

## **Handle with care! Service contract termination as a service delivery task**

### **Abstract**

*Purpose.* Profitability considerations lead service providers to terminate service contracts with low-value customers. However, customers targeted by service contract terminations often take revenge through negative word-of-mouth. Presently, it is unclear how service contract termination initiatives prevent this harmful side-effect. We compare the effectiveness of common service contract termination initiatives for reducing negative word-of-mouth of customers whose service contracts have been cancelled. The study results provide guidance for minimizing the downside of service contract termination.

*Approach.* We distinguish between service contract termination initiatives common in practice (preannouncement, explanation, financial compensation, apology, support in finding an alternative provider). Drawing on a multi-industry survey of 245 customers who have experienced service contract terminations in real life, we estimate regression models to link perceived service contract termination initiatives to negative word-of-mouth.

*Findings.* All else equal, only preannouncement and support in finding an alternative are effective to reduce negative word-of-mouth. We also show that the right choice of service contract termination initiatives depends on the context of the termination. Making a preannouncement, offering an explanation, and providing support in finding an alternative, are more effective in reducing negative word-of-mouth when these actions are aligned with the contextual factors of relationship duration and competitive intensity.

*Originality.* While most related studies have considered customer responses to the cancellation of *other* customers' contracts, this study contributes to the scarce literature on the undesirable customer responses (such as negative word-of-mouth) to the termination of their *own* contract. It

is the first study in this emerging stream of research that accounts for the effects of process-oriented *and* outcome-oriented contract termination initiatives on negative word-of-mouth. It is also the first study to account for moderators of the effect of contract termination initiatives on negative word-of-mouth, namely relationship duration and competitive intensity.

**Keywords** Dark sides of relationship marketing initiatives; contract termination; customer retaliatory behavior; negative word-of-mouth; service marketing

## Introduction

Countless service providers have confirmed the Pareto principle whereby roughly 20 percent of their customers are responsible for approximately 80 percent of their profits (Galvin, 2020). They are aware that this situation offers immense potential to increase average customer profitability (Zeithaml et al., 2001). While service providers increasingly prioritize profitable customer relationships (Homburg et al., 2008), they also end unprofitable relationships to save costs and to increase average customer profitability (Haenlein et al., 2006; Mittal et al., 2008; Shin et al., 2012). For instance, halfway through the 2010 hurricane season, Florida's largest homeowner insurer (State Farm) canceled the policies of 125,000 customers (NBC News, 2010). The firm-initiated ending of a contractual service relationship, such that an existing customer is no longer served, has been termed service contract termination (Shin et al., 2012).

Service contract termination is a topic of hot debate among managers because it leads the targeted customers to seek revenge through negative word-of-mouth (NWOM) (Feng et al. 2020; Haenel et al., 2019). NWOM has been shown to jeopardize service providers' relationships with current and prospective customers (Wyatt and Badger, 1984) and to reduce sales (Chevalier and Mayzlin, 2006) and firm value (Goldenberg et al., 2007). Although service contract terminations are daily business in contractual service industries such as insurance, financial services, or telecommunications, managers still lack guidance on how to execute service contract terminations to reduce NWOM of the customers affected by service contract termination.

Despite the managerial importance, customer responses to different service termination initiatives—firm initiatives that are employed to improve the service contract termination experience of customers whose contracts are cancelled—have hardly received any attention to date. A few seminal studies have examined how remaining or prospective customers react to the

information that *other* customers have had their contracts cancelled (Haenlein and Kaplan, 2011; 2012). Prior to this paper only two studies have examined customer responses to their *own* contract being cancelled (Lepthien et al. 2017; Haenel et al., 2019). Yet, just one of these studies (Haenel et al., 2019) offers a limited selection of initiatives that serve to reduce NWOM of the affected customers by improving the outcome of the service contract termination for them; namely through financial compensation or an apology—but the authors do not examine their direct effects on NWOM. A notable literature gap is how firms can reduce NWOM by improving the termination process *and* its outcomes for the customer by using different initiatives.

To address this gap the study offers an examination of different service contract termination initiatives. The overarching goal of this study is to reveal service contract termination initiatives that reduce negative repercussions. The research questions are: (1) What service termination initiatives are currently available to practitioners? (2) How effective are those initiatives in reducing NWOM after service termination? And (3) when is their effectiveness attenuated or reinforced?

We draw on equity theory (Adams, 1965) and on theoretical insights from the literature on service contract terminations (Mittal et al., 2008) as well as the broader service literature (e.g., Grewal et al., 2008; Wagner et al., 2009). Customer service experiences generally comprise the service process and the service outcome (Parasuraman et al., 1985). We offer a synopsis of service contract termination initiatives that improve either the service termination process or the service termination outcome for rejected customers. We consider preannouncement and explanation to account for initiatives that improve the service termination process and examine financial compensation, apology, and support in finding an alternative provider as initiatives that improve the service termination outcome. We hypothesize that both process- and outcome-

oriented termination initiatives can mitigate NWOM as a response to service contract termination. However, we also argue that contextual factors related to the industry (competitive intensity) and the individual relationship (relationship duration) determine when customers particularly value each of these initiatives.

We test the hypotheses using service experience data from 504 customers across different service industries. The empirical findings show that service providers can employ initiatives to effectively reduce NWOM after service contract termination. All else equal, the findings demonstrate that a preannouncement and support in finding an alternative service provider have a mitigating effect on NWOM. An explanation and an apology have no significant direct effects on NWOM, while offering financial compensation even increases NWOM. The findings further indicate that service termination instruments should be aligned with contextual factors. Relationship duration heightens the negative effect of termination explanation on NWOM, and competitive intensity strengthens the negative effect of a termination preannouncement, yet weakens the negative effect of a firm's support in finding an alternative provider.

The study makes three key contributions to the emerging literature on service contract termination. First, Table 1 demonstrates this is the first study to systematically investigate service contract termination initiatives that improve both the contract termination process and its outcome for the customer. Second, we respond to the explicit call to demonstrate which service contract termination initiatives are effective in mitigating NWOM after service contract termination (Haenel et al. 2019, p. 318). Third, we offer situational advice by accounting for the role of relationship duration and competitive intensity for the effectiveness of contract termination initiatives in reducing NWOM. Overall, the paper offers a framework for delivering service contract termination initiatives that avoid NWOM.

[Insert Table. 1 about here]

## **An equity theory perspective of service contract termination**

Service contract termination is the provider's cancellation of the service contract with a customer such that the customer is no longer serviced (Shin et al., 2012). Service contract termination is practiced with concern because it is not based on mutual agreement between the service provider and the customer but occurs only on the discretion of the provider.

The customer's evaluation of a service contract termination can be explained through equity theory (Adams, 1965). Equity theory implies that customers weight the equity of their own relational benefits (or loss of benefits) and costs (or cost savings) against those of the provider. A service contract termination entails a loss of relational benefits such as the service relationship, access to the service, but also emotional losses such as injured pride. A contract termination also entails costs such as time, money, or effort for replacing the service provider as well as the emotional costs of coping with the cancellation event. In contrast, the ratio of cost and benefits on the service provider side seems intact, creating a perception of unfairness and inequity at the side of the customer (Haenel et al., 2019; Lepthien et al., 2017).

This prompts customers to respond with an attempt to restore equity by equally reducing the provider's equity ratio, for instance through retaliatory action (Samaha et al., 2011). Indeed, research has shown that the event of service contract termination entails NWOM by the targeted customers (Lepthien et al., 2017). It empowers customers to hit back at the firm for the perceived wrongdoing, thereby creating a loss of benefits for the provider as well (Bougie et al., 2003). In particular, NWOM serves to harm current and prospective customer relationships, eventually reducing the provider's profits (Haenlein and Kaplan, 2011; 2012).

However, equity theory also suggests that there is a way to avoid customers having to restore equity through NWOM. In particular, equity theory implies that reducing customers' perceived losses and costs from contract termination while potentially increasing customer perceptions of the service provider's costs for delivering the contract termination alleviates customers' inequity perceptions and therefore NWOM. We argue that this can be achieved by accompanying the service contract termination delivery with initiatives that improve the experience from a customer point of view.

## **Conceptual framework and hypotheses**

### *Overview*

Figure 1 summarizes the conceptual framework, which encompasses service contract termination initiatives—firm initiatives that are employed to improve the service contract termination experience of customers whose contracts are cancelled—and their effect on NWOM. We distinguish between service process- and service outcome-oriented termination initiatives. The framework also considers managerially relevant moderators of the relationship between service contract termination initiatives and NWOM, dictating different procedures for different customers and in different industries. We next define the key variables mentioned in the framework and formulate the hypotheses.

[Insert Figure 1 about here]

### *The Effects of Service Contract Termination Initiatives on NWOM*

The framework contains NWOM as the key dependent variable. Defined as the extent to which a customer denigrates the service provider to others (Grégoire and Fisher, 2008), *Negative Word-Of-Mouth* is the primary concern of service providers when they terminate service contracts (Feng et al., 2020; Haenel et al., 2019).

Equity theory implies that it is critical for providers to deliver a service termination experience that sensitively addresses customer needs during the final stages of the service relationship in order to reduce inequity perceptions (Smith et al., 1999) and thereby reduce NWOM. Likewise, service research suggests that providers need to demonstrate responsiveness and reduce consumer-perceived loss of benefits from undesirable customer experiences (Joireman et al., 2013). Responsiveness in service delivery generally addresses either customer needs related to the service process or the service outcome (Ma and Dubé, 2011; Parasuraman et al., 1985). Accordingly, we distinguish between service contract termination initiatives that improve either the service termination process or the service termination outcome for the rejected customers.

*Process-oriented service contract termination initiatives.* In terms of the service contract termination process, Mittal et al. (2008) have argued that customers appreciate when service providers preannounce pending service contract termination and explain why the relationship is being terminated. We therefore consider preannouncement of the service contract termination and explanation for the termination two key initiatives.

We define *preannouncement* as the customer-perceived notification of the forthcoming termination before it is executed (Homburg et al., 2010). A preannouncement mitigates the perceived loss because it enables customers to mentally prepare for the stressful experience that is to come and to cope with the termination better when it is executed (Folkman et al., 1986; Mittal and Sarkees, 2006). It also reduces customer perceived costs of the contract termination because it allows customers to gather information about alternative solutions in anticipation of the contract termination, leaving them in a less helpless situation and more emotionally prepared



once it happens (Gelbrich, 2010). We therefore argue that a preannouncement alleviates inequity perceptions and reduces NWOM subsequently. Thus:

H1: Offering a preannouncement to customers whose service contract is being terminated reduces NWOM.

Next, we define an *explanation* as the customer-perceived offering of reasoning for the service termination by the provider (Gelbrich, 2010). Providing an explanation for the service termination demonstrates responsiveness to customers whose contracts are subject to termination. Often, the most immediate reaction of persons who experience shattering news is to ask “why?” (Folkes, 1988). Providing detailed reasoning for the decision clarifies that the decision has not been made arbitrarily, indicating that the existing relationship has been inequitable from the provider’s perspective. Understanding the other party’s point of view is an important driver of equity considerations and fairness perceptions (Thibaut and Walker, 1975). In this case an explanation addresses the “why?”, alleviating the emotional loss by enabling mutual respect (Folkes, 1988; Thibaut and Walker, 1975), which subsequently reduces customer inequity perceptions and NWOM. Thus:

H2: Offering an explanation to customers whose service contract is being terminated reduces NWOM.

*Outcome-oriented service contract termination initiatives.* Initiatives relevant to the service contract termination outcome aim to reduce inequity perceptions by establishing an end result of the contract termination that is financially and emotionally more acceptable to the customer (Blodgett et al., 1997; Gelbrich, 2010). The two initiatives most commonly mentioned in the broader service literature are financial support through compensation and emotional support through apology (Tax et al., 1998; Wagner et al., 2009). Mittal et al. (2008) further

theorize that support in finding an alternative provider improves the service contract termination outcome for customers by making their search for a replacement offering easier. We thus consider financial compensation, apology, and support in finding an alternative provider to be key initiatives in improving the service contract termination outcome for customers.

We define *financial compensation* as customers' perceptions of monetary refund and redress for the additional costs arising from the service termination for the customer (Smith et al., 1999). For example, service contract termination entails search costs for finding a new provider and set up costs when committing to a new service provider both of which require time, cognitive, and monetary investments from the customer. Financial compensation has the potential to improve customer perceptions of their own benefit-cost-ratio by compensating for these costs, leading to a more equitable outcome (Blodgett et al., 1997). Accordingly, we expect financial compensation to reduce NWOM. Formally:

H3: Offering a financial compensation to customers whose service contract is being terminated reduces NWOM.

Next, an *apology* describes customers' perceptions of taking responsibility and emotional redress for service contract termination (Smith et al., 1999). Customers incur emotional costs from the experience, such as coping with the unpleasant feeling of being rejected (Nazifi et al., 2021). By offering emotional support and demonstrating empathy an apology mildens these costs (Goodwin and Ross, 1992; Tax et al., 1998). From an equity perspective, the contract termination becomes more equitable and less unfair, reducing NWOM. Thus:

H4: Offering an apology to customers whose service contract is being terminated reduces NWOM.

Finally, we define the service provider's *support in finding an alternative provider* as the customer perception of provision of advice or information that is relevant to finding an alternative service provider whose offering is suitable to replace the terminated service offering (Homburg et al., 2010). Switching service providers comes with customer perceptions of increased searching costs because comparing options and choosing the provider that best suits a customer's needs is a time-intense undertaking. Equity theory predicts that offering customers support in finding an alternative provider (when their contracts are cancelled) reduces searching costs and thereby inequity perceptions, subsequently reducing NWOM. Hence:

H5: Offering support in finding an alternative provider to customers whose service contract is being terminated reduces NWOM.

#### *Moderating Effects*

The success of each initiative is based on restoring equity by altering perceived benefits and costs for the consumer (Adams, 1965). However, following the termination of a service contract, the severity of perceived losses of benefits and perceived costs is likely to vary across different contexts. Initial evidence points towards relationship duration as an important relationship characteristic and competitive intensity as an important industry characteristic because both potentially alter customers' equity perceptions (Hoffman and Kelley, 2000). Since the initiatives discussed above aim to reduce NWOM by improving customer equity perceptions, we argue that both are important moderators of the effect of contract termination initiatives on NWOM.

*The moderating role of relationship duration.* We define *relationship duration* as the length of time a customer has been in a relationship with the service provider (Grégoire et al., 2009). Relationship duration has been shown to play an important role in shaping customer

reactions to provider initiatives (Béal et al., 2019). Customers who have been loyal for a long time have grown familiar with the service provider and its role in their lives and they have clear expectations of relationship continuity (Lusch and Brown, 1996). Longer service relationships are associated with habitual use of the service, deepened emotional affection, and commitment to the provider (Aurier and N'Goala, 2010), which is why long-standing customers perceive service contract termination as a greater loss of relational benefits than customers with shorter relationship duration (Adams, 1965). Thus, initiatives that compensate for a loss of relational benefits should become more relevant for customers with a longer relationship duration. As we have explained above, these initiatives are offering a preannouncement and offering an explanation (Kellas and Manusov, 2009; Pennebaker et al., 1990). We next formulate hypotheses about the relationship duration moderation of their effect on NWOM.

An unexpected service contract termination is a particularly strong loss of relational benefits because the customer feels betrayed by a long-trusted service partner (Grégoire et al., 2009; Thompson et al., 2006). A preannouncement is thus particularly relevant for long-time customers. It effectively attenuates the perceived loss of relational benefits tied to an unpleasant surprise by preparing customers for the upcoming relational dissolution, allowing them to adapt their expectations of relationship continuity and to anticipate the end of service provision. Thus:

H6 (-): Offering a preannouncement reduces NWOM more when relationship duration is high (as compared to low).

Next, an explanation addresses the “why”, alleviating the loss of relationship benefits by enabling mutual respect (Folkes, 1988; Thibaut and Walker, 1975). We argue that alleviating the loss becomes paramount for customers equity perceptions if the relationship is long-standing

because the termination brings to close a particularly familiar service relationship that forms part of the daily life of customers who have long accustomed to it. Hence:

H7 (-): Offering an explanation reduces NWOM more when relationship duration is high (as compared to low).

*The moderating role of competitive intensity.* We define *competitive intensity* as the availability and awareness of alternative service providers (Jaworski and Kohli, 1993). From an equity theory perspective, competitive intensity is a reflection of the availability of alternatives and therefore affects customer perceptions of the costs of replacing the provider (Adams, 1965). We argue that those perceptions of replacement costs are particularly relevant for customer responses to contract termination initiatives that aim to reduce customer cost perceptions (i.e., preannouncement, offering a financial compensation, apology, and support in finding an alternative) of the contract termination for the customer.

First, we argue that competitive intensity moderates the effect of preannouncement on NWOM. Offering a preannouncement reduces a customer's perceived costs of the termination by mitigating the urgency of taking immediate action and by allowing enough time to compare alternatives to find the most suitable service offering to replace the contract that is being terminated (Mittal and Sarkees, 2006). When competitive intensity is high the availability of many attractive options in a competitive market requires a greater time investment by the customer to evaluate many different alternatives (Kuksov and Villas-Boas, 2010). Hence, we argue that preannouncement is more valued by customers when competitive intensity is high and thus more effective in improving equity perceptions and reducing NWOM. Formally:

H8 (-): Offering a preannouncement reduces NWOM more when competitive intensity is high (as compared to low).

Likewise, we theorize that offering financial compensation becomes more valued by customers when competitive intensity is high, therefore reducing NWOM more effectively. Financial compensation compensates for the economic costs of replacing a provider (Blodgett et al., 1997). While competitive intensity gives customers access to more information about alternatives in the market, evaluating these alternatives can involve quite some time and effort (Jaworski and Kohli, 1993; Kuksov and Villas-Boas, 2010). Receiving a monetary compensation for these investments, reduces customer perceptions of replacement costs. Hence, offering a financial compensation should be particularly effective in reducing NWOM for customers if competitive intensity is high. Formally:

H9 (-): Offering financial compensation reduces NWOM more when competitive intensity is high (as compared to low).

A similar argument can be made for customer responses to an apology. Due to the many alternatives available, emotional costs for replacing the cancelled service (e.g., stress) imposed by service contract termination are also more severe (Moschis, 2007). Since offering an apology addresses these emotional costs (Goodwin and Ross, 1992; Tax et al., 1998) it should be perceived as more valuable by customers when competitive intensity is higher. From an equity perspective, this leads to a more equitable outcome for the customer, reducing the need to restore equity through NWOM. Hence:

H10 (-): Offering an apology reduces NWOM more when competitive intensity is high (as compared to low).

Finally, we hypothesize that the increased availability of alternatives in competitive markets reduces the potential of support in finding an alternative to reduce customer cost perceptions of the contract termination and therefore NWOM. Due to the greater number of

alternatives available in a more competitive market, finding alternatives per se is not so much of a problem anymore. Facing different providers who actively compete for the customer's business means that customers have to invest less time and effort in searching and identifying potentially alternatives in the first place (Kuksov and Villas-Boas, 2010). The role of support in finding an alternative to improve the customer outcome by reducing replacement costs for the customer thus diminishes. Thus:

H11 (+): Offering support in finding an alternative reduces NWOM less when competitive intensity is high (as compared to low).

## **Empirical examination**

### *Sample*

The empirical examination requires data from customers who have experienced service contract terminations. Collecting such data is challenging, as service providers fear that sharing information about service contract terminations could result in bad publicity. Further, collecting data about customer responses to service contract termination requires to survey ex-customers or to track their behavior, for example on social media. For data privacy concerns, service providers usually do not grant access to the contacts of ex-customers. Finally, from our experience, service providers adopt quite different approaches to terminating service contracts, which means that they often use only some of the initiatives considered in our framework. Collecting data from only one service provider thus would not result in generalizable findings.

To overcome these challenges, we conduct an independent field survey. We used a web-based questionnaire to collect data via an online panel of US-American consumers. To ensure that the data is as representative as possible in terms of customers' real-life service contract termination experiences across a wide range of industries, we randomly sampled participants

from the panel. We asked them to report on their retrospective service experiences. Such retrospective surveys are common in related research on service recovery (Bougie et al., 2003), customer retaliation (Grégoire and Fisher, 2008), and service termination (Haenel et al., 2019). In order to ensure that participants refer to a particular service experience, we adopt the critical incident technique (Gremler, 2004).

First, respondents read a set of examples on actual service termination incidents recently observed in practice (e.g., financial services, insurance, online retailing, telecommunications; see examples in Appendix 1). We asked participants whether they had experienced similar incidents within a contractual service relationship in which the service provider terminated their contract. If they remembered one or more similar situations, we instructed them to write a brief description of the last such incident they could remember.<sup>1</sup> If they did not remember such an incident, we instructed them to briefly describe the last encounter within a contractual service relationship they could remember. In turn, we instructed respondents to respond to a series of standard survey questions where they should refer all remaining answers to the provider described in the incident.

Overall, we collected 540 surveys to ensure that the final sample size is sufficient.<sup>2</sup> To confirm that respondents correctly classified the relationship (contractual service versus no contractual) and the incident (service termination vs. no termination incidents), we used a standard coding procedure (Gremler, 2004). We relied on two service experts who were blind to the purpose of this study as coders. We trained the coders and provided them written coding

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<sup>1</sup> Exemplary service contract termination experiences mentioned by the survey participants are provided upon request.

<sup>2</sup> Our model has 25 independent variables. A common rule of thumb requires a sample size of at least ten times the number of independent variables, calling for approximately 250 observations from customers with prior contract termination experiences. Our prior observations led us to expect that up to half of all customers have made a contract termination experience. Consequently, we seek to collect at least 500 responses. Allowing for some buffer, we stopped the data collection when we had 540 responses.



instructions including general instructions, definitions of each category, and decision rules for assigning incidents to the categories (Perreault and Leigh, 1989) before we asked them to categorize the described incidents accordingly. Intercoder reliability was high for all categories ( $\alpha_{\text{non contractual vs. contractual}} = .99$ ;  $\alpha_{\text{termination vs. no termination}} = .99$ ; Perreault and Leigh, 1989). Where the coders diverged, consensus was reached through discussion.

We used the coded incidents to verify the responses and excluded from the analysis 36 responses owing to respondents' failure to correctly follow the instructions. Specifically, we excluded cases from the sample if respondents had referred to no specific incident or to more than one incident, if they did not describe a contractual service relationship, or if they wrongly classified the incident as a (no) service contract termination. For all remaining cases, the coding procedure confirmed respondents' classification.

Through the verification procedure, we received an effective total of 504 responses of which 245 responses described a service contract termination incident. As we show in Table 2, for the customers who experienced a service contract termination, the data cover a broad range of industries, including general insurance, financial services, telecommunications, online retailing, health and medical care, roadside assistance, and others such as fitness clubs or energy services. Importantly, customers were chosen randomly for the sample, the sample size is sufficient, and the distribution across industries is similar to that observed in related studies (e.g., Haenel et al., 2019). Also, as in the sample, insurance, telecommunications, and financial services are the top three industries associated with service contract termination practices in the media. We conclude that the sample draws a representative picture of the service termination landscape and that it is appropriate for deriving generalizable findings.

[Insert Table 2 about here]

We assessed non-response bias by comparing early and late respondents. We found no significant difference ( $F(1,243) = .06, p > .10$ ), indicating that non-response bias is not a problem. Since all constructs were collected from the same data source, we also check for common method bias by carrying out Harman's one-factor test (Podsakoff et al., 2003; Podsakoff and Organ, 1986). We conduct a factor analysis that includes all indicators of the model. The largest variance explained by one factor is 32.2%, a result that indicates there is no dominant factor and common method bias is not a problem in the sample.

We use the full sample to control for selection bias as described in the analysis section below ( $n = 504$ ). Hypotheses testing is based on the service termination sample only ( $n = 245$ ).

### *Measurement*

*NWOM.* We adapted three established items each measured on a seven point Likert scale, to capture self-reported NWOM (Strizhakova et al., 2012). The scale employs the following items: "I spread negative word-of-mouth about the service provider," "I told others about my experience to denigrate the service provider to others," and "I shared my experience with others to warn others not to buy the products or services from the service provider" (1 = "strongly disagree", 7 = "strongly agree";  $\alpha = .96$ ).

*Service termination initiatives.* We adapt existing multi-item Likert scales to capture the service termination initiatives. We measure perceived preannouncement (Homburg et al., 2012) with the three items "I received an announcement of the described firm initiative early in advance," "The service provider informed me about the firm initiative in a timely manner," and "The service provider warned me early in advance about the described firm initiative" (1 = "strongly disagree", 7 = "strongly agree";  $\alpha = .93$ ). Perceived explanation (Gelbrich, 2010) was measured by the three items "The service provider explained why the described initiative was

implemented,” “The service provider explained the reasons causing the described firm initiative,” and “I was given a reasonable account as to why the described situation occurred” (1 = “strongly disagree”, 7 = “strongly agree”;  $\alpha = .88$ ). We capture perceived financial compensation (Homburg et al., 2010) using the four items “The service provider provided an economic compensation for the described firm initiative,” “The service provider offered me a compensation for the described firm initiative,” “The service provider offered me a generous redress for the described firm initiative,” and “The service provider provided me an adequate financial compensation” (1 = “strongly disagree”, 7 = “strongly agree”;  $\alpha = .97$ ). We measure perceived apology (Harmeling et al., 2015) with three items: “The service provider apologized to me for the described firm initiative,” “The service provider took accountability for the described firm initiative,” and “The service provider was sorry for the described firm initiative” (1 = “strongly disagree”, 7 = “strongly agree”;  $\alpha = .85$ ). Finally, perceived support in finding alternatives (Gelbrich, 2010; Grégoire and Fisher, 2008) was captured by the three items “The service provider supported me in finding an alternative provider or solution,” “The service provider pointed to good alternatives,” and “The service provider gave me relevant advice to find an alternative provider or solution” (1 = “strongly disagree”, 7 = “strongly agree”;  $\alpha = .94$ ).

*Moderators.* We capture relationship duration (Grégoire et al., 2009) with the single continuously scaled item “How long have you been a customer of this firm?” and competitive intensity on a seven point Likert scale (Jaworski and Kohli, 1993) with the two items “There are many promotions in the service provider's market” and “Any product or service that one

competitor in the service provider's market can offer, others can match readily” (1 = “strongly disagree”, 7 = “strongly agree”;  $\alpha = .61$ ).<sup>3, 4</sup>

*Control variables.* We directly control for several variables that could result in endogeneity problems by causing correlation between the regressors and the error term when they are not accounted for (Papies et al., 2017). Household income (five point Likert scale: “What is your monthly income?”; anchored by 1 = “Less than \$ 500” and 5 = “More than \$ 3,500”) and household size (single item: “How many people live in your household?”; continuously scaled) could influence both the service provider decision to employ certain contract termination initiatives as well as the household’s response owing to reliance on the service and owing to distinct customer needs (Haenel et al., 2019).

Next, customers might value different services differently. As the initiatives examined in this study address customer needs during service termination, customer perceptions of service termination initiatives as well as their behavioral consequences could be affected when a service is particularly important for the daily life of a specific customer. We therefore include service importance as a control variable and capture it with a single item on a seven point Likert scale: “The service provided by the firm is very important to me” (anchored by 1 = “strongly disagree”, 7 = “strongly agree”; Kelley and Turley, 2001)

We also control for respondents’ perceived problem severity, as it could influence the interpretation and evaluation of the termination incident and affects customer responses to critical service incidents (Smith et al., 1999). We used a single item: “The firm initiative caused me major problems” (anchored by 1 = “strongly disagree”, 7 = “strongly agree”).

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<sup>3</sup> To reduce the length of the survey and to limit response time, we collected moderators and controls using one or two items only (Fisher et al., 2016).

<sup>4</sup> For a two item scale a Cronbach’s  $\alpha$  of .61 is acceptable (Loewenthal and Lewis, 2018). Note that the results do not change meaningfully when we capture competitive intensity using a single item only.

Finally, we also include industry-fixed effects by including industry dummy variables. Industries could systematically differ across the type of service termination initiatives employed and customers could respond differently to those initiatives in different industries, for instance, because it is more of a hassle to switch providers in some industries than it is in others or because services vary in terms of their emotional or functional value offered across industries.

### *Descriptives*

We display descriptive statistics and correlations in Table 3. Two interesting insights into management practice arise from the descriptive statistics of the service contract termination initiatives. First, the means for the initiatives are all relatively low, ranging between 1.75 and 3.87 (on a 7-point scale, where 7 is the highest), suggesting that despite the wide-spread execution of service contract terminations, service firms do not widely adopt measures to address customer needs during contract termination delivery. Second, sorting the service termination initiatives by their means reveals that providing an explanation is the most widely adopted initiative ( $M = 3.87$ ), followed by preannouncement ( $M = 2.93$ ), apology ( $M = 2.31$ ), support in finding an alternative ( $M = 2.00$ ), and financial compensation ( $M = 1.75$ ). Thus, managers seem to have clear preferences in the adoption of service termination initiatives.

[Insert Table 3 about here]

### *Analysis approach*

*Model specification.* We specify the following regression model in order to account for the effects of service contract termination initiatives on NWOM:

$$\begin{aligned}
 NWOM = & \alpha + \beta_1 \text{Preannouncement} + \beta_2 \text{Explanation} + \beta_3 \text{Financial Compensation} + \\
 & \beta_4 \text{Apology} + \beta_5 \text{Support in Finding Alternative} + \beta_6 \text{Relationship Duration} + \\
 & \beta_7 \text{Competitive Intensity} + \beta_8 \text{Preannouncement} \times \text{Relationship Duration} + \\
 & \beta_9 \text{Explanation} \times \text{Relationship Duration} + \beta_{10} \text{Financial Compensation} \times \\
 & \text{Relationship Duration} + \beta_{11} \text{Apology} \times \text{Relationship Duration} + \\
 & \beta_{12} \text{Support in Finding Alternative} \times \text{Relationship Duration} +
 \end{aligned}$$

$$\begin{aligned}
& \beta_{13} \text{Preannouncement} \times \text{Competitive Intensity} + \beta_{14} \text{Explanation} \times \\
& \text{Competitive Intensity} + \beta_{15} \text{Financial Compensation} \times \\
& \text{Competitive Intensity} + \beta_{16} \text{Apology} \times \text{Competitive Intensity} + \\
& \beta_{17} \text{Support in Finding Alternative} \times \text{Competitive Intensity} + \\
& \sum_{r=1}^5 \beta_{17+r} \text{Control} + \sum_{s=1}^3 \beta_{22+s} \text{Industry} + \varepsilon,
\end{aligned} \tag{1}$$

where  $\alpha$  is the intercept,  $\beta_{1-25}$  are the parameter coefficients, and  $\varepsilon$  is the error term. The variables and interaction terms are as noted. We include all interactions between the 5 initiatives and the 2 moderators for a total of 10 interaction terms for a comprehensive empirical examination, even though not all of them are hypothesized. Control is a vector containing the control variables household income, household size, service importance, and problem severity. Industry is a vector containing dummy variables that capture the major industries in the sample.

*Sample selection correction.* The service termination sample might differ from the overall population regarding the decision criteria firms use to decide of whether to terminate a service contract. This means that we have to correct for possible sample selection (Sullivan et al., 2007). We employ the Heckman (1976) correction procedure. In a first step, we use the full sample, which includes customers whose service contracts have been terminated as well as customers whose service contracts have not been terminated ( $N = 504$ ), to estimate a probit model in which we regress the customer selection decision (selected for termination = 1, not selected for termination = 0) on household income, household size, relationship duration, perceived brand strength, and dummy variables accounting for industries. Household income and household size inform about the customer's financial and family situation, which proxy the attractiveness of the relationship from the perspective of the service provider. Relationship duration could be a relevant for service providers' service termination decisions as they might be less prepared to cancel the contracts of loyal customers and because long-term customers are often more profitable (Shet and Parvatiyar, 1995). We further include brand strength because premium

brands have greater margins and therefore less cost pressure to cancel less profitable contracts (Lodish and Mela, 2007). Finally, the industry dummies account for different degrees of adoption of service contract termination across service industries. We report the results of the first stage selection model in Appendix 1. On the basis of this model, we calculate the Heckman correction factor or inverse Mills ratio  $\lambda_i$ . In a second step, we add the inverse Mills ratio as a predictor of NWOM to the model presented in equation (1) using the termination sample ( $N = 245$ ) for hypotheses testing.

### *Results*

Prior to calculating the interaction terms and to estimating the models we mean-center all continuous variables to facilitate interpretation. As we show in Table 4, we estimate a range of different models with or without industry-fixed effects, the Inverse Mills Ratio, and moderating effects. There are no notable differences between the parameter coefficients across these different models. Model 6 performs the best in terms of R2. Therefore, we focus on Model 6 for hypotheses testing. The largest variance inflation factor in this model is 3.71, indicating that multicollinearity is not a concern (Craney and Surles, 2002).

The results reveal which service contract termination initiatives are generally effective for reducing NWOM and which initiatives are not. Preannouncement has the desired negative and significant effect on NWOM ( $\beta = -.16; p < .05$ ), supporting H1. In contrast, providing an explanation ( $\beta = .13; p > .10$ ) has no significant effect, which is why we reject H2. The results suggest that financial compensation enhances NWOM rather than decreasing it ( $\beta = .35; p < .05$ ), hence we reject H3. A potential explanation for this finding could be that in practice the amounts offered as financial compensation are generally too low, leading to a backfiring effect (Lepthien et al., 2017). This is also in line with the remarkably low mean reported in Table 3. Apology also

has no significant effect ( $\beta = -.02; p > .10$ ), leading us to reject H4. Support in finding an alternative provider significantly reduces NWOM ( $\beta = -.46; p < .01$ ), in support of H5. Thus, all else being equal, the data suggest that in practice only preannouncement and support in finding an alternative provider are effective in reducing NWOM following service termination, while financial compensation even fuels NWOM.

Given that two of the five initiatives do not have a significant main effect on NWOM in general, the hypothesized moderating conditions could be critical. Indeed, the analysis reveals that some of the service contract termination initiatives perform particularly well under certain conditions (Table 4). We find no significant moderating effect of relationship duration on the link between preannouncement and NWOM ( $\beta = .00; p > .10$ ) and thus we reject H6. However, we do find a significant negative moderating effect of relationship duration on the link between explanation and NWOM ( $\beta = -.02; p < .05$ ), in support of H7. Hence, the longer the relationship with the customer, the more effective providing an explanation is in reducing NWOM.

We find a negative moderating effect of competitive intensity on the link between preannouncement and NWOM ( $\beta = -.16; p < .01$ ), in support of H8. Hence, when competitive intensity is low service providers should support their customers in finding an alternative provider. To mitigate NWOM when competitive intensity is high, service providers should offer a preannouncement. Since the results neither provide evidence of a significant moderation effect of competitive intensity on the link between financial compensation and NWOM ( $\beta = .12; p > .10$ ) nor on the link between apology and NWOM ( $\beta = -.12; p > .05$ ), we reject H9 and H10. In support of H11 we find a significant positive moderating effect of competitive intensity on the link between support in finding an alternative provider and NWOM ( $\beta = .19; p < .05$ ).

[Insert Table 4 about here]



*Follow-up study*

While the main study offers external validity by drawing on cross-industry survey data about real-life customer experiences and rigorously controls for sample selection and important alternative explanations, it does not allow us to test for causality. Consequently, we increase the internal validity of our findings by further examining whether the service contract termination initiatives cause NWOM by manipulating each initiative separately in a series of experiments.

*Design, Sample, and Procedure.* We use a series of  $1 \times 2$  (low versus high) between subjects experiments, each of which manipulates the level of one of the 5 initiatives for a total of 10 conditions. We collect data using Amazon's Mechanical Turk (MTurk) among U.S. American consumers who completed 100+ tasks (HITSs) with an approval rate of 99+ (ensuring a high degree of task accuracy) and offered an incentive of US\$1.50.

We use a scenario approach because it enhances internal validity when studying reactions to negative experiences (Smith et al., 1999). Adapting the procedures and materials from Haanel et al. (2019), we choose roadside assistance memberships as a setting. Participants are instructed to imagine one of the ten scenarios. First, all participants are told they have a service contract with the fictive roadside assistance Auto Direct and are eligible to call upon two services. They are also told to imagine that they have made use of these services three times in the last membership year. Next, each respondent receives a letter terminating their membership including one of the experimental conditions. For manipulating preannouncement respondents are told to imagine that they have received an initial announcement either one month (low) or three months (high) prior to receiving the actual termination letter. For the explanation conditions, respondents received a termination letter including either a very limited (low) or a detailed explanation (high) on why their contract has been terminated. Financial compensation was manipulated by offering

consumers a compensation of either \$5 (low) or \$30 (high). We manipulated an apology by either offering a brief (low) versus a deep and sincere apology (high). Support in finding an alternative was manipulated by providing contact details of other roadside assistance services with no support hotline (low) versus including a support hotline (high).<sup>5</sup>

Across all conditions 552 randomly assigned respondents participate in the experiments. We remove systematic error variance and random noise using common data cleaning procedures to provide more accurate and powerful tests (Meyvis and van Osselaer, 2018).<sup>6</sup> We use an effective total of 498 participants (49.2% women) randomly assigned to the treatment groups.

*Measures.* We rely on established Likert-type scales (anchored by 1 = strongly disagree and 7 = strongly agree). After exposing respondents to one of the experimental conditions, we first measure scenario realism using the item “I believe that the described situation could happen in real life” (Homburg et al., 2012) before measuring NWOM with the two items “I would tell others about my bad experience to denigrate Auto-Direct to others” and “I would say negative things about Auto-Direct to other people” (Cronbach’s  $\alpha = .92$ ; Lepthien et al., 2017; Strizhakova et al., 2012). In order to control for within-group variance, we adapt several context-relevant controls from Haenel et al. (2019) and account for car importance (“Having a car is very important to me”), roadside assistance service involvement (“Roadside assistant services are very important to me”), and the availability of alternative ways of transport (“If needed, I can easily switch to alternative ways of transportation (e.g. public transportation, second car, get a ride, bicycle, walking) in my everyday life”). These factors could influence the importance of roadside assistance for the individual and thus explain differences in responses. We also control for previous critical

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<sup>5</sup> All scenarios are provided upon request.

<sup>6</sup> We exclude 54 respondents due to their failure to follow instructions (i.e., instructional manipulation checks) or unreliability in responses (i.e., identical ratings across all scales on one page that included reverse coded scales).

experiences (“Have you had an especially positive or negative experience with a roadside assistance lately?”), captured by “yes” or “no”) as these could influence the interpretation and evaluation of scenarios.

*Scenario Checks.* Participants perceive the scenarios as realistic ( $M = 5.88$ ,  $SD = 1.14$ ) and there is no significant main effect of the different groups on scenario realism ( $F(9,488) = 0.96$ ,  $p > .10$ ), confirming that the scenarios are being perceived as realistic across groups. All manipulation checks produce significant differences across groups, indicating that the scenarios work as intended: preannouncement (“Auto-Direct warned me early in advance about not renewing my membership”;  $M_{low} = 5.74$ ,  $SD = 1.41$  vs.  $M_{high} = 6.18$ ,  $SD = 1.06$ ;  $F(1,100) = 3.21$ ,  $p < .10$ ); explanation (“Auto-Direct explained the reasons causing my membership to not be renewed”;  $M_{low} = 5.62$ ,  $SD = 1.31$  vs.  $M_{high} = 6.37$ ,  $SD = 0.76$ ;  $F(1,97) = 12.06$ ,  $p < .01$ ); financial compensation (“Auto-Direct provided financial compensation for not renewing my membership”;  $M_{low} = 5.29$ ,  $SD = 1.26$  vs.  $M_{high} = 6.17$ ,  $SD = 0.81$ ;  $F(1,97) = 16.73$ ,  $p < .01$ ); apology (“Auto-Direct was sorry for not renewing my membership”,  $M_{low} = 4.16$ ,  $SD = 1.82$  vs.  $M_{high} = 4.91$ ,  $SD = 1.60$ ;  $F(1,96) = 4.78$ ,  $p < .05$ ); support in finding an alternative (“Auto-Direct supported me in finding an alternative provider or solution”,  $M_{low} = 5.22$ ,  $SD = 1.56$  vs.  $M_{high} = 5.82$ ,  $SD = 1.2$ ;  $F(1,98) = 4.68$ ,  $p < .05$ ).

*Results.* We conduct five univariate analyses of covariance (ANCOVA) to test the effect of each of the initiatives (low versus high) on NWOM, accounting for all control variables.<sup>7</sup>

Figure 4 visualizes means and confined intervals. In support of H1, we find a significant main effect ( $F(1,88) = 6.76$ ,  $p < .05$ ) with  $M_{low} = 5.22$  ( $SD = 1.59$ ) and  $M_{high} = 4.32$  ( $SD = 1.84$ )

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<sup>7</sup> Note that all results remain stable in direction and significance when we remove the control variables, except for the effect of support in finding an alternative which remains stable in direction but is not significant anymore. However, we align with prior research that suggests that controlling for within-group variance is critical in the experimental context chosen (Haenel et al., 2019).

indicating that a timely pre-announcement reduces NWOM. There is no significant main effect of explanation on NWOM ( $F(1,80) = .43, p > .10$ ), which leads to the rejection of H2. We find a marginally significant main effect of financial compensation on NWOM ( $F(1,84) = 2.90, p < .10$ ). High financial compensation ( $M_{\text{high}} = 4.29, SD = 1.94$ ) reduces NWOM compared to low financial compensation ( $M_{\text{low}} = 4.92, SD = 1.42$ ), in line with H3. There is no significant main effect of apology on NWOM ( $F(1,79) = .09, p > .1$ ), which is why we reject H4. Finally, we find a significant main effect ( $F(1,85) = 4.00, p < .05$ ) with  $M_{\text{low}} = 4.91 (SD = 1.89)$  and  $M_{\text{high}} = 4.31 (SD = 1.91)$  indicating that high (compared to low) support in finding an alternative reduces NWOM, in support of H5.

[Insert Figure 4 about here]

Overall, the results are consistent with the findings in the main study, suggesting that service contract termination initiatives are indeed critical for influencing NWOM. There is only one exception, where the results of the follow-up study are notably different from those in the main study, namely the effect of financial compensation on NWOM. We discuss this next.

### *Summary of findings*

In sum, the findings show that it matters how service terminations are delivered because different initiatives differ in their causal impact on NWOM (see Table 5 for a summary of focal results across the main study and the follow-up study). All else equal, the findings indicate that a preannouncement and support in finding an alternative service provider significantly reduce NWOM, while providing an explanation and extending an apology have no significant effect. The findings further suggest that financial compensation could be a two-sided sword. In line with Lepthien et al.'s (2017) initial suggestion, the amount offered as a financial compensation might be a decisive factor with low amounts of financial compensation providing counterproductive

results by increasing NWOM (as suggested in our main study) while more substantial amounts have the potential to reduce NWOM (as suggested by the follow-up study).

[Insert Table 5 about here]

The findings further suggest that tailoring service contract termination initiatives to suit customer needs under certain conditions (competitive intensity, relationship duration) is critical. In particular, an explanation is more effective in reducing NWOM if relationship duration is high. When competitive intensity is high, a preannouncement is more effective in reducing NWOM while support in finding an alternative is less effective.

## **Discussion**

While service contract termination is often necessary to improve average customer profitability, it can lead the targeted customers to seek revenge through NWOM, jeopardizing service providers' relationships with current and prospective customers. The pressing question for service providers thus is, how can service contract termination forestall negative repercussions? We respond to this question, offering valuable answers to researchers and practitioners, as we detail next.

### *Research implications*

*Service contract termination is a service delivery task.* Given the criticality of service contract terminations for customers' daily life and the emotional and economic consequences it entails for them, we argue that researchers should conceptualize service contract termination as a service experience. The key implication is that contract termination becomes a form of service delivery guided by customer needs that can be addressed by different initiatives. This is an important extension of prior research, which has exclusively treated service termination as a stand-alone event, not as a service in itself (e.g., Haenlein and Kaplan, 2011; 2012).

*Initiatives should aim to improve the contract termination process and its outcome for the customer.* Adopting the service delivery perspective, this is the first study to consider the process of delivering the service termination and not only its outcome. As we find that process-related initiatives offer important means to reduce NWOM, we recommend that researchers interested in not only service contract termination, but also in related areas such as service demotion (Wagner et al., 2009) and status endowments (Eggert et al., 2015), broaden their perspectives to include process-oriented initiatives in addition to outcome-oriented initiatives. This would allow for a more balanced consideration of initiatives.

*The choice of service contract termination initiative matters.* This study reveals remarkable differences between the effectiveness of initiatives commonly used in practice to reduce NWOM following service contract termination. While some initiatives prove to be generally effective (preannouncement and support in finding an alternative), others turn out to be generally ineffective (apology), while some can even be harmful (financial compensation). Consequently, we recommend that researchers account for a balanced set of initiatives rather than focusing on a single initiative, or those that have a negative outcome.

*Industry specifics and relationship specifics provide useful guidance for defining the best set of initiatives to deliver a better contract termination experience.* Prior research has not accounted for contextual factors of the effect of contract termination initiatives on NWOM of customers whose own contracts have been cancelled. This study is the first to uncover significant potential to improve service contract termination by adapting to specific situations. Particularly, we show that some service termination initiatives are more effective to reduce NWOM (preannouncement and support in finding an alternative) while others are only effective under certain conditions (explanation). We would welcome more research on the role of moderators for

the effects of service contract termination initiatives on customer response variables.

### *Managerial implications*

Service contract termination triggers NWOM (Lepthien et al., 2017; Haenel et al., 2019). We demonstrate what service providers can do to reduce NWOM when they terminate service contracts.

*The delivery of service contract terminations matters.* The study shows that it makes a difference if providers embed a service contract termination in a set of initiatives that aim to improve the contract termination experience for the customer. If done well, service providers benefit from significant reductions in NWOM.

*Service contract termination initiatives are underutilized by service providers.* The survey results indicate that providers underuse service termination initiatives. Means of customer perceptions of contract termination initiatives range between 1.75 and 3.87 on scales anchored from 1 to 7, where 7 is the highest (Table 3). The results thus imply that service providers have great potential to reduce NWOM by following the concrete guidance we offer next.

*How to deliver a service contract termination that avoids NWOM.* There is a stark contrast between the effectiveness of some service termination initiatives and their underutilization in managerial practice (as indicated by relatively low means in Table 3). The good news is that effective initiatives are relatively easy to implement. The study's findings can be distilled into a list of dos and don'ts for providers who terminate customer contracts:

- Make support in finding an alternative the first cornerstone of service contract termination delivery. This initiative reduces NWOM and is particularly effective in less competitive environments.

- Make preannouncement the second cornerstone of service contract termination delivery. It is particularly effective in more competitive environments and does no harm when competition is low.
- Offer an explanation for customers with high relationship duration.
- If financial compensation is offered, it should be substantial. It has the potential to increase NWOM if it is not substantial.
- Make apologies with appropriate use of politeness, but do not expect any impact on NWOM.

### *Limitations*

This study provides fruitful avenues for further research. First, while we discovered initiatives that are successful and are currently used in service practice, other initiatives, which are not yet broadly adopted by management practice yet, could warrant research attention as they have potential for successful outcomes. For instance, service providers could distinguish between written and verbal execution, and they could adopt different tonalities. Second, we uncovered successful initiatives, yet neither investigate the cost to implement contract termination initiatives nor their financial implications via NWOM reductions. While our focus is on how to deliver service contract terminations once the decision has been made to end the contract, future research could incorporate such costs in models that guide the decision of whether and when contracts should or should not be terminated (Shin et al., 2012; Subramanian et al., 2013). Third, we find a significant positive effect of financial compensation on NWOM in the main study and a significant negative effect in the follow-up study, pointing to the possibility of a certain threshold of financial compensation that has to be exceeded before financial compensation effectively reduces NWOM. Identifying this threshold would be useful for service practice.



Further, while we controlled for manifold alternative explanations in the main study, the causal interpretation of the effects of the contract termination initiatives on NWOM relies on the plausibility of our identifying assumptions. Last, the sample of our main study is relatively small considering the number of regressors. Overall, we believe that further research into handling service contract termination to mitigate its negative consequences, such as NWOM, will yield important results for research and practice alike.

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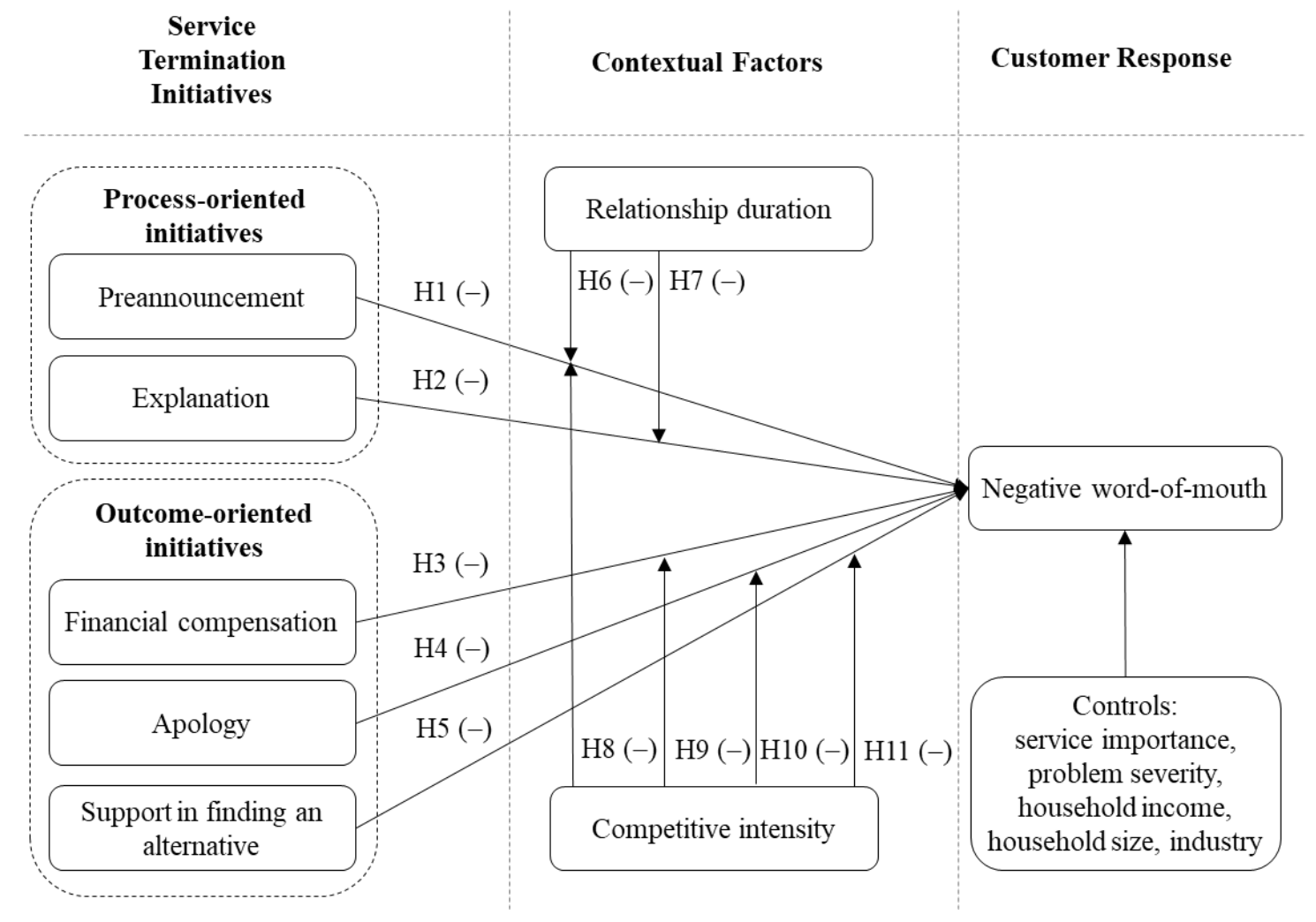
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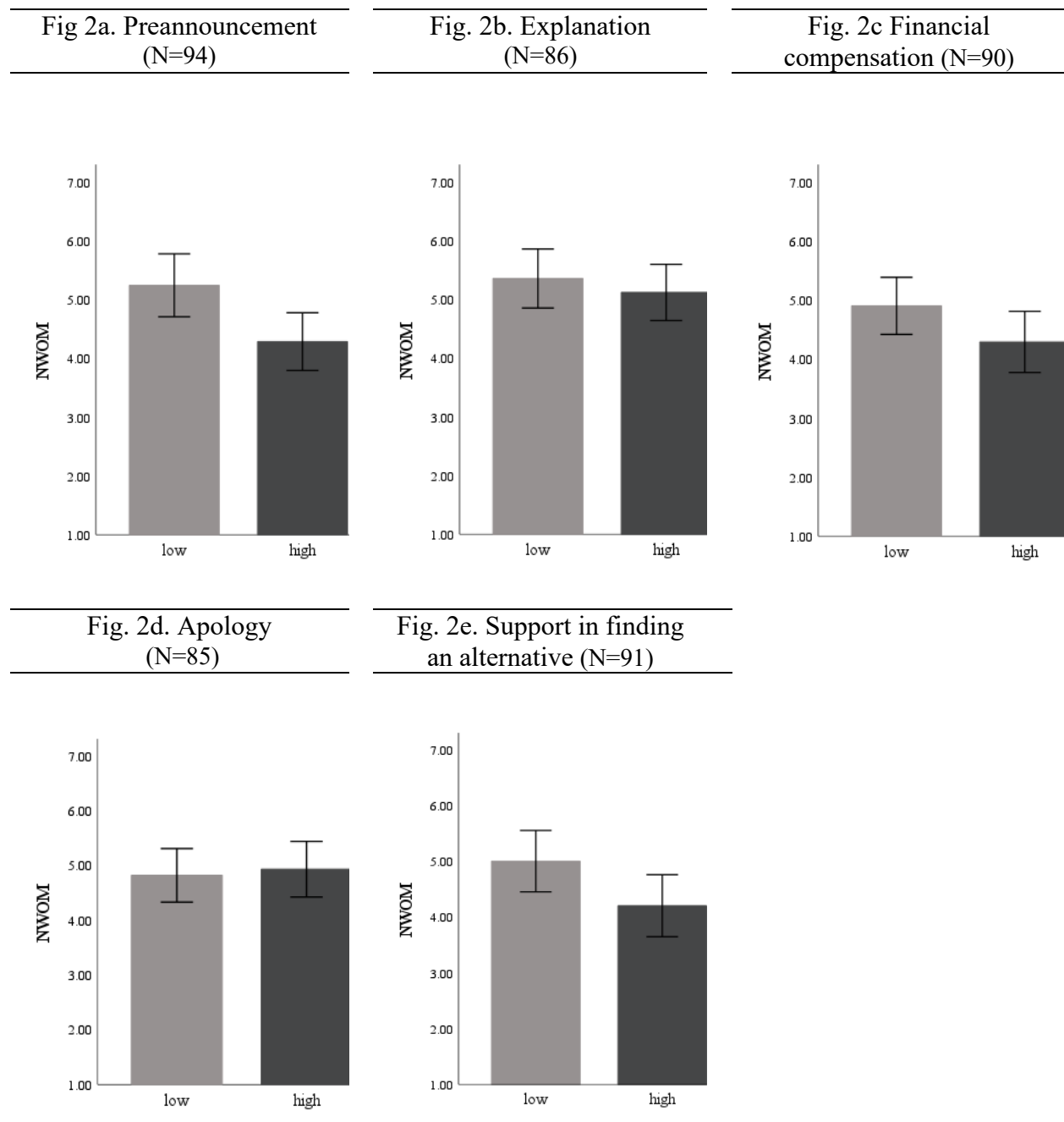
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**Figure 1.** Contextual factors are critical for the effects of service termination initiatives on NWOM



**Figure 2** Effect of initiatives on negative word-of-mouth

Note: Error bars: 95% CI

**Table 1** Empirical research about customer responses to the termination of their own service contracts is scarce

Study	Service Termination Initiatives					Moderators of the Effect of Service Termination Initiatives on NWOM	Key Dependent Variable	Key Findings
	Process		Outcome					
	Pre-Announcement	Explanation	Financial Compensation	Apology	Support in Finding an Alternative			
Lepthien et al. (2017)							NWOM	Service termination (versus no service termination) reduces brand attitude and enhances NWOM.
Haenel et al. (2019)			✓	✓			Desire for revenge	<ul style="list-style-type: none"> <li>• Service termination has a more positive effect on customer revenge (than customer demotion) when preinvestment satisfaction is high.</li> <li>• When financial compensation or an apology is offered, this interaction effect reverses.</li> </ul>
This study	✓	✓	✓	✓	✓	<ul style="list-style-type: none"> <li>• Relationship duration</li> <li>• Competitive intensity</li> </ul>	NWOM	<p>For customers whose service contract is being terminated:</p> <ul style="list-style-type: none"> <li>• All else equal, support in finding an alternative and preannouncement reduce NWOM.</li> <li>• When relationship duration is high, explanation is more effective in reducing NWOM.</li> <li>• When competitive intensity is high, preannouncement is more effective and support in finding an alternative is less effective in reducing NWOM.</li> </ul>

**Table 2** Sample composition

Industry	Percentage
Insurance	39%
Financial services	21%
Telecommunications	12%
Healthcare	6%
Online retail	4%
Roadside assistance	4%
Others	14%

**Table 3** Descriptive statistics and correlations

Measure	<i>M</i>	( <i>SD</i> )	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 NWOM	4.37	(2.22)	1.00														
2 Preannouncement	2.93	(1.99)	-.22	1.00													
3 Explanation	3.87	(1.98)	-.20	.45	1.00												
4 Financial compensation	1.75	(1.55)	-.05	.48	.29	1.00											
5 Apology	2.31	(1.73)	-.16	.43	.44	.68	1.00										
6 Support in finding alternative	2.00	(1.72)	-.27	.50	.39	.67	.68	1.00									
7 Relationship duration	8.72	(8.08)	.05	-.08	-.06	-.19	-.10	-.11	1.00								
8 Competitive intensity	4.71	(1.49)	-.05	.11	.14	.15	.15	.17	.04	1.00							
9 Household income	4.13	(1.66)	.12	.01	-.08	.06	.03	.02	.03	-.03	1.00						
10 Household size	2.27	(1.33)	-.05	.08	.11	.22	.20	.18	-.11	.07	.13	1.00					
11 Service importance	4.04	(2.14)	.02	.18	.06	.19	.16	.22	.09	.04	-.01	.09	1.00				
12 Problem severity	4.28	(1.95)	.24	-.08	-.08	-.03	-.06	-.04	.03	-.07	-.08	.13	.27	1.00			
13 Telecommunications dummy	.12	(.32)	-.04	.05	.00	.15	.12	.11	-.16	.05	.02	.06	.03	-.02	1.00		
14 Financial services dummy	.21	(.41)	-.12	-.06	.09	-.06	.04	.01	.10	.15	-.06	-.03	-.15	-.17	-.19	1.00	
15 Insurance dummy	.39	(.49)	.07	.04	-.10	-.17	-.20	-.22	.18	.00	.00	-.04	.18	.15	-.29	-.41	1.00

Note:  $p < .10$  for  $|r| \geq .11$ ; based on two-tailed t-tests.

**Table 4** Study results

Independent variable	Hypothesis	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6		Hypothesis support?
		CE	(SE)	CE	(SE)	CE	(SE)	CE	(SE)	CE	(SE)	CE	(SE)	
<i>Focal variables</i>														
Preannouncement (PreAn)	H1 (-)	-.14*	(.82)	-.14*	(.08)	-.14*	(.08)	-.18*	(.08)	-.17*	(.09)	-.16*	(.09)	✓
Explanation (Exp)	H2 (-)	-.05	(.08)	-.05	(.08)	-.05	(.08)	.14	(.12)	.13	(.12)	.13	(.12)	
Fin. compensation (FinComp)	H3 (-)	.40**	(.13)	.39**	(.13)	.39**	(.13)	.36*	(.16)	.34*	(.16)	.35*	(.16)	
Apology (Apol)	H4 (-)	-.01	(.12)	.00	(.12)	.00	(.12)	-.03	(.12)	-.02	(.12)	-.02	(.12)	
Sup. in find. an alternative (Sup)	H5 (-)	-.45**	(.12)	-.47**	(.12)	-.46**	(.12)	-.44**	(.13)	-.47**	(.13)	-.46**	(.13)	✓
<i>Interaction terms</i>														
PreAn × RelDur	H6 (-)							-.00	(.01)	-.00	(.01)	.00	(.01)	
Exp × RelDur	H7 (-)							-.02*	(.01)	-.02*	(.01)	-.02*	(.01)	✓
FinComp × RelDur								-.01	(.02)	-.00	(.02)	-.01	(.02)	
Apol × RelDur								-.00	(.01)	-.01	(.01)	-.01	(.01)	
Sup × RelDur								.01	(.01)	.01	(.01)	.01	(.01)	
PreAn × CompInt	H8 (-)							-.16**	(.06)	-.16**	(.06)	-.16**	(.06)	✓
Exp × CompInt								.00	(.05)	.01	(.05)	.01	(.05)	
FinComp × CompInt	H9 (-)							.12	(.11)	.12	(.11)	.12	(.11)	
Apol × CompInt	H10 (-)							-.12	(.08)	-.11	(.09)	-.12	(.09)	
Sup × CompInt	H11 (+)							.19*	(.09)	.19*	(.09)	.19*	(.09)	✓
<i>Control variables</i>														
Relationship duration (RelDur)								.01	(.02)	.01	(.02)	.02	(.02)	
Competitive intensity (CompInt)								.00	(.09)	.04	(.1)	.04	(.10)	
Household income		.18*	(.10)	.18*	(.08)	.17*	(.08)	.19**	(.08)	.18*	(.08)	.17*	(.08)	
Household size		-.14	(.07)	-.14	(.10)	-.14	(.11)	-.17	(.11)	-.17	(.11)	-.18*	(.11)	
Service importance		.02	(.07)	.02	(.07)	.03	(.07)	-.02	(.07)	-.00	(.07)	.01	(.07)	
Problem severity		.27**	(.13)	.27**	(.07)	.27**	(.07)	.26**	(.07)	.25**	(.07)	.26**	(.07)	
Heckman selection correction						-.04	(.51)					-.49	(.61)	
Industry dummies				Included		Included				Included		Included		
R <sup>2</sup>		.20		.21		.20		.25		.26		.27		

\* $p \leq .05$ ; \*\* $p \leq .01$ . CE=coefficient. SE=standard error.

Notes: Significances are based on one-tailed t-tests. Parameter coefficients are non-standardized. Please note that negative effects are desirable (NWOM is effectively reduced) whereas positive effects are undesirable (NWOM is increased).

**Table 5** Summary of findings for the effect on NWOM

Independent variable	Hypothesis	Significant effect	
		Main study	Experiment
<i>Focal variable</i>			
Preannouncement	H1 (-)	✓	✓
Explanation	H2 (-)		
Financial compensation	H3 (-)		✓
Apology	H4 (-)		
Support in finding an alternative	H5 (-)	✓	✓
<i>Focal interaction term</i>			
Preannouncement × Relationship duration	H6 (-)		--
Explanation × Relationship duration	H7 (-)	✓	--
Preannouncement × Competitive intensity	H8 (-)	✓	--
Financial compensation × Competitive intensity	H9 (-)		--
Apology × Competitive intensity	H10 (-)		--
Support in finding an alternative × Competitive intensity	H11 (+)	✓	--

Notes: -- indicates not applicable.



## Appendix 1

### Examples of service termination incidents

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#### **"Banned by Amazon for returning faulty goods"**

Computer programmer Greg Nelson is a self-confessed Amazon addict, buying hundreds of items on its site. But after sending back 37 faulty items of 343 purchased, the online giant has blocked his account with immediate effect – and told him he would lose a gift card balance that he had on the account. This is just one case of many.

Source: The Guardian, 18 March 2016.

#### **"Bouncing out of the banking system"**

Each year, millions of Americans have checking and debit accounts that are involuntarily closed by their banks. For example, in 2005 about 6.4 million accounts were involuntarily closed, and more than 30 million accounts were involuntarily closed over the prior five years. Virtually all of these closures were because the account holder had repeated overdraft or non-sufficient funds activity.

Source: Journal of Banking and Finance, Volume 36, Issue 4, 2012.

#### **"State Farm cancels thousands in Florida"**

The largest homeowners' insurer in Florida is canceling the policies of 125,000 of its most vulnerable customers beginning Aug. 1, halfway through the 2010 hurricane season. The company, State Farm Florida, began sending out cancellation notices this week to nearly a fifth of its 714,000 customers, most of them in the state's hurricane-prone coastal regions.

Source: NBC News, 2 March 2010.

#### **"AAA drops member for too many service calls"**

Auto club members pay a yearly fee to have the peace of mind they'll be there in case of a breakdown – but calling them too often could put the brakes on your membership. Donna Carbone was a AAA member for several years, along with her daughter and grand-daughter, but last week she received a letter from the auto club saying her membership was being canceled because of excessive usage. "I was taken by surprise. You get AAA to use it, but I didn't realize you were penalized to use it," she explained.

Source: WPRI eyewitness news, 27 Aug. 2014.

#### **"Sprint drops clients over excessive inquiries"**

Sprint Nextel is terminating the contracts of subscribers who call customer service too much. The country's third-largest wireless provider, has sent letters to about 1,000 subscribers terminating their contracts. These were customers who paid their bills on time, but called the Sprint Customer Service department all-the-time, an average of 25 times a month.

Source: The Wallstreet Journal, 7 July 2007.

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## Appendix 2

### Results of Heckman Selection Model

Independent variable	Parameter coefficient (SE)
Household income	.07† (.04)
Household size	.04 (.05)
Relationship duration	-.03** (.01)
Perceived brand strength	-.25** (.04)
Telecommunications dummy	-.75** (.21)
Financial services industry dummy	.32 (.22)
Insurance industry dummy	.49* (.20)
Roadside assistance dummy	.69† (.41)
Healthcare dummy	.23 (.34)
Online retail dummy	-.47 (.29)
Pseudo R <sup>2</sup>	.19

†  $p \leq .10$ ; \* $p \leq .05$ ; \*\* $p < .01$ .

# Handle with care! Service contract termination as a service delivery task

Hess, A

2022-06-12

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