The effect of communication channels and innovation behaviour on trust and customer retention in personal selling

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Abstract:

The paper analyses how offline and online communication channels used by salespeople and innovation behaviour affect trust and customer retention. It has also been analysed how trust affects customer retention. For the analysis a PLS-SEM model was applied, which is appropriate for exploratory model construction, and robust even if the sample size is not so high.

Results highlight that both offline and online communication affect trust positively, so high-quality relationship-building – regardless the type of communication channel – can act as foundation of trust. A further finding reveals that online and offline communication affect customer retention, but offline communication affects it only in an indirect way, which means that offline communication has a primary trust-building role. Moreover, innovation behaviour affects trust and customer retention positively, which highlights the importance of innovation behaviour.

Keywords: personal selling, trust, innovation behaviour

Track: Sales Management and Personal Selling

1. Introduction

Boundary spanning plays an important role in creating network affects across institutions. Salespeople's – as primary boundary spanners – roles are however changing due to the emergence of online communication platforms that create more opportunities for purchasers to acquire information about suppliers. (see e.g. LinkedIn, 2017). In reaction, selling companies have heavily invested into online solutions opening new perspectives on effective communication (Becker, Greve, and Albers, 2009). At the same time however, it remains an open question whether, and how it influences face-to-face communication, an important asset for salespeople, and whether trust created this way is eroding? (Mantrala & Albers, 2013).

2. The Role of Offline and Online Communication in Trust and Customer Retention

Trust has numerous advantages that were analysed by several studies in the economics and marketing literature. The essentials of economic effects are that trust among actors decreases transaction costs in friction markets (see Williamson, 1989), and in case of systemwide trust such positive externalities are created that are favourable for all members of a network. Trust among market actors is not only an emotional phenomenon, but also a behaviour, where two companies, or members of a network draw conclusions from past behaviour. According to Anderson and Narus (1990), exact, frequent communication can be an element of this behavioural pattern, so it is presumed that…

H1: Offline communication has a positive effect on trust

The significance of online communication among business actors is unquestionable. In our sample, nearly every respondent used minimum two digital tools in communication. Online communication (e.g. through social platforms) is capable of networking (see Quinton & Wilson, 2016, or Pagani & Pardo, 2018), because many elements if it (reciprocity, sharing) is present, where the application of digital technologies connects new actors and enforces the relationship among them, where a new type of cooperation appears and common problem-solving, which results in increased trust. As a result, trust can be extended with new dimensions. Based on these effects it can be presumed that…

H2: Online communication has a positive effect on trust

Customer retention is generally a basic business aim, which is emphasized in several studies. Based on Vázquez Gallo, Estévez, and Egido (2014), the retention of the right

customers can result in significant additional profits for companies, and it can be supported by several tools. Jahromi, Stakhovych, and Ewing (2014) analysed the tools of customer retention in inter-organizational markets and they found that personalized, exact offers taken in the right time increase the possibility of customer retention. This information can originate from both online and personal sources like for example CRM systems and salespeople. Based on these effects it can be presumed that…

H3: Offline communication has a positive effect on customer retention

Cuervas (2018) analysed new trends in personal selling, e.g the changing technological environment and new communication technologies as significant phenomena. The conscious implementation of different online IT systems into business processes can contribute to the long-term maintenance of business relationships (Baraldi & Nadin, 2006). The maintenance of customer relationships depends on several factors, from which communication has a peculiar role. Jaiswal, Niraj, Park, and Agarwal (2018) analysed customer relationships in an online industry and based on their research the frequency and intensity of communication has a positive effect on these relationships. Based on these effects it can be presumed that…

H4: Online communication has a positive effect on customer retention

3. Innovation Behaviour of Salespeople and its Effect on Trust and Customer Retention

Kuester, Homburg, and Hildesheim (2017) analysed the integration of salespeople in new product development and they found that by the integration, salespeople succeed in raising customer trust. Based on Sichtmann (2007), the salesperson should satisfy two conditions to have the trust of his or her customer: he or she should be capable of and willing to supply the required product or service in the right quantity. As salespeople are becoming more capable of be aware of their increased role in new product development, in the new ways of service provision, and in the better satisfaction of customer needs and problems, this is how their role can be increased from the aspect of mutual trust (Bravo, 2014), so it can be presumed that…

H5: Innovation behaviour has a positive effect on trust

The possible advantages of innovation in an organization from the aspect of partner relationships is crucial, because eventually it is important to understand that with different capabilities (e.g. innovation capability, see Ryan & O'Malley, 2016), how can salespeople contribute to business opportunities in the long term. Salespeople need the knowledge about the customised characteristics of the product, and the sales-side knowledge of new product information, so as they can recognize and follow the needs of the customer segments they

want to serve (Kuester et al., 2017). Salespeople can provide several complementary, value added innovative insights as a reaction to customer needs, so it is presumed that…

H6: Innovation behaviour has a positive effect on customer retention

In certain cases (in case of market failures), transaction cost economics interprets trust as a factor that decreases costs and can support long-term cooperation and affects performance positively. Trust has an important role in buyer-seller relationship-building, as Dwyer, Schurr, and Oh (1987) highlights. Trust is an important element in inter-organizational relationships, and it influences relationship outcome, too (Ashnai, Henneberg, Naudé, and Francescucci, 2016). According to Gounaris (2005), trust that is based on high-quality customer service inspires the partners to continue the relationship. Therefore, the salesperson has an interest in the establishment of trust, so it is presumed that…

H7: Trust has a positive effect on customer retention

The interrelations of the hypotheses constitute the theoretical framework of the present study.

4. Data Collection and Sampling

Data collection took place in 2018 by a questionnaire following a face-to-face interview. Altogether 159 salespeople provided valuable results. Respondents were from multiple industries including FMCG, telecommunications, finance-insurance, car sales, and others. 66% of the respondents were male, 34% female with median age of 39 years and median sales tenure of 10 years.

To test the model, a specific type of the variance-based structural equation modelling was applied, namely PLS-SEM. Data analysis was conducted with ADANCO software (Dijkstra & Henseler, 2015). The exploratory nature of the research, and the small sample size both justified the use of PLS-SEM (see Hair, Sarstedt, Ringle, and Mena, 2012).

5. Measures and the Quality Criteria of the Measurement Model

In the present study, mostly those scales were applied that were pre-tested in international studies, or that were adapted to the peculiarities of personal selling. To measure the constructs of *offline and online communication*, the four-item communication scale of Jayachandran, Sharma, Kaufman, and Raman (2005) was adapted to salespeople, highlighting the difference

between offline and online channels. To measure *innovation behaviour*, the scale of Schwepker and Schultz (2012) measuring value-added behaviour was adapted to personal selling. This scale measures the degree to which the salesperson is innovative in the solution of customer problems and needs. To measure the construct of *trust*, the modified scale of Hawes, Mast, and Swan (1989) was applied. *Customer relationship performance* was measured by the five-item scale by Trainor, Andzulis, Rapp, and Agnihotri (2014) that measures customer retention related to the competitors. Every statement was measured on a 7-point Likert scale. The numerous adapted or modified scales involved the use of PLS-SEM.

On the one hand, convergent validity can be tested with standardized factor loadings that should be more than 0.5, but it is better to reach 0.7 (Hair et al., 2012). Dijkstra-Henseler's ρA values, the index of internal consistency reliability measure of constructs is high above the favourable 0.7 value in every case (Dijkstra & Henseler, 2015). The index applied to measure convergent validity is AVE (average variance extracted), where values should be more than 0.5 in case of each construct (Hair et al., 2012). AVE can be found in the diagonal of Table 1. Data meet the required criteria.

Discriminant validity was measured by the test of Fornell and Larcker (1981), where AVE measure should be in every case larger than the squared latent variable correlations of all other constructs. In Table 1, it can be concluded that this criterion meets the requirements.

Construct	Trust	Offline comm.	Online comm.	Innovation behaviour	Customer relationship performance
Trust	0,5822				
Offline communication	0,0880	0,7424			
Online communication	0,1102	0,0186	0,6688		
Innovation behaviour	0,0730	0,0016	0,0705	0,7716	
Customer relationship performance	0,1105	0,0391	0,1263	0,1193	0,7654

Table 1. Fornell-Larcker criterion

Source: own elaboration, based on ADANCO software

Note: AVE values can be found in the diagonal, values under the diagonal are the squared latent variable correlations of every construct.

Discriminant validity can be measured by a recently more and more frequently used measure, HTMT, which also builds upon the correlation among the factors (more precisely, upon the upper threshold of that correlation), and it can be concluded that two constructs differ from each other if HTMT is significantly less than one (Henseler, Ringle, and Sarstedt, 2015). Data meet this criterion.

In sum, enough statistical evidence was found to verify the existence of the five constructs, and to verify that the measured variables are appropriate indicators of the related factors.

6. Structural Model and Results

Only one model fit criterion is applied in PLS modeling, SRMR, which has a cut-off value of 0.08 (Hu & Bentler, 1999). The model delineated in this study has an appropriate model fit, because SRMR = 0.069. Based on the results it can be seen (Table 2 and Figure 2) that not every hypothesis was accepted.

Direct effects	Path coefficients	t-value	p-value
Offline communication -> Trust (H1)	0.2553	3.8060	0.0001
Online communication -> Trust (H2)	0.2455	3.0037	0.0014
Offline communication -> Customer relationship performance (H3)	0.1098	1.3679	0.0858
Online communication -> Customer relationship performance (H4)	0.2237	2.0023	0.0228
Innovation behaviour -> Trust (H5)	0.1948	2.3458	0.0096
Innovation behaviour -> Customer relationship performance (H6)	0.2380	2.9625	0.0016
Trust -> Customer relationship performance (H7)	0.1613	1.8633	0.0314

Table 2. Direct effects in the model
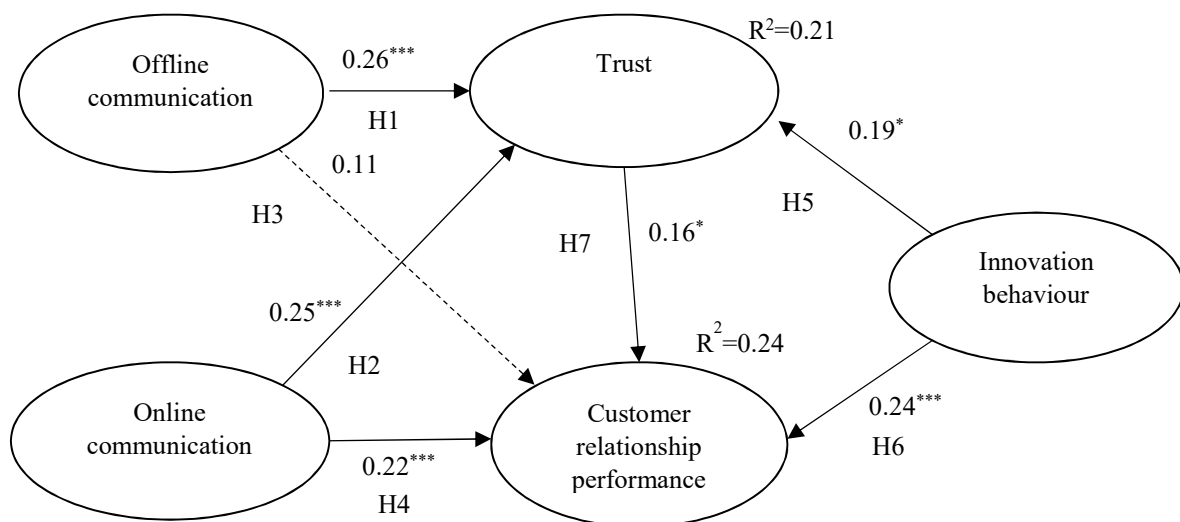
Source: own elaboration, based on ADANCO software

Both offline (β = 0.26) and online communication (β = 0.25) have positive effects on trust (H1, H2 are accepted). Moreover, the two different communication channels have around the same effect on trust. Active contact can be the basis of trust, independent from the way it happens (offline or online). The better the relationship quality is with customers, the more trust can be enforced between the seller and the buyer.

Whereas the direct effect of online communication on customer retention is significant (β = 0.22) (H4 is accepted), the direct effect of offline communication is not significant (β = 0.11) (H3 is rejected). If the total effect is considered (where indirect effect is included besides direct effect, which is the way through trust in this case), then the relationship is significant (β = 0.15; t-érték = 1.893; p-érték = 0.029), although the path coefficient is still not too high. Thus, offline communication does not have a direct effect on customer retention, although a statistically significant connection can be shown indirectly, through trust. It can be presumed that – in the opinion of salespeople – offline communication has primarily a trust-building nature.

Besides communication, innovation behaviour has a positive effect on trust ($\beta = 0.19$), namely the more innovative the salesperson is in customer service, the more trust can be increased between the two parties (H5 is accepted). Innovative behaviour is a signal that the salesperson not only pays attention to customer needs and problems, but also tries to solve these in an innovative way. This behaviour enforces trust, because it distinctly builds on cooperation, where the salesperson provides meaningful (value-added) help to its partners.

Innovation behaviour has a positive effect on customer retention, too ($\beta = 0.24$). This connection further enforces the importance of this construct. So, the more innovatively the salesperson serves its partners, the better customer relationship performance he or she will have (H6 is accepted).

Eventually, trust has a positive effect on customer retention ($\beta = 0,16$), although the path coefficient is not too high.

2. ábra. Structural model and results

Source: own elaboration, based on ADANCO software

Notes: Every path coefficient is standardized (***$p < 0.000$; *$p < 0.05$). The dotted line represents the falsified hypotheses.

7. Conclusions and Managerial Implications

Results show that both offline and online communication have a positive effect on trust and customer retention (although direct effect can not be shown on customer retention in case of offline communication). Consequently, active and high-quality relationship can be the basis

of trust-building, no matter if it happens personally or online. Besides, innovation behaviour also has a positive effect on trust and customer retention, which highlights the importance of salespeople's innovative behaviour.

From a managerial perspective, there is a growing dilemma related to offline and online channels, their interoperability, and their effect on trust and customer retention. There is no doubt that the traditional, offline communication of personal selling can be maintained in the long term efficiently only in case of a low number of partners, and in case of more partners, the significance of online channels is higher. At the same time, it is observable that the problem of harmonisation between offline and online channels is still not solved in Hungary. That is why the term high-quality communication is applied instead of frequent communication, because on the one hand, frequent interaction does not necessary mean deep relationship, and on the other hand, the type of relationship depends on the type of the customer.

It is also clear that for the creation of trust and customer retention, high-quality communication is not enough, but a certain kind of extra service provision is needed, like for example innovative behaviour. Innovative behaviour is highlighted because to work efficiently, it needs to be built upon quality cooperation, which is the basis of creating trust.

This research has several limitations. One of the most important limitations is the size and structure of the sample, and it should be considered that the constructs are based on the perceptions of salespeople. So, because the primacy of salespeople's perceptions constituted the analysis, it is advised to examine the problem at hand from the aspect of different actors (e.g. customers, sales organizations).

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