

## *Customer Disloyalty as a Function of Organization Disloyalty*

Reciprocity is the price of customer loyalty. A recent study of more than 1,600 respondents across Canada shows that customers are likely to be “disloyal” when an organization fails to honour the social norms it has adopted.

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**O**rganizations tend to think of customer loyalty and disloyalty as functions, solely, of what a customer does. As a result, all efforts to increase customer loyalty tend to be focused on the customer's behaviour rather than the organization's. However, there are reasons to believe that customer disloyalty is often the result of organization disloyalty to the customer.

To fully understand the nature of disloyalty, we first need to understand the difference between *market norms* and *social norms*. Business transactions are simple exchanges between two players: the firm and the customer. Both parties enter into

a transaction for their own benefit: the firm gets financial reward, and the consumer gets the product or service he or she needs. The firm has the right to set the price and terms for its products or services, and the consumer has the right to accept or reject them. Such business transactions are based on what are known as *market norms*.

Market norms are not personal in nature. In following market norms, businesses attempt to maximize economic gains, while consumers attempt to optimize the benefits they can derive from a transaction. Neither party is particularly interested in helping, or hindering, the other.

When transactions follow market norms, firms owe nothing to the consumer, except what is agreed upon and what would be considered reasonable. Similarly, the consumer owes nothing to the firm. As a result, consumers are free to switch firms when they encounter better offers.

When the transaction is purely business, there is no rationale for a consumer to continue to fly Airline A if he or she can get the same service at a lower cost from Airline B. The logic of market norms provides no enduring basis for customer loyalty in a business transaction. Other things being equal, there is no reason why a customer should continue to patronize the same firm when a better offer is on the table.

This situation poses a problem for firms. Each transaction, in essence, becomes a new sale, with attendant marketing costs. (What is presented here is an obvious oversimplification. Many customers stay with the same firm for a number of other reasons, such as the costs associated with the switch, attendant inconvenience, or simple inertia. In addition, if a firm consistently follows market norms, its businesslike approach can create consumer trust and thereby create loyalty. However, for the time being, we will put aside these considerations for the purpose of understanding the nature of market and social norms.)

Under these conditions, can a firm persuade a customer to stay on, even though the deal offered may not be the best from a business perspective? Is there a way in which a firm can entice a customer to go beyond market norms? Can a firm persuade the customer to stay on, even though an apparently better deal is available elsewhere?

Research in social psychology and behavioural economics suggests that the desired objectives can be achieved by

moving from market norms to *social norms*, in which transactions are not precisely matched in terms of their economic value. The birthday present you bought for your friend may have cost you \$80, and the present she bought for you may be worth \$57. However, the transaction is a social one, and – unlike the situation in a business transaction – you would not feel that you have been short-changed, since social norms are not economics-based. In fact, in most cultures, it would be unacceptable to evaluate the monetary worth of social transactions.

Such social norms may be extended to organization-customer relationships. For example, a bank might state (or imply) that it intends to use social norms as a reciprocal gesture in its dealings with loyal customers. This could mean many things to customers: if they have been loyal to the organization, they might anticipate that some service charges could be overlooked, that loans could be arranged faster, that some rigid rules could be relaxed, and so on.

## TRUST AND LOYALTY

To better understand the relationship between what an organization does and how it influences a consumer, we need to understand the role of *consumer trust*. Trust can be defined as a belief that the partner in an exchange is benevolent and honest (Doney & al.; Geyskens et al.). Consumer trust in an organization confers many rewards for the organization. Grayson et al. identify the ways in which an organization can increase customer loyalty (Augustin & Singh) and commitment (Jap & Ganesan), encourage greater usage (Maltz & Kohli), and reduce consumer opportunism (Rindfleisch & Moorman).

The effect of trust is widespread and varied: it can affect the way consumers respond to an organization's promotions (Hulme), maximize the acceptance of advice provided by the representatives of

a financial organization (Starkman), and even increase the likelihood that consumers will accept vaccinations offered by a pharmaceutical organization (Burton). Because trust in an organization positively influences consumer behaviour – fostering loyalty, for example – trust is an important component of organization performance.

Both social norms and market norms can create trust, provided they are followed consistently. Problems arise when an organization assumes social norms, because of their many benefits, and then reverts back to market norms when it is expected to engage in reciprocal behaviour.

This kind of problem is well illustrated in the situation studied by Gneezy & Rustichini, as reported by Don Ariely. A few years ago, a daycare facility in Israel introduced a fine as a deterrent to mothers who showed up late to pick up their children. The reasoning behind the fine was straightforward enough: If mothers were forced pay for their tardy behaviour, they would show up on time to pick up their children. However, the strategy had exactly the opposite effect. Fewer mothers picked up their children on time.

When there were no fines, mothers felt guilty about making caregivers wait, and they tried to be on time as much as possible. However, once a fine was introduced for late pickups, they felt less guilty about being late because they were “paying” for their lateness.

Even more interesting was this unanticipated outcome: When the daycare centre noticed the ineffectiveness of levying a fine, it ended the levy. Yet mothers continued to arrive late, as late as when fines were in force. In fact, there was a slight increase in late pickups now that no social norms were present and market norms imposed no penalty. As Ariely puts it, “When a social norm collides

with a market norm, the social norm goes away for a long time.”

Thus, once social norms are replaced by market norms, it is very difficult to go back to social norms. This has an obvious parallel in the business world: When companies adopt social norms and later revert to market norms, the reversion can have deleterious effect on consumer trust, which can, in turn, lead to customer disloyalty.

## ADOPTING SOCIAL NORMS: REWARDS AND PERILS

Since the 1980s, businesses have been gradually adopting social norms to make consumers act in the companies’ interests, and reaping all the benefits that flow from the adoption of those norms. Even the words they use evoke social norms. It’s not a “usage” card, but a “loyalty” card. We wait on the telephone for an hour, not because the organization doesn’t think our call is important enough to have a human being answer it, but because, as the organization assures us, “Your call is important to us.” Telephone charges are increased, not to benefit the firm, but to provide you with “even better service.” Financial organizations increase their hours of operation, not to increase their profits, but to provide better service to customers.

Adopting social norms can be rewarding to companies, but it does not come free of obligations. When companies adopt (or are perceived to adopt) a social norm and later renege on it, they can inadvertently create disloyal customers. In other words, customer disloyalty can be seen as a reaction to organization disloyalty.

Reframing market norms as social norms may work for a while, but not for long. The main reason is that social norms require reciprocation. If customers have been “loyal” to an organization, they expect something in return,

FIGURE 1: CELLPHONE SCENARIOS

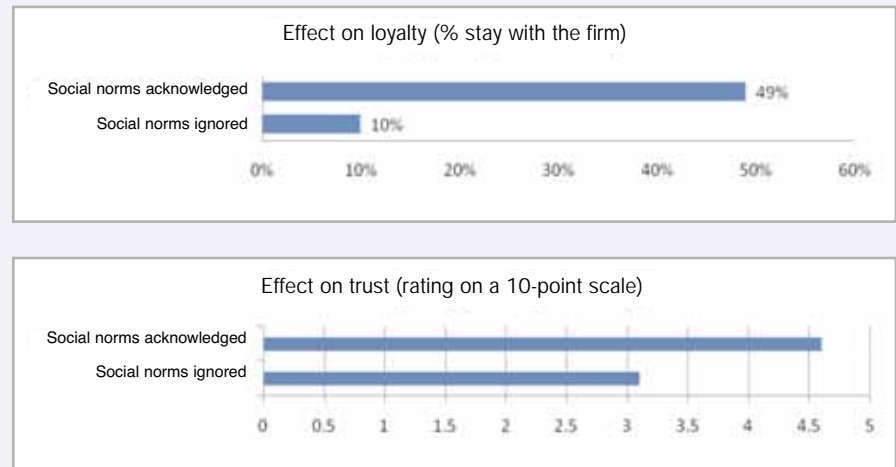


FIGURE 2: AIRLINE SCENARIOS

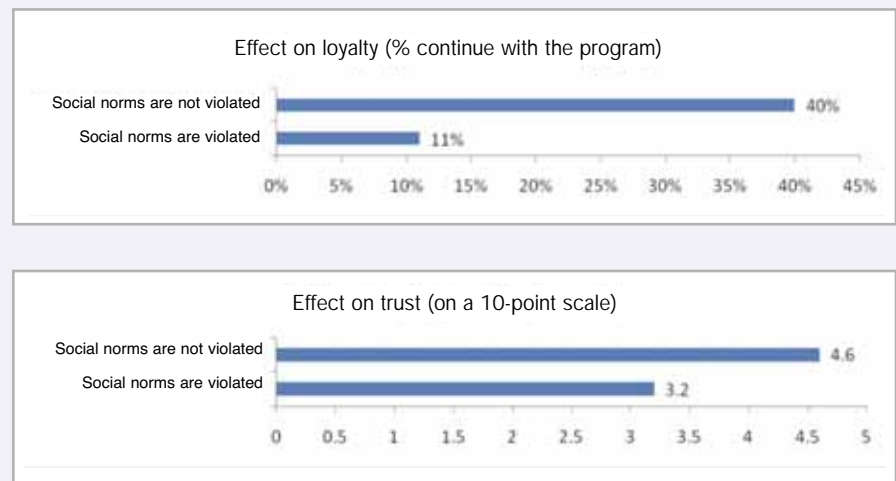
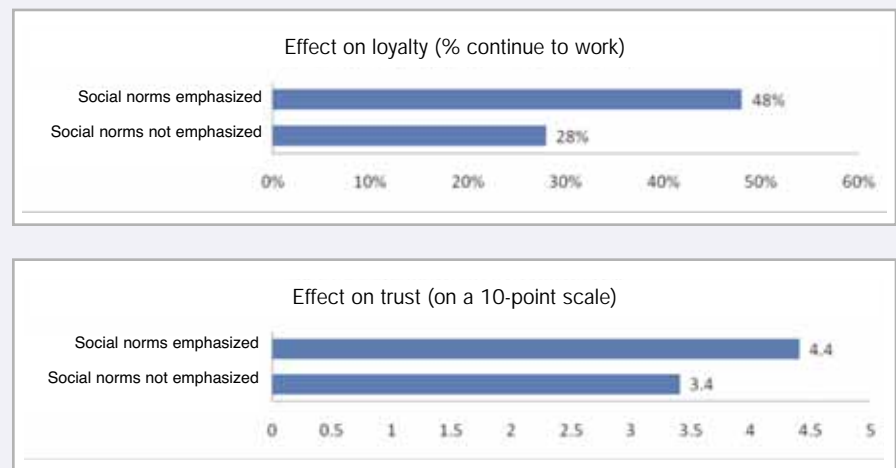


FIGURE 3: INTERNAL COMPANY SCENARIOS





because that return is part of the implied social contract – if I look after your interests, I expect you to look after mine. This is the basis of social norms.

When a firm has a recorded message that says, “Your call is important to us,” and keeps the customer waiting for an hour ... when a firm says it values employee loyalty but doesn’t hesitate to get rid of a loyal worker because of “restructuring” ... when a firm provides more benefits to new and potential customers than to those who have been loyal, the implied contract is breached. The breach of social norms leads to lack of trust. This lack of trust, which originates in organization disloyalty, is often seen by the organization as customer disloyalty.

Are the effects of faking social norms worse than the effects of simply using business norms? Current research shows that the answer to this question is yes. When business norms prevail, customers may not be “loyal” to the firm, but the firm is not further burdened with customer distrust. However, when firms act as though they are following social norms, as opposed to market norms, and then fail to live up to their end of their bargain (by looking after customers’ interests, for example), not only will customers revert to business norms, but they will be less trusting of the firm’s business promises.

Much of the above discussion is based on findings from social psychology (for example, see Cialdini). The position we take here is that much of customer disloyalty can be traced to firm disloyalty (to customers). Both consumer loyalty and trust are negatively affected when a firm adopts social norms and then abandons them when it is in the firm’s short-term interest to do so.

#### METHOD

To test these propositions directly, we analysed some of the tactics used by

prominent companies that have customer loyalty programs and often imply in their ads that they reward loyal customers or loyal employees. We further identified instances in which the same companies appear to breach social norms. We then created alternative hypothetical scenarios to test how people would react if the situations were handled differently. (While we don’t identify the organization by name, the hypothetical scenarios we set up were based on actual claims made by firms and on instances of subsequent breach of social norms.) These parallel scenarios were evaluated by two different sets of online respondents, with approximately 800 in each set, for a total of over 1,649 in all, distributed across all regions of Canada. We evaluated the effects of the organizations’ tactics on consumer loyalty and consumer trust.

#### STRATEGIES

Using social norms when the transactions are based on market norms poses some major problems. Social norms require not only reciprocity but consistency as well. What happens when the business interests of a firm make it nearly impossible to conform to social norms? As we have seen, reverting to market norms once social norms have been projected makes matters worse, because trust is broken (more on this later).

One strategy is to project only market norms. This is definitely superior to adopting social norms and later switching to market norms. The downside to this strategy is that, while it is relatively easy to establish trust based on market norms, it doesn’t necessarily build customer loyalty, especially in a competitive market. Further, since “customer satisfaction” and “customer loyalty” are constantly being touted – through advertisements and seals of approval, like those by J.D. Power – many customers generally expect firms to have social

norms. However, a firm can adopt strategies that combine market and social norms, so customers may continue to trust the firm. In this section, we will discuss a few of these strategies, with research findings to support them.

**Strategy 1: Placing social norms in a business context.** Application of social norms means that not every transaction between customers and the firm has to be perfectly balanced in terms of value. This approach makes the adoption of social norms attractive to businesses. However, applying social norms in a business context can sometimes be too expensive.

Consider a situation in which a cell organization offers 20 per cent off to new customers for the next twelve months. Should it give the same deal to all its current customers? Doing so would not make a lot of sense, because it would mean subsidizing by 20 per cent the entire customer base, the bulk of whom may not even be aware of the special deal. If the organization hopes to acquire 5 per cent more customers through this deal, subsidizing the entire customer base would reduce the total revenue by 20 per cent; it would not make business sense.

Is it possible to use business norms in this context without breaching social norms? To test this possibility, we created two alternative scenarios. In the first scenario, the firm fails to acknowledge social norms and reverts to market norms when it is advantageous for it to do so. The following scenario was presented to 824 respondents to determine its effect on loyalty and trust.

*A cell phone organization announces a highly reduced rate for new customers for the next twelve months. You have been a loyal customer of the organization for ten years, and you contact the organization to ask if you will be given the same deal. The*

*organization refuses. What would be your reaction?*

*You'll continue to use the organization's services, OR you will consider switching to another cellphone organization.*

*How much would you trust this cellphone organization? On a ten-point scale (where 1 is "do not trust at all" and 10 is "trust completely"), how would you rate this organization?*

To a group of another 820 respondents, we presented an alternative scenario. This scenario was identical to the first in that the firm does not accede to the request of the customer to provide the same deal. However, in this second scenario, the firm uses business norms without breaching social norms. Here is the second scenario:

*A cell phone organization announces highly reduced rates for new customers for the next twelve months. You have been a customer of the organization for ten years, and you contact the organization to ask if you will be given the same deal. The organization says that, for business reasons, it cannot do that. But since your business is valuable to the organization, you will be given a better deal than you have now. What would be your reaction?*

*You'll continue to use the organization's services, OR you will consider switching to another cellphone organization.*

*On the following scale, how much would you trust this cell phone organization? On a ten-point scale (where 1 is "do not trust at all" and 10 is "trust completely"), how would you rate this organization?*

The results proved interesting. When the social norm was taken into account, five times as many respondents (49%) said that they would continue to use the firm that acknowledged the social norm as opposed to the firm that did not (10%).

When the social norm was simply ignored, 81 per cent of respondents said that they would consider switching to another cellphone organization. However, when the social norm was acknowledged in terms of some alternative benefit to the customer (not even specified in the scenario), only about 44 per cent said that they would consider switching to another cellphone organization.

Even more importantly, the effect on the level of trust was also dramatic. Four times as many respondents trusted the firm that acknowledged social norms, compared to the one that didn't, giving the former a rating of at least 7 on a ten-point scale.

The results of these scenarios are presented in Table 1 and Figure 1.

TABLE 1: CELLPHONE SCENARIOS

	Would stay	Trust score	N
Social norms ignored	6%	3.1	824
Social norms acknowledged	23%	4.6	820

These findings suggest the first strategy for building loyalty and trust: *If business realities make it difficult to hold to the norm, it might be better to find a compromise between market norms and social norms than to abandon social norms completely.*

**Strategy 2: Reframing the offer to avoid breaching social norms.** Another common strategy used by firms is to present their offerings in very favourable terms, a strategy that tends to attract many new customers. An example of this is the use of airline points. Some airlines advertise that you can fly to a given destination with a certain number of points. Yet most customers cannot get this deal because it is the best case scenario, available on a first-come, first-served basis, perhaps a year in advance. Since this aspect of the deal is not advertised, customers are not generally aware that the

deal has some hidden conditions. Customers who believe that they can get this deal find that, by and large, they cannot. They may well feel they have fulfilled their part of the social norm by being loyal to the airline, but the airline is not being loyal to them in return: it is renegeing on the promised flight.

This strategy also adversely affects customers' trust in the firm. Could the firm keep the loyalty and trust of customers by reframing the offer? To test this possibility, we created two alternative scenarios.

In the first scenario, the firm makes it difficult for customers to understand why they cannot get the reward promised by the airline when the customer agreed to be loyal. The following scenario was presented to 826 respondents to determine its effect on loyalty and trust.

*An airline announces that you can fly to the destination of your choice for 50,000 airline points. But no matter when you try to book a flight, it always seems to be unavailable. However, you learn that seats are available fairly easily if you have 150,000 points. You also learn that to get a flight for 50,000 points you need to book your flight almost a year in advance. What would be your reaction?*

*You'll continue to use the airline's services, OR you will consider switching to another airline organization.*

*On the following scale, how much would you trust this airline organization? On a ten-point scale (where 1 is "do not trust at all" and 10 is "trust completely"), how would you rate this organization?*

A second scenario was presented to a group of another 823 respondents. The offer in the alternative scenario was identical to the first one in terms of content. However, in this scenario, the offer was reframed in such a way that the

offer more easily obtained by customers was presented first, along with information on how they could get a much better offer if they booked well in advance.

*An airline announces that you can fly to the destination of your choice for 150,000 airline points, a cost that you think is too high. However, the airline informs you that, if you book your flight almost a year in advance, you can get to the same destination for as little as 50,000 points. What would be your reaction?*

*You'll continue to use the airline's services, OR you will consider switching to another airline organization.*

*How much would you trust this airline organization? On a ten-point scale (where 1 is "do not trust at all" and 10 is "trust completely"), how would you rate this organization?*

By reframing the offer in terms of what customers could generally expect to get in return for their loyalty (rather than what they might get under unspecified special circumstances), the firm avoided breaching the social norm. Consequently, we expected the second scenario to be more appealing to respondents.

What did we find? Four times as many respondents (40%) said they would continue with the program when the alternative scenario was presented, compared to those (11%) who said they would stay with program offered in the first scenario. The intention to switch, which was 75 per cent in the first scenario, dropped substantially to 40 per cent in the second.

More importantly, the effect of the alternative scenario on the level of trust was dramatic. Three times as many respondents trusted the firm that was seen to honour social norms, compared to the firm that didn't seem to, giving the former a rating of at least 7 on a ten-point scale.

The results of these scenarios are presented in Table 2 and Figure 2.

TABLE 2: AIRLINE SCENARIOS

	Would stay	Trust score	N
Social norms violated	6%	3.2	826
Social norms honoured	19%	4.6	823

These findings suggest the second strategy for building loyalty and trust: *If a firm makes it easy for customers to see that social norms are honoured by the firm, customers are more likely to reciprocate by being loyal and keeping trust.*

**Strategy 3: Not emphasizing social norms.** Yet another strategy to prevent customer erosion is to avoid using social norms if they can't be kept. While there are many advantages to adopting social norms, social norms that are broken are far worse than business norms that are kept. We will illustrate this point using the relationship between a firm and its employees.

In the first scenario, the firm projects social norms by making the employees believe that their loyalty will be valued. Employees keep their end of the bargain by being loyal to the organization. Yet when the time comes, market norms dominate the decision of the firm, and an employee is let go. The following scenario was presented to more than 800 respondents to determine its effect on loyalty and trust.

*A colleague who works with you has been with the organization for many years. He has been told repeatedly that his loyalty is valued. Last year, he was laid off, when the organization moved some of its operations offshore, purely as a business decision. What would be your reaction?*

*You'll continue to work there, OR you will consider switching to another employer.*

*How much would you trust your organization? On a ten-point scale (where 1 is*

*"do not trust at all" and 10 is "trust completely"), how would you rate this organization?*

In the alternative scenario, exactly the same situation is presented. An employee who has been with the organization for many years is let go because it is in the interests of the business to do so. The only difference is that the firm was run on market norms and did not pretend to subscribe to social norms.

*A colleague who works with you has been with the organization for many years. The organization always treated its employees fairly but in a business-like fashion and with no promises. Last year, he was laid off, because the organization moved some of its operations offshore, purely as a business decision. What would be your reaction?*

*You'll continue to work there, OR you will consider switching to another employer.*

*How much would you trust your organization? On a ten-point scale (where 1 is "do not trust at all" and 10 is "trust completely"), how would you rate this organization?*

Our hypothesis here is that people are upset, not by the market norm, but by the representation of it as a social norm. If this hypothesis is correct, then erosion of loyalty and trust will be higher in the first scenario than in the second. Here is what we found.

Almost half (48%) of respondents said they would continue with the firm that projected the market norm, while only 28 per cent said they would stay with the firm that projected the social norm but later reneged on it. The corresponding intentions to switch employers were 56 and 38 per cent, respectively

The effect on the level of trust was equally illuminating. More than twice



as many respondents trusted the firm that did not use social norms as leverage to obtain loyalty, compared to the firm that did, giving the former a rating of at least 7 on a ten-point scale.

The results of these scenarios are presented in Table 3 and Figure 3.

TABLE 3: INTERNAL COMPANY SCENARIOS

	Would stay	Trust score	N
Social norms emphasized	8%	3.4	824
Social norms not emphasized	19%	4.4	821

These findings lead to our third strategy: *When it is known that it is not possible to keep social norms on a long-term basis or when there is no special benefit to adopting them, it is best to avoid social norms and adopt market norms.*

#### FINAL THOUGHTS

Even though this study is based on responses from more than 1,600 people and is supported by considerable other research in social psychology, we probably need more studies along these lines. While we argue that it is best to avoid using social norms when they cannot be sustained by a firm, we also realize that the reason why companies adopt social norms without thinking about the consequences is that the immediate rewards can be high.

However, given that reneging on social norms after adopting them affects consumer experience in profound ways, including loss of trust and loyalty, companies may want to rethink the perils of adopting social norms when it is not sustainable in the long run. The other alternative is, of course, to adopt social norms and stick with them, even when it is temporarily not cost-effective for the organization.

In short, we don't argue against companies adopting social norms and enjoying the benefits of doing so. But there is always a price to pay.

Customer defection can (and does) occur even when market norms are adopted and maintained. But what this study has shown is that, when market norms are adopted, the intention to defect is substantially lower than when social norms are adopted and then abandoned.

Social norms don't come with obvious price tags, but the benefits that accrue are not without costs in the long run. There is an unspecified cost: reciprocity. Reciprocity is the price a firm should be prepared to pay when it adopts social norms. If a firm is not willing to pay or cannot afford the price, it is in the firm's interest not to adopt social norms. There is no free lunch for companies any more than there is for its customers.

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