

# If It Ain't Broke, Don't Fix It? Understanding How an Inertia Mindset Mitigates the Effect of Service Failure on Customer Defection

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Cite as:

Marx Tobias (2023), If It Ain't Broke, Don't Fix It? Understanding How an Inertia Mindset Mitigates the Effect of Service Failure on Customer Defection. *Proceedings of the European Marketing Academy*, 52nd, (114287)

Paper from the 52nd Annual EMAC Conference, Odense/Denmark, May 23-26, 2023



# **If It Ain't Broke, Don't Fix It? Understanding How an Inertia Mindset Mitigates the Effect of Service Failure on Customer Defection**

## **Abstract:**

Implementing a customer relationship management (CRM) process can significantly improve a company's economic performance. However, the CRM process-economic performance link can be jeopardized by various moderating factors such as service failure. Against this background, the present study seeks to answer the question of whether a customer's inertia mindset can mitigate the effect of service failure on customer defection. To do this, we carried out an online survey including a one-factor between-subjects experimental design among 442 video streaming service customers. The results show that a customer's inertia mindset not only directly decreases defection intention, but also acts as a moderator by reducing the impact of service failure on defection intention. This finding has important implications for researchers and practitioners, which are further explored in this study.

*Keywords: Customer Defection, Inertia Mindset, Service Failure*

*Track: Relationship Marketing*

## 1. Introduction

CRM combines relationship marketing strategies and relevant technology applications to establish, develop and maintain profitable, long-term relationships with well-chosen customers (Boulding, Staelin, Ehret, and Johnston, 2005; Payne & Frow, 2005). Companies that successfully implement a CRM process consisting of relationship initiation, maintenance, and termination can significantly improve their economic performance (Reinartz, Krafft, and Hoyer, 2004). However, the CRM process-economic performance link is impacted by various moderating and mediating factors that can be internal or external to a company (e.g., Ernst, Hoyer, Krafft, and Krieger, 2011; Reinartz et al., 2004). One such factor is service failure, as service failure is one of the main reasons why customers end their relationship with a company (de Matos, Henrique, and Rossi, 2007). As a result, companies have a high interest in understanding how to recover from service failure (de Matos et al., 2007), and identifying customer characteristics that moderate the impact of service failure on customer defection (e.g., de Matos, Rossi, Veiga, and Viera, 2009). This study strives to identify whether a customer's inertia mindset can be such a moderating characteristic. More precisely, we seek to answer the following research question: *Can a customer's inertia mindset mitigate the effect of service failure on customer defection?*

We chose video streaming services (VSS) as our research context to answer this question for three reasons: First, as customers have access to a wide variety of VSS (e.g., Amazon Prime Video, Disney+, Netflix) that offer different types of tempting content, they regularly defect and switch between VSS (Arkenberg, Ledger, Loucks, and Westcott, 2021). Second, in the context of VSS, there are various types of service failure (e.g., in-stream malfunctions, inaccessible content, lag, long startup times) that are common reasons why customers defect (Krishnan & Sitaraman, 2012). Third, VSS usually offer a subscription-based payment method, which means that maintaining stable customer relationships is essential to their strategy (Choi, Moss, Nading, Reasor, and Remley, 2021).

## 2. Theoretical Background and Hypotheses Development

To investigate whether a customer's inertia mindset can mitigate the effect of service failure on customer defection intention – defined as *a customer's intended behavior of decreasing or ceasing usage of a firm's offerings* (Henderson, Steinhoff, Harmeling, and Palmatier, 2021) – in the context of VSS, we derive a conceptual framework based upon status quo bias theory (Samuelson & Zeckhauser, 1988) and customer inertia marketing theory (Henderson et al., 2021). According to Henderson et al. (2021), a customer's inertia mindset can be defined as *a set of assumptions and beliefs that justify a disposition toward maintaining the status quo by eliminating the need to consider other options or form new intentions*. Inert customers have an exaggerated preference for inaction, which makes them less likely to defect (Inman & Zeelenberg, 2002). We thus hypothesize that an inertia mindset decreases defection intention (**H<sub>1</sub>**).

Henderson et al. (2021) identify thinking minimization and regret minimization as the two antecedents of an inertia mindset. Thinking minimization can be defined as *cognitive resource conservation biases that limit a customer from exerting effort to consider options and form intentions* (Henderson et al., 2021). Evaluating different alternative VSS is tiring for customers, which is why they often minimize thinking by adopting a “satisficing” strategy instead of an “optimization” strategy to conserve their cognitive resources (Bawa, 1990; Chernev, 2004; Shugan, 1980). In line with the common expression “if it ain't broke, don't fix it”, one such “satisficing” strategy could be to simply stick to the incumbent VSS. We thus assume that thinking minimization facilitates an inertia mindset (**H<sub>2</sub>**).

Henderson et al. (2021) propose prior consumption consistency – defined as *the extent to which a customer's consumption behaviors are stable over repeated occasions* – as an antecedent of thinking minimization. Because consistent consumption is more accessible in memory, it facilitates a customer's natural inclination to minimize the cognitive effort required to make satisfactory decisions (Banerjee & Bandyopadhyay, 2003; Seethamaram, Ainslie, and Chintagunta, 1999). Thus, we hypothesize that prior consumption consistency increases thinking minimization (**H<sub>3</sub>**).

Regret minimization can be defined as *ego-protective biases that limit a customer from noting or considering potentially superior counterfactuals to consumption behavior they feel responsible for enacting* (Henderson et al., 2021). Regret is a negative, cognitively based emotion that customers experience, when realizing or imagining that their present situation would have been better had they acted differently (Zeelenberg, 1999). Defecting from their

current VSS would be a change with uncertain outcomes that customers are more likely to regret than the decision to maintain the status quo (Inman & Zeelenberg, 2002; Kim, 2013). We thus assume that regret minimization facilitates an inertia mindset (**H4**).

Henderson et al. (2021) propose prior consumption magnitude – defined as *the extent to which a customer’s prior consumption behaviors are substantial* – as an antecedent of regret minimization. A greater magnitude of past actions causes a greater potential for regret, which customers seek to minimize (Arkes, Kung, and Hutzell, 2002; Buchanan, Summerville, Lehman, and Reb, 2016; Tsiros, 2009). Thus, we hypothesize that prior consumption magnitude increases regret minimization (**H5**).

A service failure can be defined as *a service performance that does not meet a customer’s expectations* (Sparks & Fredline, 2007). Prior research has shown that the consequences of service failure include customer dissatisfaction (Hess, 2008), negative word-of-mouth (Weun, Beatty, and Jones, 2004), and customer defection (Keaveney, 1995). In line with previous research, we thus assume that service failure increases defection intention (**H6**).

As previous research has shown, the longer customers remain with a company, the more likely they are to assume innocent causes for failure and suppress negative responses (Harmeling, Palmatier, Houston, Arnold, and Samaha, 2015). Likewise, inert customers will downplay the negative implications of a service failure because they seek to justify their disposition toward maintaining the status quo. Thus, we hypothesize that an inertia mindset weakens the positive relationship between service failure and defection intention (**H7**).

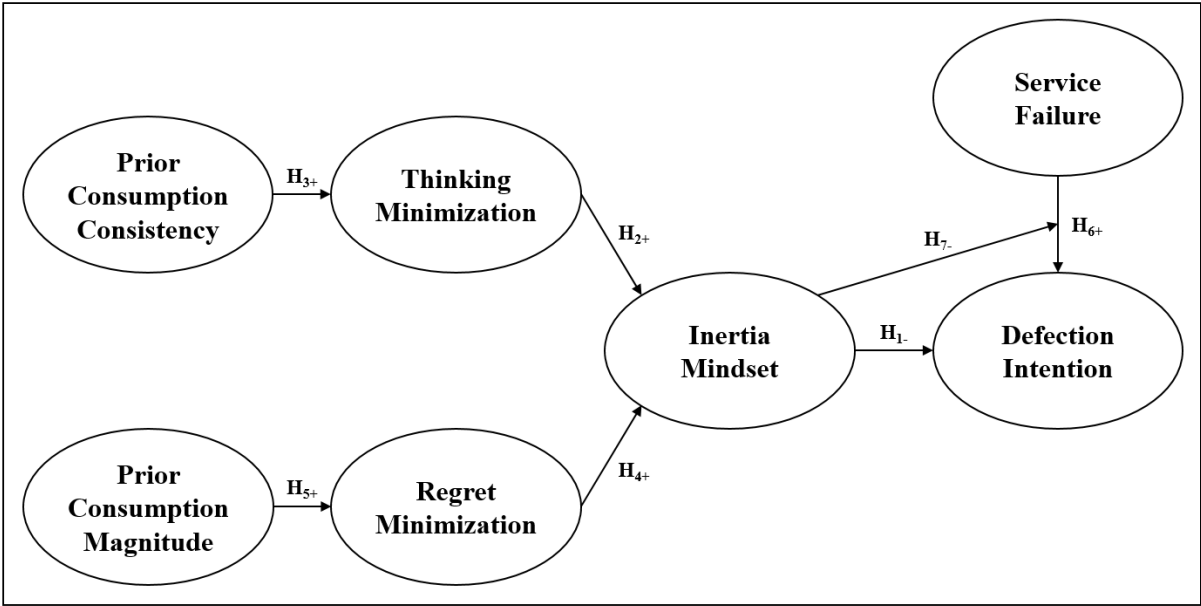


Figure 1. Research model

### **3. Method**

#### *3.1 Survey design*

To test our hypotheses, we developed an online survey including a one-factor between-subjects experimental design. After a screening question and a brief introduction to VSS, we asked participants to choose the VSS they currently use most, to which the survey subsequently referred [vss]. Thereafter, we surveyed the control variables (except for sociodemographics) and the research model's constructs. Hereafter, participants were randomly assigned to one condition (service success vs. service failure) displaying a scenario in which they experience an interaction with their VSS that either ends in success or failure. After that, we surveyed the dependent variable and sociodemographics. The scenarios were created based on previous literature (e.g., Hess et al., 2007). To circumvent comprehension issues with the scenarios and the survey in general, we conducted a cognitive pretest with 5 participants using the "think-aloud" method (Charters, 2003). Furthermore, we carried out a quantitative pretest with 34 participants to confirm scale reliability and validity as well as the perceived appropriateness and realism of the scenarios (Bagozzi et al., 2016). The results confirmed the suitability of the scenarios in this regard. Finally, the participants' perceptions regarding the service outcome (success vs. failure) were measured using the item "How would you rate the performance of the service encounter?" (scale ranging from (1) "very bad" to (5) "very good"). A Welch's unequal variances t-test confirmed that performance was perceived to be significantly better in the success condition than in the failure condition ( $M_{\text{success}}=4.10$ ,  $SD_{\text{success}}=0.73$ ,  $M_{\text{failure}}=2.09$ ,  $SD_{\text{failure}}=0.89$ ,  $t=26.05$ ,  $p<0.01$ ).

#### *3.2 Sample*

Participants using at least one VSS were recruited from the crowd-working platform Clickworker (<https://www.clickworker.de/>). To ensure high data quality, we applied a rigorous data cleaning process. Starting with 551 fully completed surveys, we first removed participants (-67) who failed at least one of the three methodologically different attention checks that were built into the survey at different stages (Aguinis, Villamor, and Ramani, 2021). Second, we removed participants (-42) based on their completion time for the survey using a relative speed index of 2 as the maximum threshold (Leiner, 2019). This results in a final sample of 442 participants ( $M_{\text{age}}=39.26$ ,  $SD_{\text{age}}=11.45$ , 76.70% male).

## 4. Results

### 4.1 Measurement model

The hypotheses were tested via covariance-based structural equation modeling in R (version 4.2.2) using the lavaan package (version 0.6.12). We follow the approach recommended by Anderson and Gerbing (1988) by first applying confirmatory factor analysis (CFA) to assess the measurement model, followed by the assessment of the structural model. Given that not all variables were normally distributed, we use the robust Satorra-Bentler scaled statistics for goodness-of-fit testing of both the measurement and the structural model to obtain more accurate results (Hu, Bentler, and Kano, 1992).

To measure the research model's constructs we adapted established scales from previous research (Henderson et al., 2021). Both inertia mindset ("When it comes to my status quo usage of [vss] versus other options, I feel 'if it ain't broke, don't fix it'.") and defection intention ("How likely are you to cancel your [vss] subscription over the next six months?") were measured with a single item. To validate the measurement model, we tested construct reliability and validity. The results (Table 1) show that all Cronbach's  $\alpha$  values exceed the recommended level of 0.7 (Nunnally, 1978), that all average variances extracted (AVE) meet the 0.5 cutoff required (Fornell & Larcker, 1981), and that composite reliabilities (CR) for each multi-item construct are greater than the recommended threshold of 0.6 (Bagozzi & Yi, 1988). Furthermore, the square roots of the AVE exceed the interconstruct correlations, indicating discriminant validity (Fornell & Larcker, 1981). Overall, the CFA model fits the data well ( $\chi^2/d.f.=2.269$ ; RMSEA=.054; SRMR=.030; TLI=.970; CFI=.980). Common method bias (CMB) was tested employing the marker variable technique (Malhotra, Kim, and Patil, 2006). The results suggest that CMB does not pose a problem in this study.

#	Constructs	$\alpha$	AVE	CR	Correlations/Square Roots of AVE					
					1	2	3	4	5	6
1	Prior Consumption Consistency	.831	.712	.831	<b>.844</b>					
2	Prior Consumption Magnitude	.933	.881	.937	.401	<b>.939</b>				
3	Thinking Minimization	.921	.755	.928	.196	.195	<b>.869</b>			
4	Regret Minimization	.927	.812	.928	.053	.106	.293	<b>.901</b>		
5	Inertia Mindset	n/a	n/a	n/a	.213	.067	.415	.304	<b>n/a</b>	
6	Defection Intention	n/a	n/a	n/a	-.327	-.249	-.215	-.015	-.164	<b>n/a</b>

Table 1. Assessment of the measurement model

#### 4.2 Structural model

The structural model (Table 2, Model 1) shows a good overall model fit ( $\chi^2/d.f.=2.417$ ; RMSEA=.057; SRMR=.088; TLI=.956; CFI=.967). The results (Table 2, Model 1) show that thinking minimization ( $\beta=.366$ ,  $p<.01$ , H<sub>2</sub>) and regret minimization ( $\beta=.209$ ,  $p<.01$ , H<sub>4</sub>) foster an inertia mindset, which has a negative effect on defection intention ( $\beta=-.129$ ,  $p<.01$ , H<sub>1</sub>). Moreover, the results indicate a positive effect of prior consumption consistency on thinking minimization ( $\beta=.213$ ,  $p<.01$ , H<sub>3</sub>) and a positive effect of prior consumption magnitude on regret minimization ( $\beta=.109$ ,  $p<.05$ , H<sub>5</sub>). With regards to H<sub>6</sub>, we find that service failure significantly increases defection intention ( $\beta=.271$ ,  $p<.01$ , H<sub>6</sub>). Finally, the results show that the interaction term of inertia mindset and service failure exerts a negative influence on defection intention ( $\beta=-.101$ ,  $p<.05$ , H<sub>7</sub>), which supports H<sub>7</sub>. To account for potential other explanations, we control for the perceived attractiveness of alternative VSS, relationship quality, age, gender, and income. The results (Table 2, Model 2) show that all hypothesized effects remain significant.

Hypothesis	Path	Model 1	Model 2
<i>Hypothesized paths:</i>			
H <sub>1</sub>	IM → DI	-.129 (.046) ***	-.096 (.043) **
H <sub>2</sub>	TM → IM	.366 (.060) ***	.366 (.060) ***
H <sub>3</sub>	PCC → TM	.213 (.062) ***	.218 (.061) ***
H <sub>4</sub>	RM → IM	.209 (.050) ***	.209 (.050) ***
H <sub>5</sub>	PCM → RM	.109 (.079) **	.109 (.079) **
H <sub>6</sub>	SF → DI	.271 (.144) ***	.276 (.140) ***
H <sub>7</sub>	(IM*SF) → DI	-.101 (.090) **	-.097 (.085) **
<i>Control variables:</i>			
-	AA → DI	-	.097 (.060) **
-	RQ → DI	-	-.181 (.058) ***
-	Age → DI	-	.037 (.074)
-	Gender → DI	-	.049 (.170)
-	Income → DI	-	-.043 (.026)

Table 2. Assessment of the structural model

Notes:  $R^2_{DI}=21.7\%$  (Model 1),  $R^2_{DI}=26.1\%$  (Model 2)

\* $p<.1$ , \*\* $p<.05$ , \*\*\* $p<0.01$ ; Standardized beta coefficients with standard errors in parentheses

IM: Inertia Mindset, DI: Defection Intention, TM: Thinking Minimization, PCC: Prior Consumption Consistency, RM: Regret Minimization, PCM: Prior Consumption Magnitude, SF: Service Failure, AA: Alternative Attractiveness, RQ: Relationship Quality



## **5. Discussion and Implications**

The purpose of this study was to answer the question of whether a customer's inertia mindset can mitigate the effect of service failure on customer defection. Therein, our research makes two important contributions to the literature. First and most importantly, we confirm that an inertia mindset not only directly decreases defection intention, but also reduces the impact of service failure on defection intention. Thereby, we answer a call for research by Henderson et al. (2021) to apply an inertia perspective to negative shocks, including service failures. Researchers might use this finding as a starting point to further uncover the important moderating role of an inertia mindset in governing stable customer relationships. Moreover, companies could harness this insight to optimize their service recovery management in the event of a service failure (Craighead, Karwan, and Miller, 2004). Knowing that an inertia mindset emerges from prior consumption consistency and magnitude, companies can segment their customers accordingly. Customers with low prior consumption consistency and magnitude are less likely to be inert and in turn more likely to defect in the event of a service failure. Thus, companies should focus their scarce service recovery resources on these customers. Given that companies likely already have the required data available (e.g., number of months a customer has been a subscriber as an indication of prior consumption magnitude), this could be an easy-to-implement change with a potentially high upside. Second, by confirming the findings of Henderson et al. (2021) in a new research context, we increase the external validity of the emerging customer inertia marketing theory (Winer, 1999).

## **6. Limitations and Future Research**

The study's findings highlight new avenues for future research. First, it would be insightful to replicate the results in new research contexts, different cultures, and with representative samples. Second, future research could use panel data to examine how an inertia mindset evolves over time. Third, we measured customers' defection intentions in this study. However, while intentions are generally the best predictor of behavior, they only translate into actual behavior under certain conditions (Ajzen, 1991). Thus, future research could use field studies to circumvent the intention-behavior gap. Finally, our study uses a scenario-based approach to manipulate service failure. Although our results show that the manipulations had the desired effects and that the scenarios were perceived as realistic, it would be insightful – albeit difficult – to gather data on real service failures and their impact on customer defection.

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