How the Role of Power Affects Service Quality, Purchase Intentions and Purchase Actions

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ABSTRACT

Service quality is related to customer satisfaction and purchase intentions though the causal relationships among these constructs are still inconclusive. Previous studies hardly discuss the inconsistencies in the relationship between purchase intentions and purchase actions. In this paper, we claim that the relationship that purchase intentions lead to purchase actions is potentially moderated by power dependence. When the customers are less powerful than the service provider, low service quality would be expected to lower the purchase intentions. However, the purchase actions would likely still occur since the customers depend on the service provided by the firm. On the other hand, when the customers are more powerful than the service provider, high service quality and consequently high purchase intentions may not necessarily lead to purchase actions. In addition, firms with more power tend to provide low service quality while firms with less power tend to be more inclined to provide better service. Therefore, power imbalance leads to different service quality.

INTRODUCTION

There is a scene in the movie “Eat, Drink, Man, Woman”: when the chef finally solves the disaster in the kitchen and starts to serve the banquet at a huge wedding, the camera focuses on a man’s face to see whether he liked the food or not. After that person tastes the first bite, he smiles and nods; then the chef and the manager feel relieved. This particular individual is actually a popular politician. He would definitely bring a lot of customers if he likes the service in that hotel. In this case, the hotel depends on his referral more than on other guests’ and that is why the hotel showed more concern about his response to the food. Even though the food served is the same to every guest, this politician received more attention from the service provider and therefore, this politician would very likely get better service quality than other guests.

Service quality is considered an important factor affecting customer satisfaction (Anderson & Fomell, 1994:242; Heskett, Sasser & Schlesinger, 1997; Anderson & Sullivan, 1993; Churchill & Suprenant, 1982; Green & Boshoff, 2003; Woodside, Frey & Daly, 1989). Many studies argue that high service quality would lead to high customer satisfaction and usually high retention rates or purchase/repurchase intentions. However, like the scene in the movie above, not everyone is treated with the same level of service. In this case, that popular politician was given more attention by the hotel. On the other hand, if a consumer is dependent on the service provider’s service, even with low service quality, the retention rates may still remain high while the satisfaction is low. We believe it is possible to have an inconsistent relationship between service quality and purchase/repurchase actions/behaviors. One reason leading to this inconsistency is customers’ dependence on that particular service provider. Based on this inconsistency between service quality and purchase actions, we expect that the low service quality leads
to low customer satisfaction and then accordingly leads to low purchase intention, but the low purchase intention still results in high purchase actions while previous literature did not differentiate purchase intention from purchase actions.

Resource dependence theory claims organizations have power when they have critical resources others depend on. Subsequently, this theory was expanded to include human resources as well. If an employee has certain special skills the employer depends on, the employee has more leverage with the employer than other employees. Even though the main argument of resource dependence theory lies in how to control the critical resources so that certain party can gain power (1978/2003), our focus here is only on the power aspect of resource dependence theory. When a party has power (i.e., has critical resources others depends on), this party can influence other parties’ behavior. The more powerful the focal party is, the more influential it would be on affecting others’ operations (Pfeffer et al., 1978/2003). Therefore, our paper aims to examine the relationships among power dependence, service quality, purchase intentions and purchase actions. When customers depend on the output provided by the service provider, they are considered less powerful vis-à-vis the service provider. In spite of low service quality, those less powerful customers may still choose to purchase or consume from this service provider while the purchase intentions are low. In other words, when a service supplier is “powerful”, it can choose to provide low service quality and get away with it since it will not lose customers with its low service quality.

Therefore, through this paper, we intend to answer the following questions

Do customers with different levels of dependence (customer power) get the same level of service quality?
How do these differences in service quality affect the customer’s purchase intentions and actions?
How does customer power impact on the relationship between purchase intentions and actions?

We believe this paper contributes to the field in four ways. First, we provide an explanation of the situation when purchase intention does not necessarily lead to purchase actions with resource dependence theory. Second, we distinguish the different levels of importance of service quality in customer retention. While one firm is powerful compared to its customers, the significance of service quality is lower than when one firm is less powerful than its customers. Third, we combine ideas from resource dependence theory with service operations to provide an interdisciplinary study. Fourth, we expand resource dependence theory from firms versus firms, employers versus employees, or businesses versus businesses to firms versus individual customers and businesses versus customers.

**LITERATURE REVIEW**

**Power Dependence**

Pfeffer and Salancik (1978/2003) suggest that one organization with critical resources that other organizations depend on is considered powerful. If the resource is not critical, substitutes can be found easily, and if switching costs are low, then the organization holding this resource is relatively less powerful. Whoever is powerful can control other organizations that are dependent on the resources of the powerful party. Therefore, Pfeffer and Salancik (1978/2003) also recommend several strategies to cope with different power asymmetric situations so that firms can gain relatively more power than their competitors. Our focus here is not the political relationship but the power concept from resource dependence theory to further discuss the relationships among service providers and their customers.

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1 Output could be a physical product such as a burger or pizza, or it could be a type of service such as a haircut, or legal service.
Many scholars have adopted concepts from resource dependence theory in supply chain management (Cheng, Chang, & Liu, 2005; Cool & Henderson, 1998; Dowling, Roering, Carlin, & Wisnieski, 1996; Flynn & Flynn, 2003; Sriram, Krapfel, & Spekman, 1992; Tanpong, Michalisin, & Melcher, 2005), or human resources management (Austin, 2005; Balotsky, 2005; Fields, Goodman, & Blum, 2005; Westphal, Boivie, & Chng, 2004; Wright & McMahan, 1992). Power asymmetry impacts strategic choices among supply chain members and also influences the contents of employee contracts. If one is a powerful player (either organizations or employees), how to maintain the power differential is an important issue in resource dependence theory. However, previous studies focus on the relationships of B2B (business to business), C2C (consumers to consumers), or employers to employees situations. We intend to expand the power dependence relationship to B2C (business to consumers) context as well. How does power dependence affect the relationships between service providers (business) and their customers (consumers)?

To illustrate the power imbalance or power asymmetries, we can compare several service providers. As mentioned above, electric utility companies are usually considered powerful because most people need their service and depend on them. If customers are not satisfied with their services and want to discontinue purchasing from the company, they either have to stop using electricity or move to other places, which is almost impossible for most people. On the other hand, since the electric utility company is powerful, it does not need to improve its services as long as it can ensure the supply of electricity. This is an extreme example. One less extreme example could be cable companies. Most geographical areas are serviced by a niche cable company and if you want to enjoy various TV shows, you need to purchase the service from that cable company. When your cable company provides poor service and you want to terminate the contract with this company, you will have to discontinue watching TV. Some people might be able to live with that but a majority desire watching TV. In this case, when you desire TV more, you depend on the cable company more than those who can do without TV.

Cool et al (1998) develop an instrument to measure power by synthesizing two theories, industry organization and resource dependence theory. The variables they used are the number of potential buyers, buyer concentration, cost to switch buyers, buyer bargaining power, role of price in negotiations, impact on buyer’s differentiation, impact on buyer’s costs, and buyer backward integration. We will adopt their measurement since it matches the resource dependence power concept.

As mentioned above, when customers depend on the outputs of one firm, they are considered less powerful and normally they will receive lower quality of service. On the other hand, when the service provider is not powerful, the customers will receive better service. Therefore, we propose that:

**Proposition 1:** Customer power is positively related to service quality.

**Proposition 1a:** Low customer power leads to low service quality.

**Proposition 1b:** High customer power leads to high service quality.

**Service Quality**

Gronroos (1983) was among the first few attempting to define service quality. He identified two kinds of quality, technical quality and functional quality. According to him, technical quality is “what has been done in the transaction” and functional quality is “how the process is.” Then from the functional perspective, Parasuraman, Zeithaml and Berry (1985; 1988; 1994) use the gap between customers’ expected quality and customers’ perceived quality to measure service quality. Their instrument is referred to as SERVQUAL and has 22 items under five dimensions: reliability, responsiveness, assurance, empathy, and tangibles. SERVQUAL is one of the most used instrument to measure service quality.
However, its validity was questioned by Cronin and Taylor (1992; 1994). In addition, power asymmetries will impact the customers’ perceptions of quality. For instance, electric utility companies dominate local markets and their customers are dependent on their service so usually they do not expect high service quality from the dominant electric utility company. If we use SERVQUAL to measure the service quality through the difference between expected service quality and perceived service quality, there would be limited variation of perceived service quality since customers may expect less from a powerful provider. Therefore, we proceed to use a measure of pure performance and operationalize the construct using measurement on service performance which is SERVPERF.

**Purchase Intentions and Purchase Behaviors**

Previous studies connect purchase intentions with customer satisfaction and service quality (Brady, Cronin, & Brand, 2002; Cronin Jr et al., 1992). Some found positive relationships between service quality and customer satisfaction (Anderson, Fornell, & Lehmann, 1994; Anderson & Sullivan, 1993; Bitner & Hubbert, 1994; Bolton & Drew, 1991; Brady et al., 2002; Cronin Jr et al., 1994; Gotlieb, Grewal, & Brown, 1994; Ostrom & Iacobucci, 1995; Woodside, Frey, & Daly, 1989). Even though few also found no direct relationships between these two variables (Dabholkar, 1995; McAlexander, Kaldenberg & Koenig, 1994), we choose to assume the positive relationship between service quality and customer satisfaction.

Another set of studies discussed the relationships between customer satisfaction and purchase intentions and positive relationships are empirically tested (Anderson et al., 1994; Cronin Jr et al., 1992; Fornell, 1992; Oliver, 1980; Swan & Oliver, 1989). Accordingly, positive relationships between service quality and purchase intentions could be expected.

Purchase intentions are defined as customers’ intentions to purchase or repurchase and measured by surveying customers’ intentions. Quite often, purchase intentions are spontaneously directed to purchase behaviors. Several articles discuss that purchase intentions do not necessarily lead to purchase behaviors (Chandon & Morwitz, 2005a; Chandon et al., 2005b; Chandon, Morwitz, & Reinartz 2005c; Fitzsimmons & Morwitz, 1996; Martin & Bush, 2000; Morrison, 1979; Morwitz & Johnson, 1993; Young, DeSarbo & Morwitz, 1996). However, their focus is on the measurement of purchase intentions and how different measurements lead to different predictions of purchase behaviors. In many situations, even when customers do not intend to purchase, they still do, while other times they do intend to purchase but end up not doing so. Sometimes, even though customers do not want to purchase from a certain company, they have no choice; like local electric utility companies. Therefore, we want to define purchase intentions here in a narrow way. When customers have no choice or have very few choices and consequently form “reluctant” purchase intentions, this is not a “true” purchase intention. Only when customers are willing and happy to purchase from certain firms, these customers have purchase intentions.

Generally speaking, the relationship between service quality and purchase intentions is positive. High service quality leads to high purchase intentions while low service quality leads to low purchase intentions. As discussed above, this relationship has been supported by many empirical studies (Anderson et al., 1994; Cronin Jr et al., 1992; Fornell, 1992; Oliver, 1980; Swan et al., 1989). However, low service quality and low purchase intentions do not always lead to low purchase actions (purchase behavior) due to power asymmetries between customers and service providers. If we desire watching TV, even though we get poor service from the cable company, resulting in a low purchase intention, we might still continue to purchase from the cable company because we are dependent on them. Therefore, we suggest:
Proposition 2: Power imbalance will impact the relationship between purchase intentions and purchase actions

Proposition 2a: Low customer power potentially reverses the positive relationship between purchase intentions and purchase actions from low-low to low-high

Proposition 2b: High customer power inhibits the positive relationship between purchase intentions and purchase actions from high-high to high-medium

THEORETICAL FRAMEWORK

Figure 1 illustrates our theoretical framework. Customer power has a positive relationship with service quality. The more powerful the customer is, the better service this customer is likely to receive. Then, service quality is positively related to purchase intentions. The better service quality a customer receives, the higher the purchase intention. However, the customer power will moderate supposedly positive relationship between purchase intentions and purchase actions. Low purchase intentions were assumed by previous studies to lead to low purchase actions. But if the customer is not powerful, even with the low purchase intention, this customer will still have a high purchase action toward the service provider.

Figure 1: Theoretical Framework

METHODOLOGY

We plan to conduct a survey of approximately 200 students at a large Midwestern university. Three companies in that area are pre-selected: a local cable company, an electric utility company and a landline phone provider. These three firms are considered monopolists in this area but the levels of customers’ dependence vary. The electric utility company enjoys full customers’ dependence. The cable company has relatively less dependent customers because some people might choose not to watch TV or just use antenna. The landline phone provider faces competitions from various cell phone companies in the college town. College students may find cell phone more convenient than the landline phone. By using these three companies, we can identify the dependence levels of different customers in spite of the market share. For example, pretty much everyone is dependent on electricity while some could choose not to install landline phones or not to have a cable service. We will measure how much each respondent is dependent on these three firms. SERVPERF will be used to measure service quality of these three firms. Purchase intentions and behaviors are surveyed by questionnaires as well. The survey used to measure all these variables is attached in Appendix A. Cronbach's alpha will be used to test the reliability. Not only do we have multiple indicators per concept, but also we use different sources (three firms) to gather data. Construct validity is expected to be high because multi-method multi-trait validation strategy is used. Factor loadings have to be at least 0.7 to reach high validity.
Analysis
After we gather data for customer power (dependence), service quality, purchase intentions and purchase behaviors, we will test our hypotheses through different regression analyses. Before conducting regression tests, the assumptions of regression tests will be evaluated. These assumptions include linearity, non-recursivity, absence of high partial multicollinearity or perfect multicollinearity, multivariate normality, normally distributed residual error, and homoscedasticity.

First propositions-direct effect between power and service quality
The first regression test will have customer power as an independent variable and service quality as a dependent variable. A positive relationship is expected. If this test is significant, this indicates that the more powerful customers are, the better-quality service they would receive.

Second propositions-moderating effect
The second test will involve several regression tests. Based on Sharma, Durand, and Gur-Arie (1981), there are four step to identify moderator variables:
Step 1: Through moderated regression analysis, identify if there is a significant interaction between the moderator (power) and predictor variables. If yes, then go to step 2. Otherwise, proceed to step 3.
Step 2: Identify if the moderator variable is significantly related to the criterion variable. If yes, then it is a quasi moderator. If not, then it is a pure moderator.
Step 3: Identify if the moderator is significantly related to the predictor variable. If yes, then it is an exogenous, predictor, intervening, antecedent, or suppressor variable. If it is not related to either the predictor or criterion variables, then go to step 4.
Step 4: Develop subgroups based on the hypothesized moderator. Test for the significance of predictive validity across the subgroups. If significance is found, then the variable is a homologizer operating through the error term. If significant differences are not found, then the variable is not a moderator.

We will follow the previous steps suggested by Sharma et. al. First, we use purchase actions as a dependent variable and use purchase intention and interaction of customer power and purchase intention as dependent variables. If the coefficient of the interaction variable is significant, then we can conduct the second multiple regression test. The second regression test will have one more independent variable, customer power, in addition to the previous two variables. If the coefficient of customer power is not significant, that means that the customer power serves as a pure moderator variable. Therefore, our second hypothesis is supported. If not, then the customer power is a quasi moderator variable, which means our second hypothesis is partially supported.

DISCUSSION AND CONCLUSION
Proposition 1 suggests that when a service provider is powerful relative to its customers, it tends to provide lower quality of service and vice versa. This could also be explained by the concept of competition. As indicated previously, an electric utility company usually does not have local competition. Their service tends to be less satisfactory than local pizza stores. Competition among pizza stores is fierce and therefore, in addition to a satisfying taste of pizza, they have to provide better services to customers. For instance, friendlier servers are expected in pizza stores than in the electric utility company.

Proposition 2 argues that when a firm is powerful, it would provide lower service, the purchase intention of its customers will be low, but the purchase actions/behaviors will still be high because the
customers are dependent on this service provider. On the other hand, when a customer is powerful, even when a firm provides very good service, the customer is satisfied and intended to purchase there again, but since the customer is not dependent on the service that this firm provides, this customer may choose to purchase from somewhere else.

This study suggests that when firms are powerful, they may choose not to focus on providing good services but it is not our recommendation. On the contrary, we believe service quality is very important to keep the customers. Even when a firm is currently in a position of power and has a huge market share, it does not mean the customers are happy with what they receive. If these powerful firms are not cautious about their service quality, it is very possible that the customers would switch to other competitors if the powerful firm one day become less powerful (i.e. customers have other alternatives to the service).

This paper proposes a cross sectional study. We cannot test the variation of the relationships among power, service quality, purchase intentions, and purchase behaviors with one firm when its power shifts. Future studies could be done by designing a longitudinal study to test changes in relationships following objects in power status.

This paper contributes to the field in four ways. First, we introduce resource dependence theory to explain the difference of firms’ service quality. Second, we expand the resource dependence theory to the relationship between businesses and customers. Third, we illustrate that service quality does not always lead to customer retention through power dependence theory. Finally, we point out that purchase intentions and purchase actions/behaviors are two different concepts. Firms have to look at both in order to maintain their customers. Otherwise, when the power position changes, customers may switch to competitors.

REFERENCES


APPENDIX A

Overall service quality
1. Poor 1 2 3 4 5 6 7 8 9 Excellent
2. Inferior 1 2 3 4 5 6 7 8 9 Superior
3. High Quality 1 2 3 4 5 6 7 8 9 Poor Quality
4. Low Standards 1 2 3 4 5 6 7 8 9 High Standards
5. One of the Best 1 2 3 4 5 6 7 8 9 One of the Worst

Service quality measures (5-level liker-scale, 1-strongly disagree, 2-disagree, 3-neutral, 4-agree, 5-strongly agree)
1. XYZ has up-to-date equipment.
2. XYZ’s physical facilities are visually appealing.
3. XYZ’s employees are well dressed and appear neat.
4. The appearance of the physical facilities of XYZ is in keeping with the type of service provided.
5. When XYZ promises to do something by a certain time, it does so.
6. When you have problems, XYZ is sympathetic and reassuring.
7. XYZ is dependable.
8. XYZ provides its services at the time it promises to do so.
9. XYZ keeps its records accurately.
10. XYZ does not tell its customers exactly when services will be performed.
11. You do not receive prompt service from XYZ employees.
12. Employees of XYZ are not always willing to help customers.
13. Employees of XYZ are too busy to respond to customer requests promptly.
14. You can trust employees of XYZ.
15. You can feel safe in your transactions with XYZ’s employees.
16. Employees of XYZ are polite.
17. Employees get adequate support from XYZ to do their jobs well.
18. XYZ does not give you individual attention.
19. Employees of XYZ do not give you personal attention
20. Employees of XYZ do not know what your needs are.
21. XYZ does not have your best interests at heart.
22. XYZ does not have operating hours convenient to all their customers.
**Purchase intentions measures**
1. I would not mind returning to this facility again in the future
2. I would recommend this facility to family and friends
3. If I have choice, I would not return to this facility
4. If I have choice, I would still return to this facility

**Purchase behaviors/actions measures**
1. Regardless the service quality, the probability that I will use this facility’s services again is *Power dependence*
2. I am dependent on the resource XYZ provides
3. It would be difficult to replace this resource
4. This resource is important to my life
5. I do not have a good alternative to this resource
6. I don’t really need this resource