link to loyalty in both cases (Fornell 1992; Fornell et. al. 1996). A variety of other studies have provided similar support (e.g., Anderson and Sullivan 1993; Bearden and Teel 1983; Bolton and Drew 1991a, b; Boulding et. al. 1993; Fornell 1992; Oliver 1980; Oliver and Swan 1989a, b).

There has also been some evidence that there is a positive relationship between CS/loyalty and financial performance. According to Anderson et al. (1994, p. 63): “firms that actually achieve high customer satisfaction also enjoy superior economic returns.” Similar theoretical and empirical support has been provided in other studies (e.g., Anderson et al.1997; Reichheld and Sasser 1990; Rust and Zahorik 1993).

Loveman (1998) provided an empirical examination of the entire conventional SPC and finds support for all the links in the chain. In particular, the strongest links were between internal service quality and employee satisfaction, employee satisfaction/loyalty and customer

satisfaction, and customer loyalty and profitability. The link between employee satisfaction and a variety of outcomes (such as customer satisfaction, productivity, and profit) has also been established by Harter et al. (2002). In a retail setting, Maxham et al. (2007) found that employee performance and perceptions influence customer evaluations of the retailer, which, in turn, affects store performance. Kamakura et al. (2002) provided general support for the service chain but note that firms must be careful to effectively manage both the employee inputs as well as customer perceptions in order to increase profitability. Schneider, et al. (2005) found moderate support for a framework that links service-focused leadership to service climate and customer focused behavior, which, in turn, increases customer satisfaction and unit sales. Finally, Schneider et al. (2003) provided evidence that employee satisfaction is causally prior to market and financial performance.

In contrast, there are also a number of studies that did not find empirical support for the proposed linkages in the conventional SPC. According to Schneider (1991), employee and customer attitudes can be related to profits, but they aren't always. In a hospital context, Nelson et al. (1992) found that important indicators of patient satisfaction (e.g., nursing services) were not correlated with hospital profitability. In a study by Bernhardt et al. (2000), customer satisfaction is related to profitability in individual fast food outlets but not on a national basis. Similarly, Kordupleski et al. (1993) point out that not all investments in service quality will lead to increased financial returns; these investments must be tied closely to aspects which are valued by customers. Finally, in a test of the SPC, Kamakura et al. (2002) found that higher service quality does not guarantee profitability.

It is worth noting that the SPC related research is related to the research streams on customer equity (e.g., Rust et al. 2004) and return on quality (e.g. Rust et al. 2002; Rust et al. 1995). Generally speaking, these models have in common that they link customer perceptions and marketing activities to financial metrics (Kamakura et al. 2002). Also, Hogan et al. (2002) note, the SPC-related literature provides one basis for customer equity research. However, customer equity research takes a broader perspective which is not limited to services and deals with the linkage between the entire marketing mix and customer profitability (e.g. Kumar and George 2007). Also, while SPC and return on quality models focus on improving firms' internal service operations for a given customer base, the customer equity model deals with the identification of profitable customers. The return on quality concept differentiates

itself by explicitly modeling both costs and benefits of quality related investments, which are not explicitly considered in the SPC framework (Kamakura et al. 2002).

2.2 The Social Identity-Based Path of the Service Profit Chain

The social identity approach involves a theoretical framework that deals with the relationship between self-concept, group and intergroup phenomena (Bergami and Bagozzi 2000; Haslam 2004). The central assumption of this approach is that group membership contributes to self-definition. That is, people define themselves in terms of unique individualizing attributes as well as in terms of collective attributes of groups to which they belong.

The main elements of the social identity approach are self-categorization theory (e.g., Turner et al. 1987) and social identity theory (e.g., Tajfel and Turner 1986). *Self-categorization theory* suggests that human beings have a need to simplify the social world by categorizing people into groups (e.g., occupation, nationality, clubs, social groups etc.). People perceive themselves as belonging to a particular group or category. According to *social identity theory*, individuals strive for positive self-esteem and try to accomplish this by enhancing their social identity. As we discuss in detail below, this basic motivation leads to a number of behaviors on behalf of the group(s) to which one belongs.

Moreover, identification also embodies a significant hedonic element in the sense that group identification directly involves favorable feelings and emotions (Edwards 2005). According to Tajfel (1981, p. 225), self-definition is “that part of the individual’s self-concept which derives from knowledge of his membership of a social group (or groups) together with the value and emotional significance attached to that membership.”

Inherent in the assumptions of self-categorization theory is the idea that one person can have multiple group memberships. For example, one might identify as a male, as an American, as a supporter of the Boston Red Sox, and as an employee of Starbucks. Organizations have often been considered as one of the most important group memberships for employees (e.g., Haslam 2004). Thus, it is not surprising that the social identity approach has been applied successfully to explain employee behavior (e.g., Riketta 2002; Riketta and van Dick 2005; van Dick 2004) and the development of organizational phenomena such as mergers and acquisition. In fact, since the seminal paper of Ashforth and Mael (1989), many researchers have found employee company identification to be a predictor of organizational citizenship

behavior (Riketta 2005), turnover (Mael and Ashforth 1995), organizational organization-based self-esteem (Bergami and Bagozzi 2000), and work motivation and performance (van Knippenberg 2000).

Recently, Bhattacharya and Sen (2003) transferred the social identity approach into the customer domain and developed a conceptual framework for customer-company identification. Their core suggestion is that, similar to employees, customers can identify with a company. Further this group identification can even occur in the absence of formal membership (see also Pratt 1998; Reed 2002). In other words, customers' self-definitional needs can be partially fulfilled by the companies they patronize. As one example, users of Apple computers strongly identify with the company and this relates to how they define themselves as individuals. Thus, customer company identification helps to clarify one's self-concept and to gain a positive self-appraisal through a positive company appraisal. As Bhattacharya and Sen (2003, p. 77) put it: "in today's era of unprecedented corporate influence and consumerism, certain companies represent and offer attractive, meaningful social identities to consumers that help them satisfy important self-definitional needs."

In addition, as with any other type of group identification, there is also an emotional component in customer company identification. Einwiller et al. 2006 (p. 192) describe the emotional part of customer company identification as follows: "Strong identification occurs when a company becomes personally relevant for consumers, and personal relevance creates the potential for emotional reactions."

It is worth noting that customer company identification is different from the construct of customer commitment (e.g. Bansal et al. 2004; Garbarino and Johnson 1999; Hennig-Thurau et al. 2002; Morgan and Hunt 1994; Bettencourt 1997). Even though some authors perceive a close relation between commitment and identification (e.g., Miller et al. 2000), there is a consensus that identity and commitment are distinguishable in terms of their essential meaning. The key distinction is that identification includes both a self-definitional and an emotional meaning for the individual, while commitment does not reflect the cognitive element of psychological oneness and self-definition that identification does (Ashforth and Mael 1989; Van Knippenberg and Sleebos 2006). Also, there is mounting empirical evidence that identification and commitment are empirically distinct from each other (e.g., Brown et al. 2005; Bergami and Bagozzi 2004, Van Knippenberg and Sleebos 2006). Meta-analytical

evidence shows that these two constructs produce different results with respect to outcome variables (Riketta, 2005).

Taking all this together, we believe that the social identity concept represents an attractive and promising way to develop a strong bond with customers. Based on this assumption, we now derive hypotheses for the linkages of the social identity-based path of the SPC.

2.3 Hypotheses regarding the Social Identity-Based Path of the Service Profit Chain

Employee company identification – customer company identification. The first link in the social identity-based part of the SPC is between employee company identification and customer company identification. Three conceptual explanations are offered to support this link.

First, in the identity-related literature it has been acknowledged that people's identification with an organization is based on their perception of its core characteristics (Bhattacharya and Sen 2003; Dutton et al. 1994). In a sense, customer contact employees are the long arm of a company who transport these core defining characteristics to the customers (i.e., they are the 'face' of the organization; Hartline et al. 2000). Therefore, we adopt Ahearne et al.'s (2005, p. 575) view that: "Boundary-spanning agents reveal a lot about the quality and character of the company they represent; thus, we posit that identification is likely to be stronger when customers have favorable perceptions of the boundary-spanning agent with whom they interact (e.g., the company's salesperson, customer service, technical representatives, etc.)." Given that employees who identify with the company are prone to act favorable for the company, a higher level of employee company identification should lead to a higher level of customer company identification.

Our second line of reasoning focuses on the concept of *prototypicality*, which is an integral part of the social identity approach. Based on the existing identification literature, it can be argued that (1) employee company identification leads to employee prototypicality for the company (i.e. prototypical employees capture features that are typical for their own company) and (2) employee prototypicality perceived by customers leads to customer company identification. Concerning the first part of this argument, social identity theorists have stated that employees who identify strongly with their organization become more prototypical for

this group because they are more inclined to conform with its norms and peculiarities. As a result, they more strongly adopt and signal the attitudes, behaviors, and orientations that are specific to this organization (van Knippenberg and Hogg 2003).

The second point which deals with the link between employees' prototypicality and customer company identification is suggested by Bhattacharya and Sen (2003) in their conceptual model on constituents and communicators of company identity. Research in social psychology (van Knippenberg 2000; van Knippenberg et al. 1994) has confirmed that people are more likely to attend to communications from prototypical group members than from non-prototypical members, and are more likely to align their attitudes with the attitudes of prototypical members. One reason for this effect is that prototypical members are more able to clearly communicate the norms of the group or firm because they have a much higher motivation to act in favor of the specific group or firm and to adopt its unique symbols, speech and behaviors.

Third, emotional contagion may also play an important role. As stated earlier, identification includes an hedonic dimension (Tajfel 1981, Dutton et al. 1994). It would be expected that employees who identify strongly with the company will express more positive emotions than employees who do not identify. According to the theory of emotional contagion, these emotions are "caught" by the respective customers (either consciously or unconsciously) and in turn, positively influence their company identification. Based on these three lines of reasoning, we put forward the following hypothesis:

Hypothesis 1: The higher the employees' company identification, the higher the customers' company identification.

Employee company identification – customer orientation. As stated above, it has been repeatedly shown that identification with a group leads to a deep-lying motivation to enhance the value of the respective group (e.g., Ellemers et al. 2004). In line with previous research, we argue that among other actions (e.g., in-role behavior, organizational citizenship behavior), engaging in customer orientated behavior can be one way of acting positively toward of the organization. In support of this view, it has repeatedly been found that employees with a deep-level bond to their organization display a higher level of customer orientation (Hoffman and Ingram 1991; Pettijohn et al. 2002; Sigauw et al. 1994). Hence, we propose:

Hypothesis 2: The higher the employees' company identification, the higher the employees' customer orientation.

Employee customer orientation – customer company identification. Through their customer interactions, frontline employees are signaling the character and identity of their company to the customers (Ahearne et al. 2005; Liao and Chuang 2004). Bhattacharya and others have argued that the more favorable the behavior of the frontline employee is perceived by the customer (i.e., in terms of customer orientation), the more likely this customer will consider the company as a target for social identity fulfillment (Ahearne et al. 2005; Bhattacharya and Sen 2003). According to Ahearne et al. (2005, p. 577): “this is because such interactions make it easier for the customer to retrieve favorable, self-relevant information from memory, which scholars have suggested is an important driver of company identification.” Our reasoning is in accordance with Bhattacharya et al. (1995, p. 55) who found “that a strong and often distinctive customer orientation is a necessary condition for fostering identification.” Thus, we propose:

Hypothesis 3: The higher the employees' customer orientation, the higher the customers' company identification.

Customer company identification – customer loyalty and willingness to pay. A key link in the framework is between customer company identification and customer loyalty and willingness to pay. As mentioned above, it is proposed that customers who identify with a company will be motivated to act in favor of this company in order to raise the status of this group. In line with this reasoning, Bhattacharya and Sen (2003) propose a conceptual framework in which customer company identification predicts customer loyalty toward a company. In support, Ahearne et al. (2005) found customer company identification to be related to beneficial customer outcomes (i.e. product utilization and extra role behaviors such as recommendation of the company to friends).

Applying these findings and reasoning to our framework, we propose a positive relationship between customer company identification and the outcomes of customer loyalty (e.g., repurchase, recommendation) and customers' willingness to pay. With respect to customer loyalty, we argue that customers who identify strongly with the company tend to engage in loyal behavior such as repurchasing and recommending the company because of three social identity theory inherent reasons. First, being loyal validates and reinforces the feeling of

belongingness to the company and thus fulfills a self-definitional need. Second, according to social identity theory, people strive to raise the status of the group to which they belong (in this case the company). Loyal behavior, such as repeated purchase and positive word of mouth communication, in turn, can be seen as ways to help the organization in this respect. Third, as stated earlier, customer company identification fulfills an emotional need for customers (Ahearne et al. 2005; Bhattacharya and Sen 2003). If customers switch to another firm, they would no longer receive this emotional benefit. This should raise their propensity to stay loyal to the company with which they identify. Thus, we propose:

Hypothesis 4a: The higher the customers' company identification, the higher the customers' loyalty.

Willingness to pay is the maximum amount of money a customer is willing to spend for a product or service or the value a person assigns to a consumption experience in monetary units (Cameron and James 1987; Homburg et al. 2005; Krishna 1991). Given that customer company identification serves as a motivator to act on behalf of a group, it should also raise the willingness to pay for products or services of the company (Arnett et al. 2003). Moreover, since customer company identification helps in defining oneself, this would be of significant value to the customer and this additional value would be taken into account in terms of the price the customer is willing to pay. Thus, we hypothesize:

Hypothesis 4b: The higher the customers' company identification, the higher the customers' willingness to pay.

Customer loyalty – firm's financial performance. Customers who are more loyal should buy more from a firm, recommend the firm's products and services to others, and be more likely to adopt a firm's new add-on services or new products (Mooradian and Oliver 1997; Rust et al. 1995). In addition, a more loyal customer base leads to reduced costs in future customer transactions and customer acquisition (e.g., costs of customer communications; Reichheld and Sasser 1990; Srivastava et al. 1998). Thus, we propose:

Hypothesis 5a: The higher the customer loyalty of a firm, the higher the firm's financial performance.

Customer willingness to pay – firm's financial performance. Finally, in our framework we adopt the accepted notion that the customer's willingness to pay is an important factor in determining a firm's financial performance. A customer's higher willingness to pay implies

that firms can charge higher prices. It has been argued that price is a key element in a firm's profit equation (Homburg et al. 2005) and even small price differences are of significant importance for firms' profit (Garda and Marn 1993). Therefore, customer willingness to pay should be directly linked to firms' financial performance. Accordingly, we propose:

Hypothesis 5b: The higher the willingness to pay of a firm's customers, the higher the firm's financial performance.

2.4 Control Variables and Moderators

In addition to the proposed main effects of the SPC-framework, there are other variables which might moderate these effects. As depicted in figure 1, we tested for the moderating effect of three variables: the length of customer relationship, employee-customer similarity, and competitive intensity.

Concerning the links between customer satisfaction and customer company identification and customer loyalty and willingness to pay, we propose that the effects are stronger for customers who have a longer relationship with the firm. In support of this view, Homburg et al. (2005) found that the impact of customer satisfaction on willingness to pay is stronger for cumulative situations (i.e. longer relationships) than for transaction specific situations (i.e. shorter relationships). Also, it is likely that the transfer of satisfaction and identification between employees and customers is stronger in case of longer customer relationships where customers know the firm and its employees comparably well.

Employee-customer similarity is of potential importance for the link between employee company identification and customer company identification.¹ This is due to a possible "self-selection" process on the part of both the employees and customers. The identification literature suggests that choosing a company with which to identify is a selective and volitional act on the part of the consumer or employee (Bhattacharya and Sen 2003; Haslam 2004). Thus, both employees and customers potentially choose to identify with those companies that are attractive targets for social identity fulfillment. Thus, one might expect demographic or psycho-graphic similarities between employees and consumers of a certain firm (particularly when there is face-to-face contact). We propose that for a similar employee-customer dyad there is likely to be a stronger transfer of company identification than for dissimilar

employee-customer dyads. In our study we tested this notion in terms of the age and gender similarity between employees and customers. The unit of analysis for the age and gender discrepancy variable was the customer.

Concerning the impact of customer loyalty and willingness to pay on the firm's financial performance, we included competitive intensity as a moderator. This is in line with the argument that a firm may perform well when competitive intensity is low, even in case of low customer loyalty intentions / willingness to pay, because in such cases "customers are stuck with the organization's products and services" (Jaworski and Kohli 1993, p. 57). In contrast, under conditions with high competitive intensity, customers with low loyalty have many alternative options to satisfy their needs and wants and thus, can easily switch to competitors' products and services (e.g., Houston 1986; Kohli and Jaworski 1990).

Finally, we controlled for the customers' perception of the firm's quality and store location. Both of these variables have been proposed to be influential for customer decision making and subsequent firm performance (e.g., Rust et al. 2004; Reinartz and Kumar 1999).

3 Methodology

3.1 Collection of Triadic Data

In order to test the proposed linkages of the extended SPC we conducted a large scale quantitative study with German travel agencies. We chose the travel agency context because the high level of employee – customer interaction facilitated the testing of the hypotheses of our-framework. Also, because travel agencies are relatively small companies, this context facilitates the investigation of causal effects between the employee-, customer- and firm-levels.

An important feature of our study is that it is based on triadic data from frontline employees, customers and the firm (i.e. firm's financial performance). As shown in Figure 1, data on employee job satisfaction and employee company identification was collected from employees. Data on customer orientation, customer satisfaction, customer company identification, customer loyalty and customer willingness to pay was gathered from customers and. Information on firms' financial performance was collected from a secondary data source.

¹ We are thankful to an anonymous reviewer who made this observation.

In selecting the travel agencies, we took a number of steps in order to make the sample as balanced as possible. A key issue was to include travel agencies from different locations (e.g., shopping malls, large-sized cities, medium-sized cities, small-sized cities), in order to control for possible external effects that could systematically bias results in a locally clustered sample.

In order to achieve the best possible response and matching rates (between employees and customers), questionnaires were personally administered to travel agents by members of the research team. Subsequently, the interviewers then spent one day in the respective travel agencies and asked customers for an interview after their interaction with a travel agent. All employees

who were at work on the days of the interviews agreed to participate in the study.

The purpose of the study presented to both customers and employees was that “as an independent research institute, we are interested in investigating success factors of travel agencies.” It was also stated that this success is obviously dependent on both customer- and employee-related factors and thus, both would be covered in the questionnaire.

A key task of the interviewers was to correctly match employee and customer data. This was accomplished using code numbers. With respect to the employee-customer link, interviewers assigned the customers to the respective employee’s code number. The final matched sample consisted of 258 employees and 597 customers (response rate: 40.9 %) in 109 travel agencies.

The mean number of customers interviewed per travel agency was 5.5, ranging between 1 and 25 interviews. It is worth mentioning that the robustness of our findings was checked by examining how much the results changed if travel agencies with only very few customer interviews (1-3 interviews) or many customer interviews (15-25 interviews) were excluded from the analyses. However, no substantial changes in our results were found. The mean number of employees per travel agency in our study was 2.3 (ranging between 1 and 12). No substantial changes were found when excluding travel agencies with very few or many employees.

In order to test for non-response bias in the customer sample, all customers who visited the agency during the interview days were offered the chance to participate in a lottery. This lottery was independent of the participation in the interviews. In order to take part in the lottery, customers had to provide their contact details. Subsequently, we collected additional

data from 70 non-respondents by contacting them by telephone. There were no significant differences between the respondents in our original sample and the initial non-respondent sample in terms of the scale means of the customer constructs included in our framework. These results indicate that non-response bias is not a major issue with our data.

3.2 Measures

All scales used for the quantitative study were drawn from previous research. In order to pretest applicability of the scale items used in the study and to understand the motivations behind customer and employee to identification with travel agencies, 64 in-depth interviews were conducted with travel agency customers and 15 travel agents prior to the quantitative study.

Appendix A provides a complete list of items used in the quantitative study. Table 1 displays the psychometric properties of the measures. Cronbach's alpha, composite reliability, and average variance extracted for all measurement scales indicate sufficient reliability and convergent validity of our construct operationalizations. More specifically, no coefficient alpha values and composite reliabilities are lower than .70, thus meeting or exceeding the recommended thresholds (Bagozzi and Yi 1988). We assessed the discriminant validity of the construct measures using the criterion proposed by Fornell and Larcker (1981), which suggests that discriminant validity is supported if the average variance extracted exceeds the squared correlations between all pairs of constructs. All constructs fulfilled this requirement.

To control for multicollinearity, we inspected the variance inflation factors of the variables. The control variables and the antecedents yielded values between 1.0 and 1.9, indicating the absence of serious multicollinearity problems (Kleinbaum et al. 1988).

To measure firm financial performance), we used firms' annual sales per employee. This index has been used in previous SPC research (Loveman 1998; Schneider et al. 2005). We validated this measure with a profitability measure (Homburg et al. 2002) in an extra data collection from a sample of 70 travel agencies.² Analyzing the relation between profit before

² We conducted an additional telephone data collection in order to acquire information on the firms' profit (before tax). We employed a measure that was used in previous studies (e.g. Homburg, Hoyer, and Fassnacht 2002): "What was the profit (before tax) as a percentage of sales (before tax) of your travel agency on average

tax and sales per employee we find a strong correlation of .75 ($p < .01$). This strongly validates our measure of firms' financial performance.

----- Insert Table 1 about here -----

3.3 Analytical Approach

The data structure underlying the present study comprised three levels: Customers (level 1), employees (level 2) and firms (level 3). In order to properly take this data structure into account, a two-step approach was followed as suggested by Liao and Chuang (2004). First, concerning the *top-down* linkages between employees' and customers' variables, hierarchical linear modeling was employed (HLM, e.g., Raudenbush and Bryk 2002; Kozlowski and Klein 2000). A HLM path model was used to test H1 through H4. The basis for these analyses was 258 employees and 597 customers. These analyses were conducted using the Mplus software (Version 4.2; Muthén and Muthén 2006) since this program permits the analysis of top-down linkages in multilevel data sets. Moreover, it also allows for a simultaneous test of the conventional and social identity-based SPC paths in one HLM path model.

Second, the *bottom-up* linkages (from individual customers to aggregated firm's financial performance) hypothesis (H5) was excluded from the HLM path model because such data structures can not be appropriately handled by HLM models. Therefore, as suggested by Liao and Chuang (2004), the data on customer loyalty and willingness to pay of the 597 customers in the 109 travel agencies was aggregated before running ordinary least squares (OLS) regressions with the dependent variable of firms' financial performance.

4 Results

As shown in Figure 1, the HLM path model included links between the employee and customer variables as well as links among customer variables. The model also included correlations between the exogenous variables (employee job satisfaction and employee company identification), and the error terms of the endogenous variables (customer satisfaction and customer company identification as well as customer loyalty and customer

over the last three business years?" (1 = negative, 2 = 0%-4%, 3 = .5%-.9%, 4 = 1%-1.4%, 5 = 1.5%-1.9%, 6 = 2%-3.9%, 7 = 4% and more).

willingness to pay). Regarding the global fit of the model ($\chi^2/df=1.81$; CFI=.99; TLI=.97; RMSEA=.04), it can be concluded that this model acceptably fits the empirical data.

Table 2 presents the correlations between the key SPC variables. Table 3 provides an overview of the results for the HLM path model as well as OLS-models. We found strong support for the social identity-based SPC path. That is, there was a significant effect of employee company identification on customer company identification ($t = 2.96, p < .01$ - supporting H1) and on customer orientation ($t = 3.89, p < .01$ - supporting H2). Further, we found that customer orientation was strongly related to customer company identification ($t = 10.22, p < .01$ - as predicted in H3), which is in turn, was significantly related to customer loyalty ($t = 7.22, p < .01$ - consistent with H4a) and customers' willingness to pay ($t = 2.38, p < .05$ - supporting H 4b).

----- Insert Table 2 about here -----

----- Insert Table 3 about here -----

In contrast, the findings provided less support for the direct links of the conventional SPC. We did find a significant relationship between customer orientation and customer satisfaction ($t = 12.22, p < .01$) as well as customer satisfaction and customer loyalty ($t = 7.20, p < .01$). However, there was no significant relationship between employee job satisfaction and customer satisfaction ($t = .79, ns.$) and customer orientation ($t = .33, ns.$). Also, the relationship between customer satisfaction and customer willingness to pay was non-significant ($t = .31, ns.$).

As we explained earlier, we examined whether the length of a customer relationship and employee-customer similarity were moderators of the above effects. Using Chow-test (Chow 1960), we found that the latter variable yielded no significant moderating effects for any of the relationships. Also we conducted further regression analyses in which we added age-discrepancy, gender-discrepancy as well as the interaction effects of both discrepancy variables with the employee variables. These regression analyses show that when including these variables, our previous key findings remain stable.

However, length of customer relationship turned out to significantly moderate the link between customer satisfaction and customer willingness to pay ($F = 8.81, p < .01$), customer satisfaction and customer loyalty ($F = 4.77, p < .01$) as well as customer company

identification and willingness to pay ($F = 11.72, p < .01$). In all of the cases, a significantly stronger effect was found for customers with a comparably longer relationship to the firm. This finding is in accordance with our reasoning for the including this variable.

We also examined whether employee-company identification moderates the impact of employee satisfaction on customer orientation and if customer-company identification moderates the impact of customer satisfaction on customer loyalty and customer willingness to pay. However, such moderation effects were not in evidence.

In order to test for the links between customer loyalty and willingness to pay and the firms' financial performance (H5), the data for customer loyalty and willingness to pay had to be aggregated for each travel agency. To justify data aggregation, we calculated r_{wg} , ICC(1) and ICC(2). Within-group agreement ($rwg(j)$) and intraclass correlation (ICC(1) and ICC(2)) are statistics frequently used to justify aggregation of data to higher levels of analysis (e.g., Bliese 2000; Shrout and Fleiss, 1979). While $rwg(j)$ is the most commonly referred measure of within-group agreement (James 1982), ICC(1) compares the variance between units of analysis (travel agencies) to the variance within units of analysis using the individual ratings of each respondent. The ICC(2) assesses the relative status of between and within variability using the average ratings of respondents within each unit (Schneider et al. 1998).

The average r_{wg} coefficients were high for both customer loyalty (.75) and willingness to pay (.81). Second, we calculated ICC(1) coefficients (.10 for customer loyalty and .13 for willingness to pay) and ICC(2) coefficients, which were .39 for customer loyalty, and .46 for willingness to pay. Although there are no exact standards of acceptability for either ICC(1) or ICC(2), these values fall in the range of previously stated conventions (Gibson and Birkinshaw 2004; Glick 1985; James 1982; Schneider et al. 1998).

With respect to H 5 we found mixed evidence in the sense that the link between customer willingness to pay and firms' financial performance was significant as expected ($t = 2.38, p < .01$), while the overall effect of customer loyalty was non-significant ($t = 1.04, ns.$). However, consistent with previous literature, we found that the effect of customer loyalty was moderated by competitive intensity. Analyzing the simple slopes of the interaction between customer loyalty and competitive intensity, we found that customer loyalty only had a significant positive effect on firms' financial performance in the case of high competitive intensity ($F = 8.33, p < .01$).

In order to check the robustness of these effects, we also examined whether the inclusion of customer perceptions of firms' quality and store location influences the above findings. As shown in table 3, our results are robust to inclusion of these variables.

Furthermore, on a broader level, we conducted model comparisons in which the extended model (consisting of the conventional, 'old' SPC and the social identity-based, 'new' SPC) was compared to each of the single model paths (Fornell and Rust 1989; Rust et al. 1995). Conducting nested model comparisons, it was found that the proposed overall model (old + new) provided the significantly better model fit compared to both the conventional (old; χ^2 - difference = 408.0, $p < .001$) as well as the alternative SPC (new; χ^2 - difference = 488.6, $p < .001$). This clearly indicates that the extended model is superior to both single models.

5 Discussion

The point of departure for this study was the desire among researchers and practitioners to move beyond customer satisfaction to find other ways to build more deep-lying bonds between customers and companies (e.g., Ahearne et al. 2005; Bhattacharya and Sen 2003). Against this background, we developed an extended SPC that we believe has a number of important academic and practical implications, particularly in terms of gaining a broader understanding of the SPC.

5.1 Research Issues

In our study, we found strong support for the proposition that in addition to the conventional, satisfaction-based SPC, social identity-based constructs account for important customer and firm-level outcomes. Specifically, we provide evidence that employees' identification with the company is associated with a stronger customer company identification. Employees' identification is also related to customer orientation which further reinforces customer company identification. Importantly, a higher level of customer company identification increases the customer's willingness to pay which in turn, improves financial performance. Thus, employee and customer company identification appear to represent promising constructs which positively impact on the firm's financial performance. The relevance of these findings is especially high since our results are based on a large scale triadic data set.

The importance of the identification construct within the SPC can be explained by the core ideas of the social identity approach. According to this approach the identification of employees and customers with a company fulfills a deep-lying self-definitional need. As previous literature indicates, companies can serve as a potentially important category within the self-concept of both employees (Ashforth and Mael 1989) as well as customers (Bhattacharya and Sen 2003). Moreover, identification also embodies a significant hedonic element in the sense that it directly involves favorable emotions. The positive outcomes of identification within the extended SPC can be explained with the social identity theory tenet that individuals strive for positive self-esteem and try to accomplish this by enhancing their group membership.

Our study makes an important contribution to marketing theory and research because it is among the first to empirically demonstrate a positive role for the social identification construct in developing strong customer relationships which lead to positive market and financial outcomes. Thus, this construct provides an important avenue for building strong bonds with customers, independent of the traditional focus on customer satisfaction. An important implication of our findings is that the social identity approach clearly deserves more attention in marketing research.

Promising avenues for future research can be derived for both the customer and employee levels. At the customer level, future research should further explore the link between customer company identification and customer behaviors such as spreading positive word of mouth, engaging in repurchase and cross-buying, and resisting competitor offerings. Of particular interest in this respect is the incremental explanatory power of customer company identification over and above the influence of customer satisfaction. Also, future research should address the knowledge gap concerning the role of company identification on the level of customer contact employees. Because they represent the company to the customer, it would be of value to know more about the role of employee company identification with respect to constructs such as customer orientation and organizational citizenship behavior.

Turning to the conventional SPC, our results are of great importance because the majority of research in this area has focused on single links within the SPC (e.g., between employee and customer satisfaction) or has relied on single source data (e.g., letting employees rate both

customer as well as employee satisfaction). Against this background, our study addresses recent calls for testing several links within the SPC simultaneously (Kamakura et al. 2002) and doing this on the basis of multiple data sources (Loveman 1998; Payne and Webber 2006). Our study is an important step in this direction because it is one of the first that tests several links of the SPC by combining data from the sources of employees, customers and firms.

Interestingly, our findings do not provide support for all links of the classic SPC. Specifically, employee job satisfaction affected neither customer satisfaction nor customer orientation in our study. However, given that our study was conducted within a single industry, we feel that researchers should not discount the conventional SPC. Nevertheless, considering that the complementary SPC which builds on employee and customer company identification has more explanatory power in our study, additional research on both SPC paths is highly needed. Our results suggest that when testing the conventional satisfaction-based SPC, it is important to account for other constructs that cover more deep-lying bonds to the company.

The fundamental nature of the identification construct also becomes visible in terms of the customer outcomes. In addition to customer satisfaction effects, customer company identification has a significant influence on customer loyalty and willingness to pay. In this respect, it should be noted that our results are consistent with the developing view that simply satisfying customers may not be enough to ensure positive financial performance (Oliver et al. 1997; Reichheld 1996; Rust and Oliver 2000). This further suggests that in today's business environment, other constructs besides customer satisfaction are needed in order to improve financial performance.

Finally, it is worth emphasizing that our study is only a first step towards understanding the social identity-based SPC. Future research is needed in order to explore moderators of the links in this chain (e.g., concerning the link between employee and customer identification). Another important avenue for future research would be to conduct a more detailed analysis of the effects of different identification components – such as cognitive, affective and evaluative identification – using elaborated scales as suggested by Bergami and Bagozzi (2000), Dholakia, Bagozzi, and Pearo (2004), and Bagozzi and Dholakia (2006).

Additionally, research on an expanded SPC which includes manager influences would be a helpful extension of our study. Also, more research is needed in order to test the

generalizability of our findings to other industries. Further, it would be interested to include the concept of company identification to related concepts such as the customer equity (e.g., Rust et al. 2004) or return on quality models (e.g. Rust et al. 2002; Rust et al. 1995).

5.2 Managerial Implications

The key managerial implication from our study is that firms should not exclusively rely on customer satisfaction when assessing their relationships to customers. Additionally, more deep-lying constructs are helpful in the effort to build strong customer relationships (Bhattacharya and Sen 2003). Our study indicates that customer company identification can be such a construct. Customers can develop a strong identity with the company by incorporating the company identity within their own self-identity as well as by developing a strong emotional bond with the company. When customers do this, they are willing to pay more which in turn contributes to the firm's financial performance.

This leads to a number of important suggestions for managerial practice. First, in order to generate customer company identification, it is important to measure this construct in customer surveys. This measurement effort could serve as an important baseline for improving company performance. Also, it seems to be important to measure company identification at the frontline employee level. Given that employee identification affects customer identification, it is of importance to permanently monitor the employee identification-level and its fluctuations.

Second, firms should actively stimulate customer company identification. The main instrument in this respect are actions to raise the salience of the company as a group category, for example by stressing favorable comparisons between the in-group (the focal company) and out-groups (e.g., other companies), and by organizing events that foster a group feeling among employees and customers. Companies could also develop a strong company or brand image or personality which is consistent with the key target segment. In this respect it is important to understand that managing customer company identification requires largely different means compared to the customer satisfaction approach.

Third, similar to customer company identification, influencing employees' company identification would require a largely distinct approach compared to influencing employee satisfaction. Firms interested in raising employees' job satisfaction might follow the widely accepted job characteristics model (Hackman and Oldham 1975) and work on specific aspects

like skill variety or task significance. Identity-aimed actions, on the other hand, would again focus on group salience, group feeling and favorable comparisons to other companies. Additionally, within personnel selection it would be of importance to clearly communicate the distinctive characteristics of the company and to hire employees that strongly share its core dimensions. For example, companies that have a strong culture of corporate social responsibility should attempt to attract job applicants who also see this as an important issue.

Table 1
Psychometric Properties of Measures

Variables	Mean	SD	α	CR	AVE
1. Employee Job Satisfaction	5.75	.86	.82	.86	.70
2. Employee Company Identification	6.05	.80	.80	.82	.54
3. Customer Orientation	6.46	.72	.89	.89	.63
4. Customer Satisfaction	6.41	.89	.86	.87	.69
5. Customer Company Identification	5.69	1.29	.88	.89	.63
6. Customer Loyalty	6.09	1.28	.88	.89	.73
7. Customer Willingness to Pay	37.94	28.55	.78	.91	.71
8. Firms' Financial Performance ¹	690.9	333.9	-	-	-
<u>Controls:</u>					
9. Length of Customer Relationship (in years)	8.45	1.50	-	-	-
10. Employee-Customer Age-Discrepancy	18.13	11.61	-	-	-
11. Employee Customer Gender-Discrepancy	.45	.49	-	-	-
12. Competitive Intensity	4.61	1.13	.89	.89	.67
13. Perceived Quality of the Travel Agency – Service and Comfort	6.39	.51	.88	.88	.58
14. Perceived Quality of the Travel Agency – Price	5.73	.75	.93	-	-
15. Perceived Quality of the Travel Agency – Brands	5.84	.92	.93	-	-
16. Perceived Quality of the Travel Agency – Reliability	6.14	.63	.94	-	-
17. Perceived Quality of the Travel Agency – Experience	5.96	.72	.90	-	-

¹ Firms' financial performance was measured through annual sales per employee (in thousands) per travel agency.

CR: composite reliability
AVE: average variance extracted

Table 2

Correlations of Key Variables

Variables	1	2	3	4	5	6	7
1. Employee Job Satisfaction							
2. Employee Company Identification	.38**						
3. Customer Orientation	.09*	.16**					
4. Customer Satisfaction	.06	.08*	.59**				
5. Customer Company Identification	.09*	.14**	.48**	.50**			
6. Customer Loyalty	.05	.10*	.45**	.58**	.55**		
7. Customer Willingness to Pay	.02	.08	.07	.07	.16**	.06	
8. Firms' Financial Performance ¹	-.07	.03	.03	-.06	-.01	.03	.27*

Employees $n = 258$; Customers $n = 597$; Notes. * $p < .05$; ** $p < .01$

Notes: Correlations between constructs residing at different levels of analysis are based on disaggregated employees scores. That is, the unit of analyses were the customers. Two-tailed significance tests.

¹ Firms' financial performance was measured through annual sales per employee (in thousands) per travel agency. Calculations of the intercorrelations for firms' financial performance are based on aggregated (travel agency) scores.

Table 3
Estimated Path Coefficients for the Extended Service Profit Chain

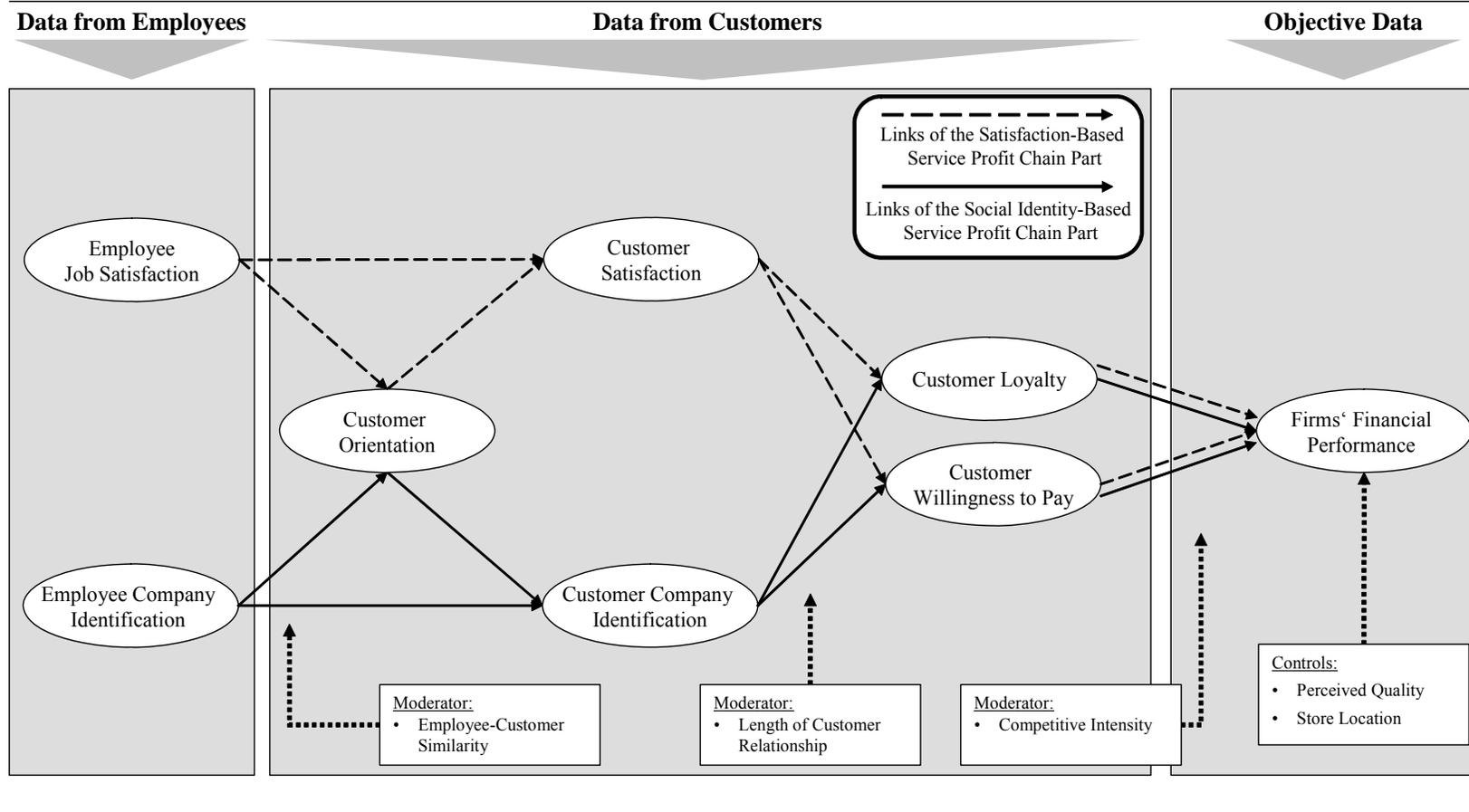
	<i>Unstandardized Coefficient (Standard Errors)</i>	<i>t-value</i>
Links of the Satisfaction-Based Part of the SPC:		
Employee Job Satisfaction → Customer Satisfaction	.024(.031)	.79
Employee Job Satisfaction → Customer Orientation	.010(.030)	.33
Customer Orientation → Customer Satisfaction	.765(.063)	12.22**
Customer Satisfaction → Customer Loyalty	.603(.084)	7.20**
Customer Satisfaction → Customer Willingness to Pay	.429(1.390)	.31
Links of the Social Identity-Based Part of the SPC:		
H1: Employee Company Identification → Customer Company Identification	.123(.041)	2.96**
H2: Employee Company Identification → Customer Orientation	.096(.025)	3.89**
H3: Customer Orientation → Customer Company Identification	.788(.077)	10.22**
H4a: Customer Company Identification → Customer Loyalty	.398(.055)	7.22**
H4b: Customer Company Identification → Customer Willingness to Pay	2.739(1.149)	2.38**
Links related to both SPC parts:^a		
H5a: Customer Loyalty → Firms' Financial Performance	28,378.9(27,285.5)	1.04
H5b: Customer Willingness to Pay → Firms' Financial Performance	2,211.4(927.8)	2.38**
Controls:		
Perceived Quality of the Travel Agency – Service and Comfort → Firms' Financial Performance	76,875.4(43,351.3)	1.77*
Perceived Quality of the Travel Agency – Price → Firms' Financial Performance	10,221.6(23,577.5)	.43
Perceived Quality of the Travel Agency – Brands → Firms' Financial Performance	5,122.5(19,229.1)	.27
Perceived Quality of the Travel Agency – Experience → Firms' Financial Performance	34,505.6(30,864.1)	1.12
Location – Shopping Mall → Firms' Financial Performance	20,587.4(24,216.6)	.85
Location – Large-sized City, First-class Location → Firms' Financial Performance	65,872.8(67,460.7)	.98
Location – Large-sized City, Suburb → Firms' Financial Performance	128,547.5(66,312.8)	1.94*
Location – Medium-sized City → Firms' Financial Performance	-13,624.7(38,562.6)	-.35
Location – Small-sized City → Firms' Financial Performance	-28.750(65,291.4)	-.44
Location – Airport → Firms' Financial Performance	31,764.8(50,524.2)	.63
Location – Airport → Firms' Financial Performance	212,068.0(95,219.8)	2.23*

^a based on ordinary least squares (OLS) regression; * $p < .05$ ** $p < .01$

Notes: Significance is based on one-tailed tests

Figure 1

The Extended Service Profit Chain



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- I. Employee Job Satisfaction (employees); Hackman and Oldham (1975); seven-point scale: “totally disagree” to “totally agree”
1. Generally speaking, I am very satisfied with this job.
 2. I am generally satisfied with the kind of work I do in this job.
 3. I frequently think of quitting this job (Reverse coded).
- II. Employee Company Identification (employees); Mael and Ashforth (1992); seven-point scale: “totally disagree” to “totally agree”
1. When someone criticizes this travel agency, it feels like a personal insult.
 2. I am very interested in what others think about this travel agency.
 3. When I talk about this travel agency, I usually say “we” rather than “they”.
 4. This travel agency’s success is my success.
 5. When someone praises this travel agency, it feels like a personal compliment.
 6. If a story in the media criticized this travel agency, I would feel embarrassed.
- III. Customer Orientation (customers); Thomas et al. (2001); seven-point scale: “totally disagree” to “totally agree”
1. The travel agent tries to figure out what a customer’s needs are.
 2. The travel agent has the customer’s best interests in mind.
 3. The travel agent takes a problem solving approach in selling products or services to customers.
 4. The travel agent recommends products or services that are best suited to solving problems.
 5. The travel agent tries to find out which kinds of products or services would be most helpful to customers.
- IV. Customer Satisfaction (customers); Bettencourt (1997), Bitner and Hubbert (1994); seven-point scale: “totally disagree” to “totally agree”
1. All in all I am very satisfied with this travel agency.
 2. The visits in this travel agency meet my expectations of ideal visits in a travel agency.
 3. The performance of this travel agency has fulfilled my expectations.
- V. Customer Company Identification (customers); Mael and Ashforth (1992) adapted; seven-point scale: “totally disagree” to “totally agree”
1. I am well identified with this travel agency.
 2. I feel good to be a customer of this travel agency.
 3. I like to tell that I am a customer of this travel agency.
 4. This travel agency fits well to me.
 5. I feel attached to this travel agency.
- VI. Customer loyalty (customers); Homburg and Giering (2001); seven-point scale: “very low” to “very high”
1. The likelihood of my booking in this travel agency in the future is...
 2. The likelihood of my recommending this travel agency to friends is...
 3. The likelihood of my coming back to this travel agency is...
- VII. Customer Willingness to Pay (customers); Homburg et al. (2005)
1. “Imagine you would have booked a last minute travel to Mallorca for two persons after a consulting service in this travel agency. The duration of the travel is 1 week and includes half-board in a 3-star hotel. The price is 300 Euro per person, that is 600 Euro in total. What is the maximum price you are willing to pay for the travel agency service?” 0 Euro, 6 Euro, 12 Euro, 18 Euro, 24 Euro, 30 Euro, 36 Euro, 42 Euro, 48 Euro, 54 Euro, 60 Euro, 66 Euro, 72 Euro, 78 Euro, 84 Euro, 90 Euro, 96 Euro, 102 Euro, 108 Euro
 2. “Imagine you would have booked a travel to Gran Canaria for two persons after a consulting service in this travel agency. The duration of the travel is 2 weeks and includes half-board in a 4-star hotel. The price is 1000 Euro per person, that is 2000 Euro in total. What is the maximum price you are willing to pay for the travel agency service?” 0 Euro, 20 Euro, 40 Euro, 60 Euro, 80 Euro, 100 Euro, 120 Euro, 140 Euro, 160 Euro, 180 Euro, 200 Euro, 220 Euro, 240 Euro, 260 Euro, 280 Euro, 300 Euro, 320 Euro, 340 Euro, 360 Euro
 3. “Imagine you would have booked a return flight from Frankfurt to Rome with Lufthansa after a consulting service in this travel agency. The price is 300 Euro (including tax and airport charge). What is the maximum price you are willing to pay for the travel agency service?” 0 Euro, 3 Euro, 6 Euro, 9 Euro, 12 Euro, 15 Euro, 18 Euro, 21 Euro, 24 Euro, 27 Euro, 30 Euro, 33 Euro, 36 Euro, 39 Euro, 42 Euro, 45 Euro, 48 Euro, 51 Euro, 54 Euro
 4. “Imagine you would have booked a return flight from Frankfurt to Los Angeles after a consulting service in this travel agency. The price is 1000 Euro (including tax and airport charge). What is the maximum price you are willing to pay for the travel agency service?” 0 Euro, 10 Euro, 20 Euro, 30 Euro, 40 Euro, 50 Euro, 60 Euro, 70 Euro, 80 Euro, 90 Euro, 100 Euro, 110 Euro, 120 Euro, 130 Euro, 140 Euro, 150 Euro, 160 Euro, 170 Euro, 180 Euro
- VIII. Firms’ Financial Performance; Schneider et al. (2005)
- Firms’ Annual Sales was divided by the number of employees per travel agency.
Validation of this measure in 70 travel agencies with a profitability measure (Homburg et al. 2002).
Telephone interviews with sales managers: “What was the profit (before tax) as a percentage of sales (before tax) of your travel agency on average over the last three business years?” (1 = negative, 2 = 0%-4%, 3 = .5%-9%, 4 = 1%-1.4%, 5 = 1.5%-1.9%, 6 = 2%-3.9%, 7 = 4% and more).”
-

(Appendix A – continued)

Control Variables:

IX. Length of Customer Relationship (in years)

X. Employee-Customer Similarity

- a) Absolute Employee-Customer Age-Discrepancy
- b) Absolute Employee-Customer Gender-Discrepancy

XI. Competitive Intensity (leading firm managers); Jaworski and Kohli (1993); seven-point scale: “totally disagree” to “totally agree”

1. Competition in our industry is cutthroat.
2. Our competitors are relatively strong.
3. The competition to travel agencies in our region is immense.
4. We have a strong competition with online competitors.

XII. Perceived Quality of the Travel Agency (customers); seven-point scale: “totally disagree” to “totally agree”

“Please rate the following statements with respect to the quality of the travel agency. If I visit this travel agency...”

Service and Comfort

1. ... I have a very comfortable travel organization.
2. ... I can get helpful guidance from the employees.
3. ... I have the smallest possible effort.
4. ... I keep the stress that is connected to travel organization as low as possible.
5. ... I receive service and guidance from experts.

Price

1. ... I get low priced offers searched out.
2. ... I get good value for money.

Brands

1. ... I can trust to get the products of well-known travel companies.
2. ... I get the brand products of established tour operators.

Reliability

1. ... I make sure that the booked travel meets my expectations.
2. ... I make sure to get what I want for my money.

Experience

1. ... the travel organization is just fun.
 2. ... pleasant anticipation of the travel is coming up.
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