Agency and Trust Mechanisms in Consumer Satisfaction and Loyalty Judgments

Jagdip Singh
Deepak Sirdeshmukh
Case Western Reserve University

The authors propose a framework for understanding key mechanisms that shape satisfaction in individual encounters, and loyalty across ongoing exchanges. In particular, the framework draws together two distinct approaches: (1) agency theory, rooted in the economic approach, that views relational exchanges as encounters between principals (consumers) and agents (service providers) and (2) trust research that adopts a psychological approach toward consumer-provider relationships. In so doing, the authors specify how trust mechanisms cooperate and compete with agency mechanisms to affect satisfaction in individual encounters and influence loyalty in the long run. Because a multidimensional conceptualization of trust is used, the hypothesized framework offers a fine-grained understanding of the interrelated mechanisms. The high level of specificity allows extraction of multiple propositions, facilitates empirical testing, and encourages theoretical development of the proposed model. Several directions to guide future research are provided.

Consumer loyalty is emerging as the marketplace currency for the twenty-first century. Marketers desire and seek it through building relationships with customers, yet it remains elusive. To acquire and hold this elusive currency would require a deep understanding of processes by which consumers maintain relational exchanges with providers, and how these processes in turn influence loyalty. This is especially the case for services as their inherent intangibility, heterogeneity, and performance ambiguity pose challenges for forming and sustaining customer-service provider relationships. Although this issue has received significant attention in the literature, some critical gaps remain.

First, the literature has tended to view consumer relationships from the perspective of the marketer/service provider. Few researchers have used the consumers' perspective to examine relational exchanges. Likewise, much theoretical work for understanding relational exchanges in service contexts has been shaped by conceptualizations of exchange mechanisms involving interorganizational partners (e.g., industrial/channel) (Berry 1995; Crosby, Evans, and Cowles 1990; Gronroos 1994; Morgan and Hunt 1994; Sheth and Parvatiyar 1995). By contrast, theoretical work for probing relational mechanisms from a consumer's perspective is lacking. Thus, Buttle (1996) observes that the "voice of the customer is absent from much relationship marketing." Because relationships are inherently two-sided, this lopsided focus is problematic.

Second, the limited research that exists has tended to focus largely on either the economic or psychological approach; as such, integrative attempts have been lacking. For instance, researchers have had some success in using the economic principles of agency theory to understand contracts between consumers (principals) and providers (agents) (Bergen, Dutta, and Walker 1992; Casson 1997). Likewise, psychological approaches have tended to focus on the role of consumer-provider trust in promoting relational exchanges and building loyalty (Garbarino and Johnson 1999; Morgan and Hunt 1994). Although both approaches have provided interesting insights, little attention has been directed at how the economic and psychological approaches might work together to shape and influence consumer loyalty in relational exchanges. Are trust
AGENCY MECHANISMS
AND CONSUMER EXCHANGES

According to agency theory, information asymmetry and opportunism are two key factors that present dilemmas for consumption of service exchanges. The notion of information asymmetry implies that one partner in the exchange has greater quantity and/or quality of information. Both, of course, have incomplete information and are making decisions under uncertainty. The information domain is usually circumscribed by the nature and quality of service delivered. In most instances, the information asymmetry is in favor of the service provider. Take the case of a restaurant. The restaurant owner/cook has information about the freshness and quality of food preparations that is not easily available to ordering customers. Customers, of course, try to infer this information when they experience the food preparation. However, this inference has two problems: (a) at best, it approximates the information possessed by the service provider and, at worst, may be unrelated to it; and (b) it occurs after the purchase is made so that, at the time of purchase, a decision has to be made without access to prior knowledge. Because of its intangibility, information asymmetry is a common characteristic of service consumption. It follows that, in the absence of any other mechanisms for overcoming information asymmetry, consumers are likely to find it difficult to distinguish between restaurants with different quality-of-food preparations. This presents the dilemma of adverse selection.

The problem of adverse selection occurs when principals are unable to discriminate between different quality agents (Mudambi 1997; Wilson 1980). As a buyer, the consumer is the principal in a market-mediated exchange, while the service provider occupies the role of an agent. It is implicit that there is heterogeneity in the quality and configuration of services offered by different agents—some provide high quality, while others are low-quality providers. However, this heterogeneity is not transparent to the principal because of informational deficiencies. As such, the principal is likely to find it difficult to tell a high-quality provider from a low-quality supplier. Moreover, recognizing the principal’s informational deficiency, a low-quality provider may be tempted to fool buyers into believing that he or she is a high-quality provider and extract unjustified profits. This further compounds the adverse selection problem.

Opportunism follows from the notion that partners in the exchange are motivated by self-interest and are likely to exploit the situation, if they can, to further their self-interest. As such, this assumption is less about the object of exchange (e.g., service offered and consumed) and more about the character of partners involved in the exchange. Indeed, if information was symmetrically distributed, market mechanisms would keep opportunism in
check. In the presence of asymmetrical information, the probability of opportunistic behavior increases. In the case of the restaurant example, if the owner/cook is aware that the consumer is unable to judge food quality, he or she may be tempted to reduce the quality of ingredients (e.g., buy in bulk weekly rather than fresh every day) to obtain higher returns. Of course, consumers may suspect that a service provider is behaving opportunistically but, depending on the degree of information asymmetry, may be unable to detect it. Without detection, consumers may be less inclined to terminate the exchange and inadvertently end up rewarding the service provider's opportunistic moves. This results in the dilemma of moral hazard.

Once the principal hires an agent, the problem of moral hazard comes into play and involves the dilemma that the selected provider may not consistently deliver service at the promised quality level. An opportunistic agent may decide to skim on quality to reap greater payoffs and deliver a level of quality that is lower than promised in the initial contract with the principal (in an objective sense). Information asymmetry may further bolster the confidence of opportunistic agents who believe that quality decrements would escape detection by informationally deficient principals. Note, however, that moral hazard and adverse selection are independent problems in agency relationships. That is, even if the principal is able to overcome the problem of adverse selection, he or she is exposed to the problem of moral hazard. In the worst scenario, both problems could co-occur.

In the face of these problems, how do service exchanges succeed in the market? Just as agency theory formalizes the problems in market contracts, it offers workable solutions that help exchange partners mitigate these inherent problems. Essentially the agency theory solution to adverse selection is signaling. In this situation, it is in the self-interest of a high-quality service provider to reveal private information about his or her operations to the principal in a way that cannot be imitated by a low-quality provider. Typically, this is operationalized as investments in nonsalvageable assets that satisfy three criteria: (a) they should be clearly visible, (b) unambiguously signal high quality, and (c) be perceived by principals as "hostages"—investments that are committed and cannot be salvaged. In the case of the restaurant provider interested in high quality, agency theory prescribes that he or she solve the information asymmetry problem by, say, constructing an attractive building with a very impressive facade and environs. Investments in such fixed assets are sunk but highly visible. They serve to unequivocally signal that the service provider is of high quality and willing to present his or her fixed investments as hostages to principals—a move that a low-quality provider is less inclined to imitate. Because of the visibility of the hostage investments, principals can now discriminate among service providers and overcome the adverse selection problem.

What about moral hazard? Agency theory's solution to moral hazard is risk sharing (Holmstrom 1980). In the classic case, the principal bears a portion of the risk to alleviate the problem of opportunism. In the context of consumer-service provider exchanges, price mechanisms may serve as a risk-sharing device. That is, consumers who are interested in high quality may be willing to pay a price premium as a way of mitigating provider opportunism. The logic is as follows. As principals, consumers are motivated by self-interest as well and likely to withdraw the price premium if they suspect opportunism. Burdened with significant sunk investments, the provider relies heavily on a continuous stream of returns to amortize the hostage investments in the long term. Thus, while short-term opportunism may be expedient, the agent risks permanent loss of price premiums as principals wise up. Given the nature and extent of these investments, the downside risk is tantamount to bankruptcy. This downside risk, combined with principal risk sharing, is posited to keep the agent's opportunism in check, allowing orderly consummation of market-mediated service exchanges.

There is some empirical evidence in support of agency mechanisms for consumer-provider exchanges. In a recent study involving automotive services, Mishra, Heide, and Cott (1998) found that, with increasing information asymmetry, managers were more likely to provide a stronger signal of their quality (e.g., by making nonsalvageable "bonding" investments in building, decor, and facilities; path coefficient = .76). In turn, increasing information asymmetry enabled managers to extract increasingly higher price premiums from customers (path coefficient = .42), presumably as an incentive for managers to resist opportunism in delivering quality service. As such, exchange dynamics in the automotive services are thought to be governed by signaling and incentive mechanisms that help solve agency problems.

CRITICAL ANALYSIS OF AGENCY MECHANISMS IN CONSUMER EXCHANGES

In the literature, two critical deficiencies of agency mechanisms have been identified that hold relevance for consumer-provider exchanges. The first relates to the implied condition of sufficiency, while the second concerns an omitted necessary condition. We discuss each in turn.

Per agency theory, the exchange problems that occur due to information asymmetry are solved by signaling and risk-sharing mechanisms. In other words, market signals and price incentives are thought to be sufficient devices to overcome information asymmetry and favor ongoing exchanges. In the example of the restaurant, the investments in building and decor are thought to be both

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
distinctive and compelling for consumers to sufficiently overcome the problem of adverse selection. Likewise, market mechanisms are thought to produce the appropriate price premiums that the consumers can offer as sufficient incentives to ensure that they are not likely to be subjected to moral hazards—that is, consumers are assured that providers' opportunism would be appropriately constrained. Neither condition of sufficiency of agency mechanisms has been empirically examined within a consumer-provider context.

On logical grounds, there is reason to question these sufficiency conditions. This is because neither condition directly helps to reduce the information asymmetry experienced by the principal. Rather, signaling and incentive mechanisms merely allow the principal to cope with ambiguity that he or she currently faces. As such, agency mechanisms address consequences of information asymmetry but fail to mitigate the underlying informational imbalance that caused the agency problem in the first place. Without mechanisms to reduce informational asymmetry, coping devices lack the power to sustain multiple, long-term exchanges between consumers and service providers. Persistent informational asymmetry does not appear conducive to stable and satisfying market exchanges. Thus, while signaling and incentives may be useful mechanisms, they are not sufficient for our understanding of market-mediated consumer exchanges.

The second critical deficiency noted in agency mechanisms involves the omission of necessary condition(s) for the consummation of exchanges in the face of information asymmetry. Although several plausible necessary conditions have been explicated (e.g., see Chiles and McMackin 1996), we focus here on the role of trust—specifically, the principal’s level of trust in the agent. Why should trust be considered in agency mechanisms? The rationale is two-fold. First, sociologists contend that agency mechanisms omit some necessary conditions by posing the question, if human behavior is motivated mainly by opportunism and self-interest (as agency theory contends), why is it that market-mediated exchanges are not characterized by "force and fraud"? (Granovetter 1985:488). The reason, sociologists argue, is that agency theory's assumption of opportunistic tendencies is untenable. Rather, market-mediated relational exchanges are socially embedded, and, consequently, the norms of social relationships (e.g., reciprocity, fairness) provide a countervailing force to constrain this inherent opportunism (Casson 1997). In other words, the prevalent social and cultural rules for fair play press for behaviors that are perceived by exchange partners as trustworthy (Uzzi 1997). Thus, while the agents may like to act opportunistically, the moral consequences of being detected as blatantly opportunistic hold considerable sway on agents' behaviors. As such, in our restaurant example, the owner fears that if the customers detect that the fresh fish on the menu is really not the day's catch, he or she may suffer irreparable loss of reputation because prevailing social norms regard such misrepresentation as morally unacceptable. By contrast, agents' behaviors that are consistent with and uphold the obligations implied by social norms generate trust. Because consumers have an aversion to relationships with someone they distrust, sociologists have argued that trust is a necessary condition for relational exchanges. In this sense, trust is an omitted independent variable in agency mechanisms.

The role of trust is also recognized in recent organizational research. However, this research tends to view trust as a critical dependent variable instead. In the context of buyer-seller alliances, it is argued that governance mechanisms may be categorized on the basis of motivations of (1) minimizing opportunism or (2) maximizing opportunity (Dyer and Singh 1998; Hansen, Haskisson, and Barney 1999). Consistent with agency theory and transaction-cost economics, opportunism minimization motivation calls for investments in governance mechanisms whose sole purpose is to curb opportunism. While costly, such investments do help in preserving current profit streams. Recognizing that mechanisms for curbing opportunism do not necessarily promote cooperation, organizational theorists note that opportunity-maximizing mechanisms that focus on developing trust simultaneously curb opportunism and promote cooperation (Dyer and Singh 1998; Hansen et al. 1999). In this sense, the goal of governance mechanisms is to enhance trust among partners with the expectation that relational exchanges persist over time to yield enhanced rents for both partners.

This logic can be extended to consumer-provider exchanges by noting that, for relational exchanges that likely maximize opportunity for consumers and providers, agency mechanisms may not be sufficient. The development of trust between agents and principals may be needed to promote relational exchanges and yield benefits for both partners (Chiles and McMackin 1996; Crosby et al. 1990). Specifically, agents benefit from relational exchanges because these allow them to amortize the bonding investments over multiple exchanges. In this sense, the agent's trust in the principal's continued patronage and risk sharing via price premiums is a critical facilitating factor. Likewise, principals benefit by developing relational exchanges that are effective and efficient in coping with, and perhaps reducing, their information asymmetry. Without some acceptable level of trust, principals may be unwilling to provide quality premiums because they distrust either the agent's signal of quality or intention to deliver promised quality or both. Thus, it is in the self-interest of agents to act in a manner that builds confidence in their reliability and integrity to ensure that current exchanges persist over time.

Given this significant role of trust, we next examine the trust construct in more depth. Thereafter, using the multidimensionality of trust construct, we show that the role of
trust in agency mechanisms is more complex than heretofore recognized.

**TRUST/DISTRUST MECHANISMS IN CONSUMER EXCHANGES**

The rich literature on organizational trust drawn from diverse disciplines including sociology, psychology, and economics has led to numerous conceptualizations of the trust construct. Nevertheless, Rousseau, Sitkin, Burt, and Camerer (1998) were able to extract common themes in the different conceptual definitions of trust to propose a consensus definition as follows: “Trust is a psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behaviors of another” (p. 395).

Note that there are two parts to this definition. First, trust relates to (positive) expectations about the intentions and/or behaviors of the exchange partner. Often referred to as the “expectancy” conceptualization of trust, it focuses on one’s beliefs that the exchange partner would act in a manner that is responsible, evidences integrity, and is not potentially injurious. Second, trust relates to one’s intentions to rely on the exchange partner accepting the contextual vulnerability. Referred to as the “behavioral” conceptualization of trust, it focuses on one’s action tendencies toward exchange partners. Indeed, these conceptualizations are related as implied by the preceding definition, since behavioral intentions involve weighing expectations of a partner’s behaviors against an individual’s vulnerability in the exchange, among other factors. In the marketing literature, however, researchers have argued against combining the expectancy and behavioral conceptualizations of trust, presumably because keeping them separate provides opportunities to study trust processes (Morgan and Hunt 1994). This view has support in the management literature as well (Lewicki, McAllister, and Bies 1998). In accord with this, throughout this article, we maintain a distinction between expectations and behavioral intentions. Moreover, because expectations usually precede intentions, we use the expectancy conceptualization of trust for much of our discussion unless noted otherwise.

Although efforts toward a consensual definition of trust have been successful, some researchers have argued that the resulting conceptualizations are so “stretched” that they have limited usefulness for conceptual and/or empirical work (Bigley and Pearce 1998). Following Osguweh (1989), the notion of the concept stretching relates to a construct that is defined at a high level of abstraction and has both a large bandwidth (i.e., broad coverage) and a wide connotation (i.e., lumping of too many classes of things with little attribute precision). Problems in bandwidth and connotative specification of trust conceptualizations can lead different researchers working with different conceptual meanings of trust to accumulate a common body of work. Recognizing the confusion that this might create, Bigley and Pearce (1998) have implored researchers to shift their focus from such questions as “what is trust?” to “which trust and when?” (p. 406). Heeding this call, we further specify the domain and connotative meaning of the trust construct in the context of our study. Following this, we discuss the implications of trust for agency problems in consumer exchanges.

**Specifying the Trust Construct for Consumer Exchanges**

Three sources of specification are identified with regard to the consumer trust construct. First, situational and contextual factors are likely to determine the relevance of the trust construct in consumer exchanges. That is, trust is not a necessary ingredient for consummating consumer-firm exchanges, just as the presence of distrust does not in and of itself preclude consummation. Rather, situations will vary by the degree to which they evoke the relevance of trust and trigger mechanisms that are affected by the level of trust. Specifically, trust-relevant exchanges are characterized by (a) a high level of performance ambiguity (e.g., consumers’ evaluations of service performance are highly ambiguous), (b) significant consequentiality (e.g., service performance has significant consequences for the value derived by the consumer), and (c) greater interdependence (e.g., when the consumer participates in the process of exchange performance) (Sitkin and Roth 1993).

Second, connotative specification is likely to influence the conceptualization of the consumer trust construct, that is, specifying the attributes with an appropriate level of precision so that the trust construct achieves meaningfulness across multiple domains. Defining trust in global terms without any attribute specification (e.g., by items such as, “I trust my service provider”) may be problematic because different consumers may score such items equivalently even when they use distinctly different attributes to judge trust. By contrast, a highly precise specification may yield a trust construct with so many attributes that it is pragmatically cumbersome. Often, an intermediate precision level involving specification of salient attributes is thought to be desirable.

Several researchers have provided an intermediate level of connotative specification for the trust construct. For instance, in the context of buyer-seller relationships, Ganesan and Hess (1997) propose two dimensions of trust: (1) credibility, or the focal partner’s intention and ability to keep promises; and (2) benevolence, or evidence of the focal partner’s genuine concern for the partner through sacrifices that exceed a purely egocentric profit motive.
(p. 440). Ganesan and Hess also provided empirical support for the discriminant validity of these trust dimensions. Using the notion of competence instead of credibility, McAllister (1995) defined a cognition-based trust and distinguished it from affect-based trust that stems from affective bonds among individuals. We focus on cognition-based trust to maintain consistency with our expectation conceptualization of trust. In an earlier work, Barber (1983) had proposed that trust expectations are likely to include evaluations of (1) technically competent role performance (e.g., by the service provider) and (2) carrying out obligations and responsibilities by placing others’ (e.g., consumers’) interest before their own. Although none of these attempts have conceptualized the trust construct specifically for consumer exchanges, the consistent themes of competence and benevolence emerging from the interorganizational literature appear relevant for the connotative specification of the consumer trust construct as well. In the context of consumer trust, the notion of competence includes fulfilling the promised service performance in a reliable and honest manner, while benevolence taps the probability that service providers would hold consumers’ interests ahead of their self-interest. Accordingly, we conceptualize two distinct attribute dimensions—competence and benevolence—that may vary independently, but jointly define overall consumer trust.

Third, acknowledging the wide bandwidth of the trust construct, we recognize that the trust construct is a linear continuum that is bounded by high levels of distrust and trust, and that these states are qualitatively different. Clearly, the distrust and trust states differ in terms of the valence (negative or positive) of held expectations. Empirically, Sitkin and Roth (1993) demonstrate that trust and distrust are maintained by different mechanisms. Specifically, in the context of organization-employee relationships, they show that while unmet expectations of “task reliability” generate violations of trust, it is the “value incongruence” that engenders distrust. As such, the distinction between the positive and negative domains of the trust-distrust continuum is plausible and appears to cohere with the current notion of asymmetric effects in the marketing literature (Mittal, Ross, and Baldasare 1998).

Thus, in specifying the trust construct for understanding its role in agency relationships, we recognize that (1) the relevance of trust is situationally determined, (2) competence and benevolence are distinct dimensions that form overall trust expectations, and (3) trust-distrust expectations fall along a continuum with potentially asymmetric effects. Because of (1), we focus on trust-relevant situations. Such situations, sometimes referred to as “high” in relational risk are common for valued services (e.g., medical care, legal services, dining). Next, we develop a conceptual model for hypothesizing the role of trust/distrust mechanisms in agency relationships for such service contexts.

A MODEL OF AGENCY AND TRUST MECHANISMS IN CONSUMER SATISFACTION AND LOYALTY JUDGMENTS

Figure 1 depicts the proposed framework for understanding the role of trust in the context of ongoing consumer exchanges with satisfaction and loyalty as the dependent variables. Although several theoretical approaches are available to model antecedents of satisfaction and loyalty, we focus on agency-based mechanisms and build on a framework recently proposed by Voss, Parasuraman, and Grewal (1998). Following Bergen et al. (1992) and Mishra et al. (1998), the agency mechanisms are captured by including constructs of “signaling investments” (to overcome adverse selection) and “price premiums” (to overcome moral hazard). However, we distinguish between objective—the actual investments made and premiums set by agents—and subjective—the signals and price premiums perceived by principals—levels of these constructs. Although the link between objective and subjective levels is not the focus of our model, it is useful to maintain this difference in recognition of our view that consumers’ perspective cannot be presumed to cohere with that of the agent-provider. Like Voss et al., we model the exchange episode by focusing on the distinct mechanisms maintained by service performance and price perceptions. Here, we define service performance as the perceptions of the process (e.g., waiter courtesy) and outcomes (e.g., food quality) of service delivery, while price perceptions relate to evaluations of fairness of the cost of service (whether the price extracted was fair). These distinctions parallel notions of rewards and sacrifice in market exchanges (Voss et al. 1998). Grewal, Monroe, and Krishnan (1998) note that although performance and price perceptions may be related (e.g., high price implies high performance), this relationship is likely to reduce in significance in the presence of other informational cues. Moreover, the use of demand-oriented pricing of services (i.e., widely varying prices for the same service depending on time/place demand such as airline fares and discount cards on dining) tends to support the separation of price and performance mechanisms. Research on the American Satisfaction Index provides additional empirical support for price- and performance-based mechanisms as distinct determinants of satisfaction (Fornell, Johnson, Anderson, Cha, and Bryant 1996).

Following Morgan and Hunt (1994), we propose trust as a key mediator and moderator of prepurchase and postpurchase processes leading to long-term loyalty. By key,
we imply that trust is a crucial variable that determines outcomes at different points in the process and serves as a glue that holds the relationship together. For the sake of focus, we only consider the principal's (i.e., consumer's) trust in the agent (i.e., service provider), although it may be appropriate to include the other side of the trust coin. We recognize that trust, like loyalty, is specific to the relationship and not merely to a particular exchange episode. Yet, each exchange episode is shaped by, and in turn shapes, relational characteristics including trust and loyalty. As such, the proposed model depicts an interplay of relational (e.g., trust) and episodic factors (e.g., expectations, satisfaction). To represent this interplay, we distinguish between the level of trust before initiation of an exchange episode (pre-trust), and following its termination (post-trust). Figure 1 depicts how pre-trust influences episodic factors and how these factors in turn affect post-trust. Although pre-trust and post-trust are likely to be related as well, we omit this implied path for sake of clarity. Consistent with our intention to hypothesize the role of trust, we treat pre-trust as an exogenous construct in the model whose antecedents are not specified (but see future research directions). We begin our discussion with agency-based independent variables in Figure 1.

**Competence Trust/Distrust and Signaling Investments**

To overcome the principal’s adverse selection problem, a high-quality service provider is posited to invest in “signaling investments” to indicate its commitment to high-quality performance. Such signaling investments may include buildings, logos, advertising, and other service-scapes (Boulding and Kimnani 1993). In accord with agency theory’s predictions, a direct path is proposed between signaling investments and consumers’ pre-purchase expectations of service performance. In other words, such investments work to the extent they help shape the performance expectations of consumers. Allowing this relationship to be modeled empirically rejects the view that consumers passively process marketers’ attempts to manage the information asymmetry and performance ambiguity that they experience. Instead, we view consumers as active principals who appraise their informational gaps and judiciously evaluate the market signals for their informational content. Such a view allows for the possibility that not all signaling investments are equally effective. Because competing agents would like to exploit principals’ informational deficiency by unjustifiably signaling...
high quality, signaling investments can be noisy. Consequently, perfect correspondence is not expected between perceived investments in signals of high quality and consumers' perceptions of service performance. We recognize that there are several other mechanisms for shaping prepurchase expectations (e.g., word of mouth, consumer reports). Nevertheless, with increasing informational asymmetry and performance ambiguity, the mechanism via signaling investments is likely to gain in significance.

In the context of ongoing exchanges, we propose that the competence dimension of trust would influence pre-purchase performance expectations by (1) moderating the effect of signaling investments and (2) its direct effect. The moderating effect is based on source credibility and cue diagnosticity arguments (Skowronski and Carlton 1987). That is, agency investments are more likely to be effective cues for high quality when consumers lack other information (e.g., experiential) that is more diagnostic. Moreover, these cues would be effective in shaping performance expectations if the consumer does not doubt the credibility of the provider to deliver competent performance. In other words, investments have their desired effect on performance expectations only when consumers are reasonably confident that the provider can fulfill the service promises and these investments hold diagnostic value. In this sense, trust acts as a coping resource that aids the consumer in dealing with the large number of mostly noisy market signals. However, as consumers build experiential knowledge through ongoing exchanges, the cue diagnosticity of signaling investments is likely to decline as consumers increasingly rely on their confident competence trust expectations. As such, the agency mechanism is likely to be effective at low to moderate levels of competence trust. Finally, when the service provider engenders a high level of competence distrust, higher amounts of signaling investments would only enhance the contrast effect resulting in a negative effect on performance expectations. Because contrast effects amplify the discrepancy and its influence, we can expect that the moderating effect of distrust on the signaling investments-performance expectations relationship would be larger relative to the trust condition. At moderate to high levels of competence distrust, the agency mechanism may be shut down as consumers develop an aversion toward further exchanges with the provider. This might occur when impressive investments in buildings by a provider who cannot even deliver the promised service only serve to confirm its misguided focus resulting in unacceptable performance expectations. Thus, we propose the following:

**Proposition 1:** The influence of signaling investments on consumer pre-purchase performance expectations will be moderated by the level of competence trust/distrust such that

a. the influence would be positive (negative) for low to moderate levels of trust (distrust);

b. in terms of absolute magnitude, the moderating effect will be greater for distrust than for competence trust.

Drawing from cognitive consistency arguments, competence trust and distrust is also proposed to directly influence performance expectations. When a consumer perceives that a service provider has high competence trust, it is consistent to hold high performance expectations of the provider in subsequent exchange episodes. In addition, with accumulated experience, a consumer acquires experiential information that allows for increasingly confident expectations about the behaviors of service providers. In this sense, trust acts as an informational resource that directly reduces the perceived threat of informational asymmetry and performance ambiguity and, in fact, may contribute to reducing the information imbalance. Finally, we posit that the direct effect of competence distrust would exceed that due to corresponding trust because of two reasons. First, because distrust is a deviation from social norms, it is likely to be coded more strongly in memory (Taylor 1991; Wyer and Gordon 1982). Second, based on prospect theory's argument that losses loom larger than gains, we argue that the effect of distrust, implying a notion of harm, is likely to be more potent in comparison to trust (Kahneman and Tversky 1979). Thus, we propose the following:

**Proposition 2:** Competence trust/distrust will have a significant influence on consumer pre-purchase performance expectations such that

a. the influence would be positive (negative) for a high level of trust (distrust);

b. in terms of absolute magnitude, the influence of distrust would exceed that of trust.

**Benevolence Trust/Distrust and Price Premiums**

A direct positive path is proposed between perceived price premiums and pre-purchase price fairness (Hubbard 1998; Rao and Bergen 1992; Rao and Monroe 1996). Rao and Monroe define price premiums as the "difference between a superhigh price and the perfectly competitive price for high-quality output" (p. 512). As per agency theory, price premiums are a mechanism by which consumers motivate providers to sustain a high level of delivered quality. To the extent that the cumulative value of price premiums is perceived to be greater than the profits from cheating on quality, providers are expected to offer and maintain high quality (Hubbard 1998; Rao and Bergen 1992; Telser 1980). However, we propose that for agency mechanisms to work, consumers must not only perceive that the price is a premium (therefore a hedge against
moral hazard) but they must view that the price premium extracted in a specific encounter is fair.

Drawing from the reference price literature, we propose that prepurchase price fairness judgments are not based on consumers' comparison of their expected input/output ratios relative to providers. Rather, they involve a comparison of the expected price premiums in the specific service encounter relative to (perception of) price premiums paid by others/self for the same/similar service or in previous encounters (Campbell 1999; Dickson and Kalapurakal 1994; Monroe 1973). Consistent with agency theory's focus on price premiums, we note that the subjective price thresholds are likely sensitive to the range of price premiums prevalent in the market. For several reasons, price premiums in service contexts may exhibit wide variability. As most services are highly sensitive to time and place utilities, providers tend to practice demand-oriented pricing more vigorously than manufacturers of hard goods such as durables. As such, it is common to encounter price premiums that vary by day of the week (e.g., Thursday special) or time of day (e.g., Early Bird special). In addition, opportunistic providers of lower quality try to extract price premiums hoping that uninformed consumers would use price as a quality cue. Consequently, Grewal et al. observe that there is greater variability in prices of services relative to products and that this variability cannot be attributed singularly to variability in the quality of services.

For ongoing exchanges, we propose that benevolence trust/distrust would influence prepurchase price fairness by (1) moderating the effect of price premiums and (2) its direct effect. The moderating effect is based on attributional arguments (Boulding and Kirmani 1993; Campbell 1999; Weigelt and Camerer 1988). When consumers perceive that the provider is motivated by a genuine concern to place their interests ahead of his or her manifest profit motive, the provider is thought to be benevolent. Premiums set by such providers are interpreted and encoded in the context of these benevolent motivations (Sorrentino, Holmes, Hanna, and Sharp 1995). Specifically, the principle of dual entitlement proposes that when consumers infer that a higher price premium is motivated by benevolent intentions (e.g., due to higher costs for providing high quality), consumers perceive it to be fair since the provider's profit is expected to remain unchanged (Campbell 1999; Kahneman, Knetisch, and Thaler 1986). However, when the motive for a higher price is perceived to be a self-serving provider's intent to extract abnormal profits, consumers perceive the price premium as unfair (Campbell 1999; Dickson and Kalapurakal 1994; Kachelmeier, Limberg, and Schadowald 1991). Consequently, price premiums are likely to be effective in overcoming the moral-hazard problem only when consumers place benevolent trust in the provider and perceive the premiums to be fair. Otherwise, price premiums are perceived as unfair and only serve to heighten the agency problem. In this sense, benevolence trust acts as a coping resource that allows consumers to deal with the wide variability in price premiums of desired service offerings. Finally, in accord with prospect theory effects, we expect that in terms of absolute magnitude, the moderating effect of benevolence distrust would exceed that of trust. On the basis of the preceding, we propose the following:

**Proposition 3:** The influence of price premiums on consumer prepurchase price fairness perceptions will be moderated by the level of benevolence trust/distrust such that

a. the influence would be positive (negative) for a high level of trust (distrust);

b. in terms of absolute magnitude, the moderating effect for distrust will exceed that due to trust.

On the basis of cognitive consistency logic, we propose that benevolence trust/distrust will also directly affect prepurchase price perceptions. A benevolent service provider is expected to consider the consumer's welfare over and above self-centered motivations for profit. These expectations guide consumer evaluations across behavioral domains including prices that the provider sets for service offerings. Thus, a high level of benevolence-based trust implies that the provider is fair in his or her dealings with the consumer, thereby resulting in a positive effect on price fairness. With high levels of benevolence-based distrust, consumers are likely to perceive the provider's actions as exploitative, resulting in a negative effect on price fairness. In sum, the perceptions of price fairness are expected to be consistent with the consumers' dominant trust cognitions. As such, benevolence trust provides a direct informational resource that helps in coping with informational asymmetry. In an experimental study, Campbell (1999:197) provides some support for this assertion. She used a construct similar to benevolence trust-inferred motive for a price change (self-serving or benevolent) and found it to be "a critical factor in perceptions of price fairness." Finally, because dealing with exploitative providers likely has harmful consequences for the consumer, prospect theory would suggest that benevolence distrust should have a stronger effect on fairness perceptions relative to benevolence trust. Thus, we propose the following:

**Proposition 4:** Benevolence trust/distrust will have a significant influence on consumer prepurchase price fairness perceptions such that

a. the influence would be positive (negative) for a high level of trust (distrust);

b. in terms of absolute magnitude, the influence of distrust would exceed that of trust.
Pre-Trust and Satisfaction

Consistent with social exchange theory (Blau 1964), we propose that consumers' trust evaluations before a specific exchange episode will have a direct influence on their postpurchase satisfaction. Most satisfaction studies in marketing have tended to emphasize the cognitive mechanisms rooted in expectations and its disconfirmation based on service performance in a specific episode (Churchill and Surprenant 1982). This cognitive assessment of gains and losses relative to expectations parallels the notion of economic utility of transactions in much interorganizational research. However, as per social exchange theory, relational exchanges hold intrinsic utility as well because such exchanges have social as well as economic dimensions. That is, the exchange process itself matters in addition to the utility obtained from the service that is rendered and consumed. McCallum and Harrison (1985) go as far as to say that "service encounters are first and foremost social encounters" (p. 25). As such, consumers may prefer to transact with service providers they can trust and with whom they have shared understanding about implied and unspecified obligations that govern their relationship. Conversely, consumers may have an aversion for providers whom they distrust and whose contractual motivations are ambiguous at best and suspect at worst.

In a recent empirical study, Gwinner, Gremler, and Bitner (1998) identified several relational benefits that consumers seek as a part of the social dimension of exchange relationships. For instance, Gwinner et al. report that, in a wide range of services with different levels of contact and standardization, consumers consistently rated confidence benefits—knowing that you can trust your service provider and feel less vulnerable—and social benefits—going to a service provider who recognizes you and treats you as a friend—as important aspects of their service encounter. More importantly, confidence benefits that appear to overlap with our trust construct correlated significantly with satisfaction (correlation = .66). Although Gwinner et al. did not examine the competence and benevolence dimensions of trust, we can extend their work to posit that each dimension of trust contributes independently to confidence benefits and, consequently, has a direct positive influence on consumer satisfaction. Because we had proposed earlier that trust influences price/performance expectations and moderates the effects of agency variables, readers will note that the direct effect on satisfaction is an incremental benefit derived from the social aspects of the exchange process. In this sense, the theoretical mechanism underlying the trust-satisfaction relationship is largely independent of expectations- and agency-based mechanisms. Finally, in accord with prospect theory, we posit that, relative to trust, consumers would be more sensitive to distrust in social exchanges resulting in a stronger (but negative) relationship between distrust and satisfaction. Thus, we propose the following:

Proposition 5: Competence and benevolence dimensions of trust (distrust) will have a significant positive (negative) influence on consumer postpurchase satisfaction.

Proposition 6: In terms of absolute magnitude, the direct (negative) influence of distrust will exceed the direct (positive) effect of trust on satisfaction.

Interrelationships Among Performance, Price, and Satisfaction Perceptions

Because these interrelationships have received significant attention in the literature and have been empirically established (Oliver 1997; Yi 1990), we provide a brief discussion here. Specifically, following Voss et al. (1998), separate mechanisms are hypothesized to account for the effect of performance and price on satisfaction perceptions. The performance mechanism involves an attribute-specific evaluation of the service received following consumption. This postpurchase performance perception is proposed to influence satisfaction directly in accord with Churchill and Surprenant (1982) and indirectly through its effect on disconfirmation consistent with Oliver (1980, 1997). While Voss et al. did not consider disconfirmation in their theoretical model, its inclusion is desirable given the significance and consistency of empirical evidence concerning its role in satisfaction processes (Oliver 1997). Based on contrast effects, the notion of disconfirmation or discrepancy captures the degree to which performance perceptions exceed or fall below expectations and influences satisfaction directly. In other words, an individual's satisfaction with a service encounter may be influenced by the quality of service performance, the magnitude of performance discrepancy, or both. Oliver (1997) has noted that the relative influence of these determinants varies by individuals and situations such that "none can be ruled out a priori" (p. 125). Finally, consistent with assimilation effects, prepurchase expectations are posited to influence both postpurchase performance perceptions and satisfaction as postpurchase evaluations tend to be viewed consistently with performance cognitions held prior to exchange. While this assimilation effect has received some empirical support, Voss et al. show that such effects are operative only under conditions of price-performance consistency; that is, consistency between perceived level of price (relative to competing offerings) and service performance. However, regardless of this consistency, Voss et al. found that the influence of performance perceptions
on satisfaction exceeded that due to expectations. On the basis of the preceding, we propose the following:

**Proposition 7:** Perceived disconfirmation of performance expectations will be affected by pre-purchase expectations and post-purchase performance perceptions.

**Proposition 8:** Satisfaction with a service encounter would be positively influenced by
a. pre-purchase performance expectations;

b. post-purchase performance perceptions;

c. post-purchase disconfirmation.

Reflecting the "sacrifice" dimension of exchange, the price mechanism involves the influence of the relative fairness of the price of a service. As noted earlier, for most services subject to demand-oriented pricing, the marketplace evidences a large variability in prices of service offerings that is independent of quality variations. Ironically, this increased variability enhances the significance of the price mechanism as price fairness evaluations assume greater salience and act as reference points for post-purchase price perceptions and satisfaction. Voss et al. (1998) go as far as to suggest that, with increased price variability, "the fairness of price—and not the service performance—might be the dominant determinant of satisfaction" (p. 49).

In accord with this, we propose that pre-purchase price perceptions would directly influence post-purchase satisfaction and price perceptions. In some cases, service prices are known unequivocally before consumption. In such cases, pre-purchase price perceptions are likely to be the more dominant predictor of satisfaction relative to post-purchase price perceptions, as evidenced by Voss et al.'s findings. However, in other cases, either pre-purchase prices are merely estimates (e.g., auto repair) or the service encounter reveals unanticipated factors that extract an additional price (e.g., extra fee for handling/cancelling). Likewise, recall that pre-purchase price fairness is based on inferred motives for price premiums. During the transaction, the consumer may encounter information or evidence that could confirm or run contrary to these inferences, again making it likely that the judgments of price fairness may be altered. In both cases, as long as the service encounter is consummated (and it is often difficult to terminate in midst), postpurchase price perceptions may differ from pre-purchase price fairness evaluations and may have a significant effect on satisfaction judgments. Thus, we propose the following:

**Proposition 9:** Postpurchase price fairness perceptions will be affected by pre-purchase perceptions of price fairness.

**Proposition 10:** Satisfaction with the service encounter would be positively influenced by
a. pre-purchase price fairness perceptions;

b. postpurchase price fairness perceptions.

**Antecedents of Post-Trust/Postdistrust**

In accord with adaptation level theory, encounter-specific post-purchase evaluations including performance-price perceptions and satisfaction judgments serve to modify consumers' pre-purchase relational evaluations. Specifically, we propose that performance-based evaluations (i.e., perceptions and disconfirmation) and satisfaction would have a direct effect on postpurchase evaluations of competence trust. When consumers judge the performance to be either of a high quality and/or exceeding their initial expectations, and if this result is attributed to the ability of service providers, consumers' positive confidence in the competence of the service provider is likely to increase. Conversely, if the provider-attributed performance is of a low quality and/or below expectations, it is likely that consumers' trust in the competence of the service provider would be reduced. Conflicting hypotheses have been proposed for this negative effect, however. Some researchers argue that consumers who have a high level of pre-trust are likely to be unperturbed by a single negative encounter—the forgiveness hypothesis—so that the negative effect is likely to be small (Anderson and Sullivan 1993; Tax, Brown, and Chandrashekaran 1998). Indeed, the forgiveness effect is thought to be prominent when the (negative) encounter is atypical. If negative encounters persist, the forgiveness effect is likely to vanish. Alternatively, some researchers argue that negative encounters for those who have a high level of pretrust produce a contrast effect—the betrayal hypothesis—so that the negative effect is enhanced (Bitner, Booms, and Tetreault 1990). It is likely that these effects work in tandem, such that consumers are able to forgive an isolated negative encounter but their persistence engenders a betrayal effect. Similar hypotheses govern the effect of postpurchase price perceptions on benevolence trust. When the consumers perceive that the price of the service obtained was fair, it is likely to confirm and possibly reinforce their postpurchase benevolence expectations of the service provider. However, if service price is perceived as unfair, the relationship between price perceptions and benevolence trust is governed by either the forgiveness or betrayal hypothesis, or both mechanisms acting in tandem. Empirical evidence does not exist at this time to sort through these different possibilities. Readers will note that we are not hypothesizing a link between pre-purchase price perceptions and trust, as we posit that its effect would be mediated by either satisfaction evaluations or postpurchase perceptions.
The relationship between satisfaction and trust has received some attention in the empirical studies published to date. Satisfying encounters are hypothesized to reinforce consumers' trust in the service provider. That is, relational expectations of trust adapt to encounter-specific outcomes of satisfaction. A highly satisfying (e.g., delightful) encounter may not only reassure the consumer that his or her trust in the service provider is well placed but also enhance it. Increased trust, in turn, leads to increased expectations in future encounters as the feedback loops of the proposed dynamic model are considered. We do not posit differential effects for competence and benevolence because satisfaction is a generalized feeling toward the service provider and, consequently, its effects are less likely to be specific to a single dimension of trust. Thus, we propose the following:

**Proposition 11:** Postpurchase competence trust expectations would be positively influenced by 
- a. postpurchase performance perceptions; 
- b. postpurchase performance disconfirmation; 
- c. postpurchase satisfaction.

**Proposition 12:** Postpurchase benevolence trust expectations would be positively influenced by 
- a. postpurchase price perceptions; 
- b. postpurchase satisfaction.

**Antecedents of Loyalty**

Although several different conceptualizations of the loyalty construct with varying levels of complexity are available (Dick and Basu 1994; Jacoby, Chestnut, and Fisher 1978), we focus on a conative definition of loyalty in a relational context. That is, loyalty is conceptualized as a behavioral intention to maintain an ongoing relationship with a service provider. As noted earlier, loyalty is posited as a relational construct that may be shaped by specific encounters. On the basis of LaBarbera and Mazursky (1983) and Fornell et al. (1996), we propose that postpurchase satisfaction positively influences loyalty. Oliver (1997) has supported this link on the basis of attitude-behavior consistency arguments. Recent work has begun to document that this satisfaction-loyalty relationship is neither a simple linear effect (Oliva, Oliver, and MacMillan 1992) nor consistently strong across industries (Reichheld 1996). However, at this time, sufficient research does not exist to specify the nature of this nonlinearity or to suggest conditions that favor this relationship to be nonlinear (however, see Oliver 1999). Consequently, we posit a directional hypothesis only. As a relational construct, post-trust expectations are also proposed to positively influence relational loyalty. This hypothesis is supported by social exchange theory as increments in postpurchase trust serve to increase the social embeddedness of the consumer-provider relationship, thereby enhancing the consumer's commitment to the relationship. Moreover, because post-trust reflects probabilities of service providers' behaviors in future service encounters, the relationship between trust expectations and loyalty is also supported by attitude-behavior consistency arguments. However, unlike the satisfaction-loyalty relationship that links episodic attitudes to relational contents, the relationship between trust and loyalty links two relational variables. Consequently, it is expected that the trust-loyalty effect is likely to be dominant for ongoing relationships. Indeed, in a recent study of these effects for transactional and relational consumers ( occasional ticket holders and subscribers of theater ), Garbarino and Johnson (1999) found that while satisfaction had a significant influence on future intentions of transactional consumers, this effect was reduced to nonsignificance for relational consumers. Instead, for relational consumers, trust was the major determinant of future intentions. Empirical support for the link between trust and long-term commitment to the relationship including future exchanges and cooperation is provided by several studies of buyer-seller relationships (see, e.g., Doney and Cannon 1997; Morgan and Hunt 1994). On the basis of these findings and consistent with our multidimensional conceptualization of trust, we propose the following:

**Proposition 13:** Customers' loyalty to the relationship with a service provider would be positively influenced by 
- a. postpurchase satisfaction; 
- b. postpurchase competence and benevolence trust expectations.

**DISCUSSION AND IMPLICATIONS**

This article aimed at providing an agency theory–based framework for mapping the processes underlying relational exchanges that explicitly includes the role of consumer trust/distrust. Specifically, the proposed model has three distinct characteristics. First, we conceptualize consumer trust as a multidimensional construct to obtain a fine-grained understanding of its differential effects. Although recognition of trust's multidimensionality is growing in the interorganizational literature, much research in marketing views trust as a unidimensional construct. Second, it proposes a model that hypothesizes the interrelationships among encounter-specific evaluations and relational factors, and their joint influence on satisfaction and loyalty. This allows for a dynamic portrayal of consumer-service provider exchanges. Finally, the proposed framework adopts a consumer's perspective to posit the interplay between agency and trust mechanisms as they compete and cooperate for influence. Most previous studies have tended to use either the agency or the trust theory to study exchanges; a simultaneous consideration of
these mechanisms has been lacking. In so doing, we extend agency theory's application to service exchanges by specifying the processes that likely occur as principals actively consider agents' attempts to solve the problems of adverse selection and moral hazard. In this sense, our framework views consumers as active participants in each encounter of the ongoing relational exchange. Each of these characteristics holds the potential to provide new insights into relational exchanges involving consumers and service providers, and address important questions in marketing. Before we discuss these characteristics and their implications, we recognize that the proposed model is an initial attempt toward modeling market-mediated consumer exchanges. We do not view our model in definitive terms. Neither do we view our model as a completely novel approach for understanding relational exchanges. Rather, our model brings together different perspectives and streams of work that are well grounded, and we hope that it will serve to motivate interest in these topics and encourage future researchers to refine and enhance the proposed model. To facilitate this, we will close with directions for empirical testing of the model.

**Multidimensional Conceptualization of Consumer Trust**

Unlike most studies in the marketing literature, the proposed model uses a multidimensional conceptualization of consumer trust. Evidence is emerging that cognition-based trust has distinct dimensions that likely have differential impacts (Ganesan and Hess 1997). While multidimensionality is ultimately an empirical question (not just psychometric), systematic studies establishing the validity and usefulness of trust dimensions have been lacking in the literature. The proposed model encourages such systematic analysis. We propose that (1) consumer trust involves two distinct cognitions relating to provider competence and benevolence, and (2) these trust dimensions influence satisfaction and loyalty through distinct pathways. While these pathways have been supported in previous research (Voss et al. 1998), their interrelationships with consumer trust have not been proposed heretofore. As such, the modeled hypotheses hold the potential to aid systematic analysis of the multidimensionality of the consumer trust construct and advance our understanding of the role of trust dimensions in influence pathways that result in customer satisfaction and loyalty.

As noted earlier, this does not imply that a higher-order conceptualization of trust—such as overall or global trust—is untenable. Rather, we observe that operationalizations of the overall trust construct (e.g., global measures) that ignore its underlying bandwidth may fail to faithfully capture a higher-order conceptualization of the focal construct. Using the first-order dimensions of competence and benevolence, an alternative operationalization of overall or global trust may be used that is based on the notion of "reflexive" measurements or the shared variance between its first-order dimensions. We believe that this approach warrants the attention of future researchers because it alleviates the potential problems due to empirical restriction of construct bandwidth.

Is it plausible to map the role of overall or global trust in the hypothesized model? Although we have noted that using the separate effects of competence and benevolence dimensions can potentially offer deeper insights, it is plausible to consider a reduced form of our proposed model that uses global trust. In this reduced model, the competence and benevolence dimensions may be replaced by a single higher-order trust construct. Future researchers may find such a reduced model to be a useful starting point for empirically testing the interplay of trust and agency mechanisms. For a deeper understanding of the performance and price mechanisms, the role of first-order trust dimensions could be investigated in a follow-up step. Managerially, the reduced model may be useful in establishing the significance of the simultaneous consideration of trust and agency factors; however, it is likely to prove less useful in guiding intervention programs for enhancing consumer loyalty. Only the fine-grained understanding from the explicit consideration of competence and benevolence dimensions can offer such managerial guidelines.

**Interrelationships Among Encounter-Specific and Relational Constructs**

The proposed model builds on previous attempts to model interrelationships among encounter-specific and relational constructs. In the services context, Garbarino and Johnson (1999) demonstrated that (postpurchase) relational trust mediates the influence of encounter-specific satisfaction on future intentions (or loyalty) for relational exchanges. However, the role of (prepurchase) trust in shaping satisfaction was not considered. Nor, to the best of our knowledge, has any other study specified the mechanisms that connect relational trust with encounter-specific variables including expectations, disconfirmation, and satisfaction. By hypothesizing these mechanisms, the proposed model allows for a dynamic representation of consumer-provider exchanges as trust influences encounter-specific variables and is then itself shaped by felt satisfaction in the postpurchase phase. This iterative, dynamic portrayal with feedback loops is an important characteristic of our model and coheres with the factors distinguishing relational from transactional exchanges.

The proposed interrelationships suggest that relational variables, such as trust, are likely to influence satisfaction by shaping expectations and perceptions of consumers as they enter a specific encounter with the provider. In so
doing, the proposed model builds on past research that suggests the significance of performance and price pathways for determining encounter-specific satisfaction. Moreover, we advance past literature by positing that trust directly influences satisfaction without mediation by performance or price pathway. This unmediated effect follows social exchange postulates and highlights the social embeddedness of ongoing relationships. Consumers are thought to prefer interacting with providers whose behaviors are governed by current social norms and cultural rules for fair play. In addition, evidence is accumulating that, in contrast to transactional exchanges, consumers in relational exchanges seek noneconomic benefits including social (e.g., recognition) and confidence (e.g., reduced risk) benefits (Gassenheimer, Houston, and Davis 1998; Gwinner et al. 1998). Few, if any, studies have conceptualized the implications of such relational benefits for satisfaction in specific encounters and loyalty in ongoing exchanges. The proposed model conceptualizes this effect by including trust as an independent variable in satisfaction and loyalty processes. Consumers are proposed to be aversive to service providers that they distrust and find it more satisfying to interact with trustworthy providers. Finally, while very high levels of trust can heighten the betrayal effect, in general, increasing trust in the provider should favor a forgiveness effect in which the consumer-provider relationship is less likely to be perturbed by a single negative encounter. In this sense, trust acts as the glue that holds the relationship together across different encounters.

Encounter-specific satisfaction is posited to modulate the relational trust between the consumer and the service provider. Across multiple encounters, satisfaction/dissatisfaction perceptions are integrated and abstracted into cognitions of relational trust. Following each encounter, an updating process likely occurs that is captured by the direct affect of encounter-specific satisfaction on relational trust (see Figure 1). However, the magnitude of this effect or the amount of updating is likely to depend on the atypicality of the service encounter. We have proposed two possibilities—the forgiveness and betrayal hypotheses—that govern this updating effect. While past research has paid little attention to this updating process, we believe that it plays a central role in understanding how relational trust is enhanced or depleted.

### Agency and Trust Mechanisms

Our model contributes to the agency literature by specifying how agency mechanisms might work in the context of consumer exchanges. Past studies have rarely used a micro perspective to examine how consumers process the agents' efforts to solve agency problems and how these processes might affect their attitude and behaviors toward the provider/service. Typically, researchers adopt an agent's perspective in understanding the efficacy of agency mechanisms. The proposed model highlights the key differences that are likely to emerge by adopting a consumer's perspective. From an agent's perspective, signaling investments and premiums are often viewed as distinct devices that solve different agency problems with little downside risks. From a consumer's standpoint, however, the proposed model argues that these processes are driven by interrelated perceptions that involve significant risks. For instance, signaling investments not only ensure that the provider is more likely to be included in the evoked set of quality-seeking consumers but also shape their performance expectations. These expectations then serve as a comparison standard for actual performance perceptions to influence satisfaction.

Assuming that providers seek consumer loyalty and not just purchase, our model suggests that highly discriminating signals may also serve to escalate expectations. As such, unless service performance exceeds this elevated level of expectations, the consumer is likely to be dissatisfied, resulting in erosion of loyalty. Consequently, in addition to its nature (e.g., invest in buildings or logos), the intensity (e.g., strong or weak) of the signal matters. Likewise, while price premiums may be viewed as reasonable mechanisms for helping consumers deal with moral hazards, the magnitude of premiums matters. High premiums might indicate that the provider is committed to delivering quality due to fear of losing rents in the long run, but they also run the risk of being perceived as unfair. Unfair price perceptions either before or as a result of the encounter can hurt satisfaction and undermine loyalty.

Finally, Voss et al.'s research indicates that the signaling and price mechanisms have interaction effects as well. Mismatches—when the quality of service performance does not match up to the price paid—increase the sensitivity of consumers to price perceptions, resulting in disproportionately large reductions in satisfaction. While we have suggested such interaction effects for future development, our model is consistent with the notion that solutions come with potentially significant downside risks. If our model is supported, it would suggest that careful attention to the magnitude and possibly matching of signaling investments and price premiums is needed to ensure that agency mechanisms do not undermine the satisfaction and loyalty of the very consumers they are supposed to attract.

More important, the proposed model does not view agency mechanisms in isolation. Rather, it hypothesizes the critical role of consumer trust both as a direct antecedent and as a moderator of agency mechanisms. As a direct antecedent, trust is posited to directly influence the (a) performance expectations that serve as reference points for evaluating the actual service performance and (b) prepurchase price perceptions that provide an anchor for the postpurchase perceptions of price fairness. In this sense, agency and trust mechanisms are posited to compete for

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.
influence. Although we do not discuss conditions that favor one mechanism over another, our proposed model encourages such speculation and allows empirical investigation of such conditions. Recent studies in the interorganizational literature suggest that such speculation is likely to reveal interesting insights. For instance, in a recent working paper, Hansen et al. (1999) noted that the relative influence of agency and trust mechanisms may evolve with the strength of the relationship. Early in the relationship, when the consumer lacks information about an agent’s service practices, plausibly agency mechanisms dominate. Without information needed for formulating confident expectations, consumers likely rely on agent-provided signals and premiums to judge service quality. However, as the relationship progresses, consumers acquire knowledge that facilitates independent evaluations about the competence and benevolence of the service provider. This likely reduces reliance on agency devices and enhances the role of trust expectations. Consequently, we can speculate that for ongoing exchanges, the trust mechanism for affecting performance expectations and price perceptions will be increasingly more prominent relative to the influence of signaling investments and price premiums established by market agents.

As a moderating variable, trust is posited to influence the relationship between (a) signaling investments and performance expectations and (b) price premiums and price perceptions. We have posited that low to moderate amounts of consumer trust allow the agency mechanism to operate in accord with theoretical predictions. In this sense, trust and agency mechanisms cooperate for influence. Lacking trust, the agency mechanism is posited to shut down as high levels of consumer distrust create an aversion toward the provider regardless of the magnitude and intensity of agency mechanisms. Although we hypothesize a similar shutdown effect at high levels of consumer trust, the logic is different. At high levels of trust, the consumer has access to internally developed confident expectations about the agent such that the effect of externally provided signals and mechanisms is likely to decline. This notion that trust oils the agency mechanism coheres with Chiles and McMackin’s (1996) theoretical work in the context of transaction cost economics.

**CONCLUSION AND FUTURE DIRECTIONS**

We have provided a guiding framework for understanding relational exchanges in consumer markets that is grounded in the literature and empirically testable. The proposed model has several unique characteristics, including (1) specification of the interplay of encounter-specific and relational factors in service contexts, (2) conceptualization of the competitive and cooperative role of relational trust in moderating agency mechanisms and shaping encounter satisfaction and long-term loyalty, and (3) theorizing the implications of the multidimensional consumer trust construct. None of these issues have received explicit attention in the marketing literature. By bringing them together in a holistic framework, we aim to guide future empirical research and theoretical work.

Nevertheless, we view the proposed model as an initial step for theorizing the interrelationships among agency and trust mechanisms. While the key hypotheses are based on theory and build on previous research, their validity is open to empirical examination. As empirical studies shed new light on the complex dynamics of relational exchanges for consumer markets, we expect that the proposed model would need to be refined and enhanced. Our aim is to encourage such empirical work. It is hoped that the proposed model will spur systematic and programmatic research into the topic—how relational exchanges work in consumer markets and how such relationships can be maintained and developed—that holds considerable theoretical appeal and significant implications for managers.

The empirical testing of the proposed model poses some challenges common to social science research. Three areas are especially noteworthy.

First, the construct of consumer trust needs to be developed and validated. We advocate caution in directly translating trust conceptualizations and/or operationalizations from the interorganizational literature. Consumer-provider exchanges are different in many respects and researchers must be cognizant of these differences as they seek to adapt the trust construct for testing the proposed model. Most of the other constructs in the proposed model have been used in previous consumer research so that their adaptation and application should be less challenging.

Second, it is appropriate to keep in mind that the proposed model does not claim to capture processes that are involved in transactional exchanges. Recognizing that it is difficult to precisely distinguish between transactional and relational exchanges, we have specified conditions that are conducive for the proposed model. They include (1) high-performance ambiguity, (2) significant consequentiality, and (3) greater interdependence. We have observed that many service exchanges meet one or more of these criteria (e.g., banks, health care, auto repair) and may be fruitful contexts for initially testing the model.

Finally, the key sources of variability need to be considered. The proposed model specifies relationships that are likely to vary by differences in the (1) use of agency mechanisms, (2) level of trust, and (3) length of relationship. As such, to empirically test the model, it would be useful to use a research design that allows sufficient variability across these three domains. Sampling across a diverse sample is likely to capture consumers who have different levels of trust in their service provider. To capture
variability in relationship length, designs that use either purposive sampling (e.g., select a weak and a strong relational provider) or random selection (e.g., select the last relational provider that you remember) may be considered. Of course, longitudinal designs are preferable as they allow a better test of the model dynamics. We believe that cross-industry designs may be especially attractive in providing the needed variability for testing the model and yielding insights into how the hypothesized mechanisms might modulate as background conditions change. Overall, these challenges are manageable and not unlike those encountered in testing typical social science models of consumer response processes. We urge future researchers to tackle these challenges, test and refine the proposed model, and further our understanding of trust and agency mechanisms in sustainable and successful market-mediated consumer exchanges.

ACKNOWLEDGMENTS

The authors appreciate the comments and feedback provided by Professors David Deeds, Dhruv Grewal, Shelby Hunt, Roy Lewicki, Leonard Lynn, and Ram Mudambi on earlier drafts.

NOTES

1. Consumers may indeed have access to prior experience and/or other nonexperiential cues and information before purchase, including word of mouth, published ratings (e.g., dining guide), and location.

2. In the terminology of Rao, Qu, and Ruckert (1999), these investments would be “dissipative signals”—that is, the corresponding investments would dissipate or be forfeited should the quality turn out to be poor.

3. Because agents may engage in trustworthy behaviors mainly as a consequence of enhancing their self-interest, some researchers refer to them as “trustable” behaviors to distinguish from trustworthy acts that are intrinsically motivated.

4. A parallel example is provided for the role ambiguity construct. Defining global role ambiguity as a set of nonattribute specific items is a popular practice in marketing. However, in a recent study, Singh and Rhode (1991) demonstrated empirically that such a global conceptualization at best maps on to a few attribute dimensions and at worst results in unspecified and uneven mapping. This does not imply that global conceptualizations are meaningless, but that, without reasonable attribute specification, the presumed global measures may not be faithful to the underlying global conceptualization.

5. Likewise, in a thorough analysis of the role of trust in governance mechanisms, Noteboom (1996) drew parallels between benevolent and nonaggressive motivations, and between competence and ability as sources of cooperation.

6. One reviewer has raised the question of the relationship between the competence/benevolence dimensions and the overall trust construct. Although this issue has not been addressed in the extant literature, we posit that overall trust is defined by the common variance shared by its first-order dimensions. Consistent with the notion of reflexive measurements, this implies that neither dimension is sufficient in and of itself to define overall trust. Moreover, absence of shared variance among the competence and benevolent dimensions results in lack of overall trust. As such, “competent rogues”—self-serving providers who may be highly competent—would lack overall consumer trust because of the inconsistency between competence and benevolence.

7. Drawing parallels with other multifaceted constructs such as job satisfaction/dissatisfaction and positive/negative moods, Lewicki, McAllister, and Bies (1998) have extended this logic to suggest that trust and distrust are different (not just distinct) phenomena that are neither redundant (e.g., absence of trust does not necessarily imply presence of distrust) nor evidence similar etiologies or effects (e.g., formation of trust differs from that of distrust). In the present study, we do not adopt Lewicki et al’s notion of the trust-distrust separation. Rather, we treat trust-distrust as a single continuum with a possibility for asymmetric effects depending on the valence of trust expectations.

8. To avoid wordiness, henceforth we use the term competence trust to imply the competence dimension of the consumer trust construct. Likewise for benevolence trust.

9. One example of this aversion effect is the case of Sears. In the early 1990s, following the disclosure that commissioned auto-repair employees at its California outlets regularly sold products and services that consumers did not need, Sears suffered heavy losses in its auto-repair business and otherwise. The recent disclosure that Sears used illegal credit card practices appears to threaten its credit card business with similar repercussions (McCormick 1999).

REFERENCES


ABOUT THE AUTHORS

Jagdip Singh is Professor of Marketing at the Weatherhead School of Management at Case Western Reserve University. His current research interests include consumer dissatisfaction and complaint responses, O-P-C (organization-person-customer) processes that occur in frontline/boundary roles, and measurement issues in marketing. He has published in the Journal of Marketing, the Journal of Marketing Research, the Journal of the Academy of Marketing Science, the Journal of International Business Studies, and Psychological Assessment, among others.

Deepak Sirdeshmukh is Assistant Professor of Marketing at the Weatherhead School of Management at Case Western Reserve University. His current research involves a multiindustry examination of the role of trust in building consumer-firm relationships. Other research interests include consumer evaluation of brand extensions and consumer information processing. He has published in the Journal of Marketing Research, the Journal of Consumer Research, and the Journal of Consumer Psychology.