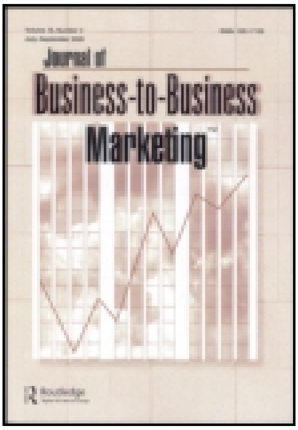

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If the Supplier's Human Capital Walks Away, Where Would the Customer Go?

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If the Supplier's Human Capital Walks Away, Where Would the Customer Go?

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Purpose: Professional service firms' clients often develop stronger attachments to their key contact employee than to the service firm. Since professionals are highly mobile, buyers of professional business services constantly have to decide whether to follow their key contact employee or remain with their incumbent firm, while service firms face the threat of losing customers if the employee leaves. This study examines how the key contact employee's human capital, the social capital between the contact employee and the client, and the service company's structural capital affect the decision whether to follow the key contact employee to another professional service firm.

Methodology/approach: The model is tested on a sample of 120 organizational buyers of advertising services by using partial last squares, a structural equation modelling technique.

Findings: Professional service firms' investments in company-specific structural capital create a deterrent for clients to follow the contact employee, because remaining with the service firm will increase clients' return on the service providers' structural capital. Furthermore, higher levels of structural capital reduce the value of the contact employee's investments in human capital should the employee leave. Conversely, human capital creates motivation to follow the contact employee, while social capital only provides value in combination with human capital.

Research implications: This study employs concepts developed in economics and economic sociology rather than relationship

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marketing variables to examine attachments to individual professional service providers and to professional service firms.

Practical implications: The findings underline the importance of competence, both at the company and individual level, for retaining clients of professional services. These results contrast previous studies emphasizing close interpersonal relationships and service firms' relationship-building activities.

Originality/value/contribution: Human, social, and structural capital provide value to clients and therefore apply well to professional services. Hence, these variables provide alternative explanations to service firms' client retention or desertion than traditional relationship marketing variables do. The findings add to our understanding of service provider–client relationships in professional services and knowledge intensive firms.

KEYWORDS professional services, human capital, social capital, structural capital, switching behavior, contact employee attachments, advertiser–agency relationships, industrial marketing, business-to-business marketing

INTRODUCTION

The postindustrial economy is characterized by the proliferation and importance of professional service firms such as advertising agencies, management consultancies, law partnerships, and engineering companies (Greenwood et al. 2005; Sharma 1997). Professional services share some general characteristics with consequences for client retention and desertion. First, production of customer value is based on solving the client's unique problems by use of the human capital (Becker 1962; Burt 1992), i.e., the professional skills and capabilities of individual contact personnel (hereafter *key contact employee*) (Bendapudi and Leone 2002; Greenwood et al. 2005). Second, the key contact employee and the client normally co-produce the solution to the customer's problems through repeated interactions (Sharma 1997; Skaggs and Youndt 2004; Stabell and Fjeldstad 1998). As a result, the key contact employee and the client develop social capital in the form of close and mutually beneficial relationships (Broshcak 2004; Haytko 2004; Seabright, Levinthal, and Fichman 1992). Consequently, clients often develop stronger commitments to their key contact employees than to the service firms (e.g., Jones, Taylor, and Bansal 2008). The key contact employees might exploit their unique position vis-à-vis the client, for example by taking the clients with them if moving to another service firm (Bendapudi and Leone 2001). Therefore, due to the high mobility of the professional workforce (Broschak 2004; Greenwood et al. 2005), clients constantly face a choice between following their key contact employee or remaining with their incumbent firm, while service firms face the threat of losing customers. For example, OfficeMax shifted its account from Publicis to J. Walter Thompson and ATA went from Publicis to startup Romani Bros due to clients' strong ties to these agencies' managers (Panczyk and Mack 2003).

A key question from the professional service firm's perspective is whether it can do anything to encourage clients to stay even when a key contact employee leaves. One strategy to prevent client desertion when key contact employees leave is to have them sign non-compete clauses. Besides being by and large ineffective (Bendapudi and Leone 2001), such practice creates other concerns. To an increasing degree, non-compete clauses are considered unethical as preventing free movement of labor as well as limiting clients' choice of service provider. In some cases, non-compete clauses has also been prohibited by law, or court decisions have concluded them to be non-legal. Usually, non-compete clauses have time limitations. After the time constraint expires, clients are free to choose service provider and then they might follow the employee. In that case, the same mechanisms as examined apply but with a time lag of their effects.

As a more positive approach to prevent client desertion, recent research recommends selling firms to engage in various relationship marketing programs (Palmatier, Scheer, and Steenkamp 2007; Palmatier, Scheer, Houston, et al. 2007) or generally to develop commitment to the service firm (Duhan and Sandvik 2009; Jones et al. 2008). Additionally, specific studies on advertising agency–client relationships suggest satisfaction with agency performance, situation-specific account factors, and client/agency size to be predictors of continuity and non-switching behavior (Buchanan and Michell 1991; Henke 1995; Michell and Sanders 1995).

In contrast, we will present a different perspective. To enhance their effectiveness and efficiency and to differentiate themselves from competitors, professional service firms can invest in specific working procedures and knowledge sharing routines, employee selection processes, and client-specific investments, i.e., service firm specific structural capital (Hansen, Nohria, and Tierny 1999; Seabright et al. 1992). For example, to better solve client problems and reduce service quality variability and dependence on the consultants' individual performance in attracting and retaining customers, the international management consultants Ernst and Young, Boston Consulting Group, and McKinsey have developed their own analytical tools and knowledge sharing procedures (Hansen et al. 1999; Løwendahl 1997), and the advertising agency Ogilvy employs its Brand Mapping procedure. A key contact employee might benefit from these company-specific procedures and knowledge-sharing routines so that the employee's human capital will have a higher value for the client while within the incumbent organization (Hansen et al. 1999; Nordenflycht 2007). Moreover, service firms with strict hiring routines reduce their vulnerability of key employee turnover (Bendapudi and Leone 2002). In sociology terms, the contact employee's human capital is embedded in the service firm's structural capital, meaning that the value of the individual's human capital partly depends on the presence of the service firm's specific structural capital. Consequently, the investments made in structural capital by a professional service organization should create a disincentive for the client to leave the incumbent service firm in the event that the key contact employee goes to another organization both through the investments' direct and moderating effects.

Our contribution to the literature is therefore to test empirically how the contact employee's human capital, the social capital in the relationship, and the company level structural capital will influence the clients' decisions to follow the key contact employee. Secondly, in addition to examining the main effects of each set of variables we examine whether interrelationships between the variables exist, which would mean that the effect of one variable depends on the level of another. The literature indicates, for example, that the existence of company-specific procedures (Nordenflycht 2007) and the embeddedness of the contact employee–client relationship (Hansen 1999) influence the effectiveness of the individual contact employee's human capital. These assumptions have not been fully examined empirically and our study is, therefore, clearly an answer both to Broschak's (2004: 636) call for studies distinguishing between embeddedness caused by firm- vs. individual-level investments, and to Palmatier, Scheer, and Steenkamp's (2007) call for studies examining loyalty to the salesperson, the selling firm, and synergies between these variables.

The article is organized as follows: In the following sections, we present the conceptual model and hypotheses. Next, we describe the research design and the empirical tests. Finally, we discuss the implications of the findings, the study's limitations, and possible topics for further research.

CONCEPTUAL MODEL AND HYPOTHESES

In this section, we focus on the nature of professional business-to-business services, hereafter referred to as professional services. Our theoretical framework builds on concepts developed in economics and economic sociology, as well as a review of the professional services literature. Particularly, we examine how the contact employee's human capital (Becker 1962; Burt 1992; Schultz 1960), social capital (Broshcak 20004; Burt 1992) in the contact employee–client interface, and the service firm's structural capital (Baker, Faulkner, and Fisher 1998; Granovetter 1992) affect the decision of whether to follow the key contact employee should the employee leave. These concepts provide different kinds of value to clients and therefore represent a coherent framework for examining professional services. Furthermore, we

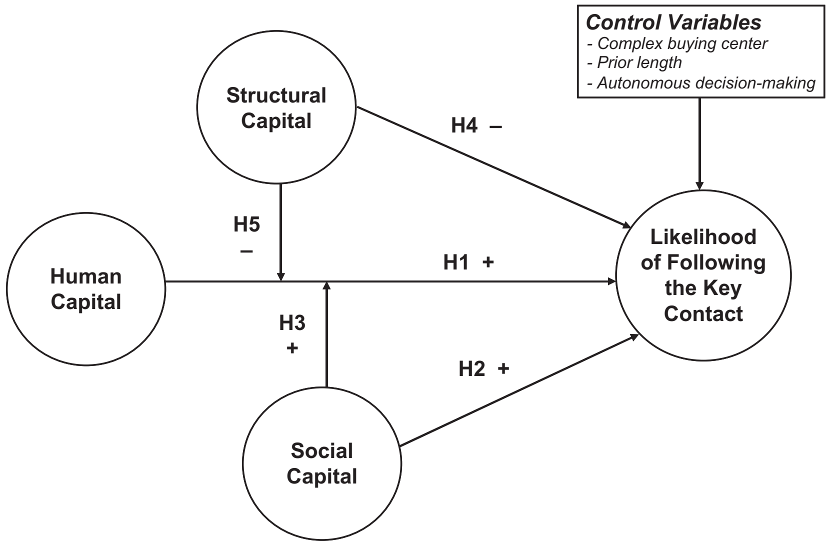

FIGURE 1 The conceptual model.

examine likely interaction effects between human, social, and structural capital. Figure 1 shows our conceptual model.

Human Capital

Human capital represents the individual's investments in education, experience, and job training that develop the specific expertise, skills, and capabilities required to excel at certain tasks (Becker 1962; Burt 1992; Greenwood and Empson 2003; Starbuck 1992). As such, human capital is a basic requirement for the key contact employee to create customer value in professional services by using his or her expertise, skills, and capabilities in solving the client's unique problem (Greenwood et al. 2005; Hitt et al. 2001; Stabell and Fjeldstad 1998). The ability to find good and appropriate solutions to the client's unique problems, for example by developing successful advertising campaigns or winning lawsuits, is crucial. Thus, in addition to the fees paid for the services, the economic consequences of following the key contact employee's recommendations can be severe (Starbuck 1992; Wittreich 1966). As a result, contact persons with excellent expertise, skills, and capabilities are highly valued by their clients (Bendapudi and Leone 2002; Stabell and Fjeldstad 1998; Wittreich 1966). Importantly, as Burt (1992) and Schultz (1960) emphasize, human capital is the individual's property and is the source of economic returns in future job positions (Becker 1962).[1] However, the key contact employee's human capital is also valuable and provides return to the client as long as the relationship with the contact employee remains. Therefore, the human capital creates specific dependencies for clients on their key contact persons, and attaches them to the contact employee rather than to the professional service firm.

> H1: The higher the client perceives the key contact employee's human capital to be the greater the perceived likelihood that the client will follow the contact employee should the contact employee leave.

Social Capital

In this study we conceptualize social capital as a relationship between the contact employee and the client (Nahapiet and Ghoshal 1998) capturing both informational value (Uzzi 1997) and interpersonal relationship (Haytko 2004; Wathne, Biong, and Heide 2001). Social capital provides opportunities to transform human capital into profits through relations with colleagues, friends, and clients (Burt 1992). Professional services create value by involving clients in a cyclical and iterative process (Skaggs and Youndt 2004; Stabell and Fjeldstad 1998). Similarly, several studies (e.g., Broschak 2004; Starbuck 1992) emphasize that the competent delivery of professional services such as advertising and management consulting requires the close physical proximity of individual contact personnel (providers) and clients (receivers) and necessitates close buyer–seller interaction. We can see at least two reasons for such practice. First, the nature of the problem to be solved may not initially be clear, either to the client or to the key contact employee. Through interactions, the parties explore various aspects of the client's situation and identify the real problem more clearly (Stabell and Fjeldstad 1998; Wittreich 1966), so the solution will better meet client needs. Second, the buyer–seller interactions serve as learning and monitoring devices (Sharma 1997). By frequent contacts, the buyer will better be able to observe the key contact employee's qualities as well as to monitor the quality of the service provided. Additionally, a contact employee, through his or her contacts with other clients, provides the focal client with information about markets and trends, while themselves gaining valuable information through interactions with that client (Haytko 2004). Previous studies show how frequent professional encounters can develop into close personal relationships, at least at a business friendship level (Haytko 2004; Uzzi 1997; Wilson 1995). Therefore, social capital develops as an effect of the interaction process even if this effect was not initially intended (Adler and Kwon 2002; Broschak 2004; Starbuck 1992).

Social capital exists in the relations between individuals and is owned jointly by the two parties in the buyer–seller relationship (Burt 1992; Coleman 1988). Social capital dissolves if one of the parties withdraws (Seabright et al. 1992), so the return on social capital, depends on the relationship's longevity (Wathne et al. 2001). Hence, following the contact employee will increase the client's return on the social capital (Adler and Kwon 2002).

> H2: The higher the client perceives the social capital in the contact employee–client relationship to be, the greater the perceived likelihood that the client will follow the contact employee should the contact employee leave.

The Moderating Effect of Social Capital

Burt (1992) argued that social capital provides access to other parties' human capital and provides opportunities to transform human capital into profit. Moreover, Hansen's (1999) and Uzzi's (1997) studies show how embedded ties support the transfer of complex and hard to codify competencies and knowledge. These studies also suggest that the utilization of hard-to-codify knowledge in the client–contact employee interface requires the presence of social capital or related concepts such as trust. More specifically, information sharing and trust promote a freer exchange of ideas and a more thorough search for solutions that improves learning and development of capabilities (McEvily and Marcus 2005). Hence, as the social capital builds up during the problem-solving interactions between the client and contact employee, the contact employee will continuously develop his or her skills and capabilities, and the value of the contact employee's human capital to the client will increase.

> H3: Higher levels of social capital will increase the effect of the contact employee's human capital on the perceived likelihood of following the contact employee should the contact employee leave.

Structural Capital

In an attempt to reduce its vulnerability, the service firm can invest in strategies that motivate clients to stay with the professional service firm even when key contact employees leave (Greenwood et al. 2005). To prevent client desertion, one strategy is to engage in interorganizational relationship-enhancing activities (e.g., Palmatier, Scheer, and Steenkamp 2007) and build interorganizational commitment (Jones et al. 2008). A completely different strategy is to enhance the service firm's effectiveness and efficiency by investing in intraorganizational activities, i.e., firm-specific structural capital. One reason for organizing professional services in integrated firms (Greenwood and Empson 2003; Nordenflycht 2007) rather than other arrangements (Powell 1990) is to preserve and develop the firm's human assets, which are the assets required for producing value (Greenwood et al. 2005; Williamson 1991). Moreover, as Nahapiet and Ghoshal (1998) argued, firms have particular capabilities for creating and sharing knowledge giving them their distinctive advantage over other institutional arrangements. Thus, the ability to create customer value depends partly on the professional service firm's internal structure.

Company-specific capabilities

In particular, service firms can differentiate themselves by developing company-specific working procedures and knowledge-sharing practices for solving client problems (Hansen et al. 1999; Seabright et al. 1992). In this respect, company-specific capabilities serve at least two purposes: (1) the capabilities enhance the abilities of the individual's human capital in solving customer problems (Hansen et al. 1999), and (2) they reduce dependence on the individual professional (Broschak 2004; Starbuck 1992).

Selection procedures

One client concern, should the contact employee leave, is the quality of replacements (Bendapudi and Leone 2001). Replacement is especially problematic for professional services where, usually, the professionals have more expertise in their field than the buyer (Greenwood et al. 2005). However, the service company can reduce the client's replacement problem by replacing the key contact employee with equally competent employees (Hansen et al. 1999). Firms investing in strict hiring and prequalification routines develop a reputation for having high-quality employees (Pfeffer 1995; Mishra, Heide, and Cort 1998), which increases the acceptability of replacements (Bendapudi and Leone 2002).

Client-specific investments

An underlying assumption in service firm–client interactions is the objective of creating customer value. To enhance value creation, suppliers may invest in client-specific knowledge, databases, and routines (Baker et al. 1998; Sarvary 1999). Investments in customer-specific knowledge enable the service firm to provide solutions that are more adequate to the unique problem faced by the client (Broschak 2004; Stabell and Fjeldstad 1998), such as an advertising campaign better hitting the target segment. Should the client switch to another service supplier, it would no longer benefit from the service firm's specific knowledge investments, thereby losing their added efficiency and effectiveness.

Company-specific capabilities, selection procedures, and client-specific investments form the service firm's structural capital in the relationship. In our study, structural capital is conceptualized as a higher-order construct.

Investments in firm-specific structural capital exist at the organizational level independent of the key contact employee. If the client follows the contact employee to a competitor, the client will clearly no longer benefit from the incumbent service firm's structural capital investments.

> H4: The more the client perceives the incumbent professional service organization to have invested in structural capital, the lower the perceived likelihood that the client will follow the contact employee should the contact employee leave.

The Moderating Effect of Structural Capital

In their study, Nahapiet and Ghoshal (1998) theorized how firms may have special advantages in creating and sharing intellectual capital, so that organizational membership enhance individual skills. Empirical studies (Hansen 1999; Tsai and Goshal 1998; Tsai 2000) have shown how intraorganizational linkages help sharing, utilizing, and developing knowledge, while Bendapudi and Leone (2002) and Pfeffer (1995) reported how stringent standards for recruitment and training create a beneficial effect on client impression of all employees in the firm. Service firms also have the problem that market information about clients often disappears as key personnel leave the organization (Sinkula 1994). Therefore, service firms with investments in accessible information on clients' organization, market position, challenges, and client history retain important client information within the organization. Thereby, they increase their contact persons' effectiveness while also reduce the organization's dependence on them. In sum, these studies suggest that being a member of an organization with high levels of structural capital adds to the individual professional expertise, skills, and capabilities—the human capital of the contact employee. Conversely, a contact employee that leaves will no longer benefit from specific procedures, skilled co-workers, and client-specific organizational investments.

> H5: Higher levels of structural capital in the service firm will decrease the effect of the contact employee's human capital on the perceived likelihood of the client following the contact employee should the contact employee leave the firm.

Control Variables

Structural properties of the relationship and properties of the client organization may also influence the decision of whether to follow the key contact employee. Therefore, we include the following variables as controls: prior relationship length with the supplier, complex buying center, and autonomous decision making in selecting a service provider.

Prior relationship length with supplier

Several studies suggest commitment between firms to increase their prior relationship length (e.g., Baker et al. 1998; Broschak 2004; Colgate et al. 2007).

Complex buying center

Organizational buying literature makes clear that supplier selection usually involves several persons (Bonoma 1982). In complex buying centers where many people are involved, many relationships develop between the client and the supplier (Broschak 2004; Heide 2003). Thus, complexity of the buying center should increase the probability of the client staying with the incumbent supplier (Broschak 2004; Heide 2003).

Autonomous decision making

Conversely, when the customer's decision maker has key influence on selecting an advertising agency, we should expect that the probability of desertion increases (Broschak 2004).

METHOD

Research Context and Sampling Frame

The empirical context for this study is working relationships between purchasers of advertising services and their advertising agencies, with the sample drawn from a national list of the 327 largest advertisers. The advertisers' agencies supply a variety of communication and promotional services to clients, including print, broadcast, interactive, direct mail, retail, and business-to-business communication solutions. The list contained names of the key individual responsible for handling the agency contact within the client company. When firms employed several agencies, we asked the informants to focus on the relationship with their main advertising agency, and their main contact employee within that agency irrespective of the contact employee's title. Thus, a key contact employee could be a creative director, as well as an account manager. The informants' formal titles were usually marketing director, marketing manager, or product manager. Broshak's (2004) study supports our context since lower rank managers play an important role in co-producing advertising and maintaining client–agency relationships.

Preliminary Fieldwork and Pilot Study

As a first step in the research process, we consulted the literature on services in general and professional services in particular. After the literature review, we conducted two qualitative interviews with buyers, and two with suppliers of professional services (engineering and architectural services; management consulting). The main objective of the initial review and interviews was to gain better understanding of the main variables affecting client turnover caused by the departure of the key contact employee.

In the next step, we conducted discussions with the marketing executives of two client firms and two advertising agency managers. Additionally, we reviewed both academic (e.g., Baker et al. 1998; Broschak 2004) and trade literature on advertising and advertising agency relationships, and visited a random selection of advertising agency Web sites. This pilot study suggested that our focal theoretical variables all manifest themselves in the research context to varying degrees.

Data Collection

First, we contacted all advertisers by telephone and identified correct individuals (i.e., responsible for contact with/selection of advertising agency) in each company. In total, 170 persons agreed to take part in the study, thus fulfilling the requirements to be key informants (Campbell 1955). Second, we collected data by means of a questionnaire sent by mail to the key informants. After the deadline and a follow-up by phone, we received 122 questionnaires. Two of these were eliminated from further analyses due to incomplete answers, leaving us a sample of 120 valid reports, for a response rate of 36.7 percent of the original list and 70.6 percent of the refined list.

Development of Questionnaire and Measures

When developing the questionnaire, we followed the standard psychometric scale-development procedures recommended by Churchill (1979) and Gerbing and Anderson (1988). Where possible, we based our measures on existing scale items and adapted them to the advertising agency–client context. The measures are formulated both within single- (control variables) and multiple-item formats. The multiple-item scales are conceptualized by using reflective measures (Bollen and Lennox 1991). Once the survey instrument was developed, we conducted two test interviews with buyers, both providing consistent results. Based on the results of these interviews, we made some minor changes. The appendix shows the actual measures, anchors, and key descriptive statistics.

Likelihood of following the contact employee

After having completed the questionnaire with respect to the independent variables, the informants were asked to envisage a situation in which their key contact employee left the agency to join another agency or to start a new agency. Based on the relationship with the agency and with the key contact employee, the key informant was asked to make a decision on whether the company would follow the contact employee to the new agency or remain with the incumbent agency. A four-item scale measured the likelihood of following. The scale is based on continuity and repurchases intention scales from other studies such as Anderson and Weitz (1989), Heide and John (1990), Zeithaml, Berry, and Parasuraman (1996) and also closely parallels Palmatier, Scheer, and Steenkamp's (2007) salesperson-owned loyalty scale. Scales measuring intended behavior have a long tradition for assessing switching or continuity decisions in buyer–supplier relationships (e.g., Palmatier, Scheer, and Steenkamp 2007; Wathne et al. 2001).

Human capital

The scale consists of four items and describes the professional abilities of the contact employee in creating advertising based on his or her background, experience, and assessment of professional skills. The scale is based on the conceptualizations of Burt (1992), Løwendahl (1997), Sharma (1997), and Starbuck (1992), all emphasizing human capital as the expertise within a field developed through background, training, and experience.

Social capital

Our social capital scale focuses on this construct's dyadic and social embeddedness dimensions (Burt 1992; Uzzi 1997). A three-item scale measures social capital and describes both the closeness of the relationship that has developed between the contact employee and the client (Nahapiet and Ghoshal 1998; Wathne et al. 2001; Wilson 1995) and the informational value of the contact employee–client relationship (Burt 1992; Coleman 1988; Uzzi 1997).

Structural capital

The structural capital scale is a second-order construct based on three dimensions; company-specific capabilities, selection procedures, and client-specific investments. Company-specific capabilities consist of three items and describe the service firm's investments in standard operating procedures aimed at creating customer value and differentiation from competitors. This scale is based on Løwendahl's (1997) conceptualization. Selection procedures consist of three items and describe the emphasis placed by the service firm on hiring the best-qualified employees (Bendapudi and Leone 2002). As such, this scale parallels and builds on the prequalification scale employed by Mishra et al. (1998). Client-specific investments consist of three items and measure the investments by the service firm in client-specific routines and knowledge. This scale builds on the supplier-specific investment scale developed by Stump and Heide (1996).

Prior length of relationship with supplier measures the historical duration of the relationship between agency and client. Length is based on the actual number of year duration (e.g., Baker et al. 1998; Doney and Cannon 1997). Complex buying center measures the number of individuals on the buyer side involved in selecting advertising agency. This measure builds on the conceptualizations of Broschak (2004) and Heide (2003). Autonomous decision-making captures the role of the decision maker in the buying center, as described by Bonoma (1982) and measures the degree to which the key informant personally influences the advertising agency selection.

RESULTS

Analysis Strategy

To further validate the measurement and structural models, we used partial last squares (PLS), a structural equation modelling technique. PLS was preferred because it provides the opportunity to model latent variables under conditions of relatively small sample sizes, and because the presence of interaction effects does not satisfy the requirements of multivariate normality (Chin, Marcolin, and Newsted 2003; Hulland 1999). We represent latent interaction variables by creating all possible products from two sets of standardized indicators. Because PLS makes no distributional assumptions, we used (1) bootstrapping and (2) jackknifing, that tends to generate more stable resample path coefficients with samples containing outliers due to errors in data collection, as resampling methods to generate stable parameter estimates and reliable *p* values (Chiquoine and Hjalmarsson 2009; Kock 2010). According to the results, both resampling methods generated the same parameter estimates and *p* values.

Measurement Model

First, we assessed the quality of the measures by inspecting item-to-total correlations. Next, we conducted exploratory factor analyses to ensure high loadings on hypothesized factors and low cross loadings. Finally, we tested whether the observed items that were hypothesized to originate from the three first-order factors (company-specific capabilities, selection procedure, and client-specific investments), originated from the second-order factor representing structural capital.[2] In sum, the results support our conceptualization of structural capital as a second-order construct. Hence, the three first-order structural variables were combined into three equally weighted composite scores for the PLS analysis.

TABLE 1 Confirmatory Measurement Model: Composite Reliability, Alpha and Variance Extracted

Items	Human capital (HC)	Social capital (SC)	Structural capital	Follow key contact (FKC)
HC1	0.97*			
HC2	0.99*			
HC3	0.83*			
HC4	0.72*			
SC1		0.91*		
SC2		0.92*		
SC3		0.46*		
Selection procedures			0.81*	
Client-specific investments			0.74*	
Company-specific capabilities			0.88*	
FKC1				0.97*
FKC2				0.96*
FKC3				0.93*
FKC4				0.92*
Composite reliability	.93	.83	.85	.97
Cronbach's α	.89	.68	.74	.96
Average variance extracted ρv	.76	.62	.66	.89
Skewness[a]	−0.75	0.12	−0.59	0.42
Kurtosis[a]	0.37	−0.53	0.05	−0.98

[a]The skewness and kurtosis are based on simple composites of the constructs.
* $p < 0.001$.

Fornell and Larcker's (1981) internal consistency measure was used to check convergent validity. After the initial validation tests, we assessed the reliability of measures by calculating coefficient alpha, composite reliability, and the average variance extracted for each construct. As Table 1 shows, all factor loadings for the four multi-item scales are significant. The composite reliability and coefficient alpha indicate acceptable levels of reliability for the constructs. The average variance extracted is above 60 percent, evidencing discriminant validity among the measures (Fornell and Larcker 1981).

Discriminant validity was assessed in two ways. First, we compared the square root of the average variance extracted with the correlations among constructs (Fornell and Larcker 1981). Table 2 indicates that each construct shares more variance with its measures than with other constructs. Second, we checked and found no statistically significant item cross-loadings.[3] The model, therefore, meets the requirements of a well-fitting measurement model.

Because we used a cross-sectional survey and a single instrument for data collection to test the hypotheses, we needed to consider and control for common method bias. For common method bias control, we followed the procedure recommended by Lindell and Whitney (2001). We included a

TABLE 2 Correlations Between Latent Variables (*M* and *SD*)

	M[a]	*SD*[a]	1.	2.	3.	4.	5.	6.	7.	8.	9.
1. Follow key contact employee	4.13	2,39	(0.94)[b]								
2. Social capital	3.41	1.16	0.22	(0.79)							
3. Human capital	5.28	1.06	0.32*	0.26	(0.87)						
4. Structural capital	4.45	0.90	−0.02	0.23	0.52*	(0.81)					
5. Prior length of relationship	4.49	5.15	−0.13	0.13	0.02	0.05	(1.00)				
6. Autonomous decision making	5.52	1.67	0.25	0.05	0.12	−0.09	−0.03	(1.00)			
7. Complex buying center	3.88	2.66	−0.23	0.00	−0.08	0.12	−0.12	−0.28	(1.00)		
8. Social capital × Human capital	–	–	−0.09	−0.07	−0.44*	−0.30	0.02	−0.12	−0.13	(0.71)	
9. Structural capital × Human capital	–	–	−0.27	−0.25	−0.30	−0.34*	−0.06	0.11	−0.08	0.54*	(0.74)

[a]The means and standard deviations are based on simple composites of the constructs.
[b]Square roots of average variance extracted are shown on diagonal.
* $p < .001$.

construct (i.e., price premium, Cronbach's $\alpha = .94$, adapted from Mishra et al. 1998) which is theoretically unrelated to more than one of study constructs, as the proxy for method variance. The lowest correlation ($r = .02$) was found between this scale and structural capital and is therefore selected as the best estimate of method variance. We then adjusted the correlations among the study's four main variables and determined the statistical significance. None of the significant correlations becomes insignificant ($p > .05$) after the adjustment, and common method bias is therefore unlikely to affect the results.

Hypotheses Tests

The PLS model required to test the hypotheses included the main effects of the independent constructs ($\beta 1$–$\beta 3$), interaction terms ($\beta 4$–$\beta 5$), and control variables ($\beta 6$–$\beta 8$) on the likelihood of following the key contact employee. Essentially, this model captures clients' perception on whether they would follow their key contact employee modelled as a function of client perception of the independent variables. Before we tested the hypotheses we investigated to what degree our results are influenced by outliers, with the Mahalanobis D^2 measure and found that none of the cases have a Mahalanobis D^2 with a probability less that or equal to 0.001. Table 3 provides information on the estimated parameter estimates, associated p statistics and collinearity statistics (VIF). First, the results indicate that the potential threat of multicollinearity is very low, and that the results are reliable. Second, the independent variables account for 33 percent (R^2) of the variance, and the two interaction terms (quasi-moderators) account for a 7 percent (incremental R^2) increase when they are introduced into the model, which is a sufficient amount of variance (R^2) explained, justifying the examination of the individual coefficients.

As Table 3 shows, the main effect of human capital is significant and positive ($\beta = .38$, $p < .01$), supporting Hypothesis 1. Turning to the prediction for Hypothesis 2, we find, contrary to our expectations, a nonsignificant effect of social capital ($\beta = .11$). Thus, Hypothesis 2 is not supported. However, the interaction term between human capital and social capital is significant and positive ($\beta = .22$, $p < .05$), supporting Hypothesis 3. The higher order construct of structural capital has a strong and significant negative effect, as hypothesized ($\beta = -.26$, $p < .01$), giving support to Hypothesis 4. Finally, the interaction effect between human capital and structural capital is significant and negative ($\beta = -.37$, $p < .01$), supporting Hypothesis 5. Summing up the findings in Table 3, four of the five hypothesized main and interaction effects are supported.

Finally, we comment briefly on the effect of the control variables. As suggested, the prior length of the relationship shows a negative effect on the likelihood of the client following the contact employee. Moreover, a complex buying center with many individuals involved tends to preserve the

TABLE 3 Partial Last Squares-Structural Equation Modeling Analysis—Dependent Variable: Follow the Key Contact Employee

Independent variables	Parameter estimates	Variance inflaction factors
Human capital (Hypothesis 1)	.38**	1.729
Social capital (Hypothesis 2)	.11	1.178
Human capital × Social capital (Hypothesis 3)	.22*	1.779
Structural capital (Hypothesis 4)	−.26**	1.528
Human capital × Structural capital (Hypothesis 5)	−.37**	1.633
Control variables		
Prior length of relationship	−.18**	1.041
Complex buying center	−.13*	1.189
Autonomous decision making	.20**	1.194
	$R^2 = 33\%$	
	Incr.$R^2 = 7\%$	

*$p < .05$. **$p < .01$.

client–agency relationship, while autonomous decision-making in choice of agency increases the likelihood of client desertion.

DISCUSSION

Implications for Theory

The extant literature has well documented that key contact employees' exit or turnover presents risks of client–professional service firm relationship dissolution (Baker et al. 1998; Broschak 2004).[4] Previous studies have provided insight into how relationship marketing programs and commitment can prevent buyer–seller relationship dissolution (e.g., Palmatier, Scheer, and Steenkamp 2007; Jones et al. 2008). Unfortunately, these studies provide less insight into how the specific properties of the key contact employee and of the client–contact employee relationship, in Broschak's (2004) terminology *the market ties,* affect the client's decision either to follow the key contact employee or to remain with the incumbent service providing firm. As an alternative approach, we examined the client's decision of following the contact employee or remaining with the incumbent service firm by a theoretical model with concepts developed in economics (e.g., Becker 1962; Schultz 1960) and economic sociology (e.g., Burt 1992; Coleman 1988; Granovetter 1992). These concepts—the contact employee's human capital, the client-contact employee's social capital, and the service firm's specific structural capital—provide different kinds of value to clients and apply well to professional services. Therefore, our study fills a gap in the marketing management literature on professional services and knowledge intensive firms.

In professional services such as advertising or consulting, there are people valued for their ability to deliver quality outcomes due to their high levels of human capital (Burt 1992, 1997; Greenwood and Empson 2003). In contrast, the literature claims that others (the "rainmakers") are valued for their ability to deliver clients (Burt 1992; Starbuck 1992) through their abilities to socialize, in other words by their investments in social capital. According to this literature, problem-solving and socializing abilities may not be easily combined within the same person. Our results present a more complex and nuanced picture and indicate that a contact employee could possess both abilities.

The clients in our study generally perceive the human capital variable to be generally the most important and to be more important than the social capital variable in their deliberation to follow the key contact employee. In fact, social capital showed no significant effect on this decision, contrary to our predictions. Excellent expertise, skills, and capabilities are unique, difficult to substitute, and highly valued (Rosen 1981) and can seriously affect the client's business as Starbuck (1992) and Wittreich (1966) noted. So even if human capital is a quality of the contact employee (Burt 1997; Schultz 1960), it clearly also represents value to the client. Therefore, as our results show, the human capital of the contact employee has a strong ability to retain clients by itself. Our findings thus indicate that clients are attached to their contact employee due to her or his intrinsic qualities rather than to extrinsic relationship-building activities suggested in other studies (e.g., Palmatier, Scheer, and Steenkamp 2007).

This finding is noteworthy when we take into account the emphasis put on social capital and interpersonal relationships in previous studies on professional services (e.g., Haytko 2004). For example, Czepiel (1990: 14) noted that "the social content of service encounters often seem to overshadow the economic," while Starbuck (1992) and Burt (1992) suggested social capital to have the strongest effect on relationship formation and maintenance. Similarly, Bendapudi and Leone (2002) pointed to employees' friendliness being a motivator to stay with a firm. Our findings may contradict these statements but are consistent with previous findings in the marketing literature (e.g., Wathne et al. 2001). Yet, we should not downplay the role of social capital when only looking at its main effect. More important is the positive interaction effect between human and social capital underscoring Burt's (1997) argument that social capital is the contextual complement to human capital. Our results also suggest that an individual professional service provider can have both problem-solving and socializing capacities. While this combination might be rare (Starbuck 1992), the finding adds to our understanding of individual professional service providers' "rainmaking" abilities (Burt 1992).

Professional services provide value to clients by applying complex knowledge to solve non-routine problems (e.g., Greenwood and Empson 2003). In professional service firms, investments in organizational structures and processes-structural capital in our terminology enhance the value of the service firm's human capital because they facilitate sharing of knowledge through interactions with knowledgeable colleagues, (Hansen et al. 1999; Nahapiet and Ghoshal 1998). Our findings generally support these arguments well. In particular, we would emphasize two effects of investments in structural capital. First, the presence of structural capital creates a disincentive to follow the contact employee in its own right. To understand why, the nature of professional services has to be taken into account. Consider the necessity of client history for producing adequate solutions to the client's problem (Stabell and Fjeldstad 1998). While client history often resides in the contact employee, structural capital in the form of client-specific databases and procedures represents organizational memory thereby reducing dependence on specific persons (Sinkula 1994). Moreover, strict hiring procedures and knowledge-sharing routines increase the acceptability of replacements (Bendapudi and Leone 2002; Starbuck 1992).

Second, and more noteworthy, is the strong negative interaction effect between human capital and structural capital. This finding indicates that clients value the key contact employee's human capital more highly when the employee is a member of the incumbent professional service firm. Therefore, investments in structural capital serve as a buffer against client desertion through diminishing the utility of the individual contact employee's competencies should the employee leave. On leaving the service firm, specific procedures, skilled coworkers, and knowledge-sharing routines will no longer support the contact employee.

Taken together our findings clearly support Broschak's (2004) assumption that embeddedness might be contained both in firm- and individual-level investments and also that service firms' strategies affect the ties between the service firms' and clients' exchange managers. Our findings also underscore the contrast between suppliers' emphasis on forming close interpersonal relationships (e.g., Haytko 2004; Wathne et al. 2001) and clients' low attention to the social dimension in supplier-switching decisions. Finally, the findings demonstrate the importance of competence, both at the individual and company level, for client retention and desertion in professional services relationships.

Implications for Management

In professional services, defining and solving the client's problem also means client acquisition and retention (Stabell and Fjeldstad 1998). Previous studies recommend individual service providers to establish friendship relationships with their clients through social encounters to increase commitment (e.g., Haytko 2004). In contrast, our study suggests that contact employees providing professional services should primarily concentrate on developing their professional skills and abilities in the client encounters. To understand these contradictory recommendations, the study context has to be taken into account. While Haytko (2004) examined the client relationship from the advertising agency's perspective, we took the client's view. In a study of customers' switching behavior in a professional banking context, Wathne et al. (2001) found customers to attach far less importance to interpersonal relationships than suppliers and suggested that suppliers might have inflated perceptions of the importance of interpersonal relationships compared to buyers.

Contact employees develop their professional skills and abilities in interactions with clients presenting them new problems that challenge their previous knowledge. In turn, challenging problems attach the contact employees closer to demanding clients (Stabell and Fjeldstad 1998; Starbuck 1992). Our results also suggest that clients value their contact employees' skills and abilities more highly when the clients and contact employees additionally develop mutually beneficial relations encompassing both interpersonal relationships (Wathne et al. 2001) and informational benefits (e.g., Burt 1992, 1997; Coleman 1988; Uzzi 1997). Therefore, the contact employee may develop the social dimension in the client relationship as a vehicle for advancing knowledge rather than as an objective in its own right. Unfortunately, this strategy represents a potential threat to their employer. Professionals are highly mobile and clients might follow if they switch firms (e.g., Bendapudi and Leone 2002; Greenwood et al. 2005; Haytko 2004). In fact, employers often hire and value professionals due to their client-producing capacities (Burt 1992; Starbuck 1992).

A challenge for professional service firm managers is therefore to reduce the dependence on the key contact employee and increase clients' commitment to the firm. Knowledge and problem-solving capacities are the professional service firms' core assets (Hansen et al. 1999). A promising strategy for client retention should therefore be to develop knowledge and problem-solving capacities at the company rather than individual level. Successful professional service firms depending on creative thinking manage knowledge by developing networks for linking people so they can share tacit knowledge. At the same time, they hire highly educated people that like problem solving and reward them for sharing knowledge with colleagues (Hansen et al. 1999; Sarvary 1999). Our results suggest that company-level structural capital investments comprising company-specific capabilities, recruitment procedures, and client-specific databases and working processes encourage clients to remain in the relationship with the incumbent service organization. The results also show that these investments reduce the value of the key contact employee's individual skills and capabilities should the contact employee leave. By investing in company-specific routines, methods and recruitment procedures, as well as in client-specific databases and working processes, the service firms build a collective knowledge base (Sarvary 1999). In turn, this knowledge base improves service outputs and the pay off is threefold. First, the presence of company-specific structural capital creates collective organizational capabilities. Second, it makes contact employee replacement more acceptable and less costly to the customer. Finally, our results indicate that the buyers perceive structural capital to provide organizational advantages to the contact employee's human capital (Nahapiet and Ghoshal 1998) when being a member of the firm, thereby reducing the threat of client desertion should the contact employee leave.

Limitations and Further Research

Some limitations of this study should be noted. For theory-testing purposes, we decided to test our hypotheses in one particular context, namely advertising agency services. Although this industry possesses important characteristics of professional services (see Broschak 2004 for further arguments), caution should be used in extrapolating the results to other contexts. Another concern might be reliance on buyer-side data to test our hypotheses. We fully acknowledge this concern. However, John and Reve (1982) provided support why one-sided data from key informants might be appropriate when structural traits are examined, as in our study, whereas Heide and John (1995) provided supporting arguments for relying on buyer-side data when the buyer's actions are influenced by the buyer's specific perception of a situation.

Next, the study examines the likely actions of the buyer in a (hypothetical) decision situation, not the real outcome. Intention scores have a long tradition for measuring switching and continuity decisions in buyer–supplier relationships (e.g., Anderson and Weitz 1989; Palmatier, Scheer, and Steenkamp 2007; Wathne et al. 2001) and are commonly used to predict behavior (Morgan and Rego 2006). Unfortunately, the relationship between intentions and behavior is not perfect (Chandon, Morwitz, and Reinartz 2005). A method for validating the results might be, therefore, to identify situations in which the key contact persons really left their firms and compared followers (switchers) with non-followers (non-switchers) to get deeper insights into the motives behind the buyers' decision. For example, the internal politics of the buying firm and the individual members of the buying center might influence the decision as our control variables indicate. Examining more deeply internal politics' influence should add to our understanding of buying behavior of professional services.

Furthermore, the focus on individual, relational, and structural characteristics required us to restrict our model. Another perspective is various relationship-building activities as the relationship marketing literature suggest to deploy to retain customers (e.g., Palmatier, Scheer, and Steenkamp 2007). Therefore, expanding our framework with relationship-building mechanisms could provide promising avenues for further research.

Finally, an underlying assumption is how the variables in this study contribute to value creation for the clients. Further research should more specifically examine how investments in individual, relational, and company capabilities create value for customers. This will add both to value creation in buyer–supplier relationships generally and in professional service and knowledge-intensive firms particularly.

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NOTES

1. In economics and sociology, the concept of human capital is used both at an individual (e.g., Burt 1992; Schultz 1960) and aggregate level (e.g., Schultz 1960). In the latter case, human capital means a society's stock of persons with similar education and training. It could be argued that when a stock of people with similar education and experience is available, one contact person could easily be replaced with another. Unfortunately, the replacements' skills and capabilities might have experience attributes that make them difficult for clients to assess (Bendapudi and Leone 2001, 2002). We address the problem with replacements in more detail in the **Structural Capital** section.

2. Using LISREL 8.8, we found that the relevant first-order and second-order loadings are large and significant. The overall chi-square statistics were insignificant, χ^2 (24) = 28.26 ($p = 0.249$, and the goodness-of-fit measures RMSEA = 0.039. The goodness-of-fit index (GFI = 0.92), and the incremental fit indices (NFI = 0.97) also suggested a satisfactory fit to the data. In addition, the composite reliability for the three first-order factors range from .75 to .86.

3. Additionally, we used LISREL 8.8 to run a series of two-factor confirmatory model comparisons to assess whether differences existed when correlations between the latent constructs were constrained to 1.0, compared to the unconstrained model, and performed chi-square difference tests (with 1 *df*). For all comparisons, the unconstrained model produced a significantly better fit, indicating that the measures are distinct and discriminant valid (Bagozzi and Phillips 1982).

4. Parallel findings from industrial purchasing suggest that industrial buyers of telecommunication and electronic components would try to shift an average of 26 percent of their current purchases to follow a defecting salesperson (e.g., Palmatier, Scheer, and Steenkamp 2007).

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IMPLICATIONS FOR BUSINESS MARKETING PRACTICE

Professional services such as advertising and management consulting provide value to clients by applying complex knowledge to solve non-routine problems. These services share some general characteristics with consequences for client retention and desertion. The first is that production of customer value is based on solving the clients' unique problems by use of the human capital, that is, the professional skills and capabilities of individual contact employees. Excellent expertise, skills, and capabilities are unique, difficult to substitute, and highly valued. The second is that the solution to the customer's problems is normally co-produced through interactions between the key contact employee and the client. As a result, social capital in the form of close and mutually beneficial relationships develops between the key contact employee and the client. Consequently, clients often develop stronger commitments to their key contact employees than to the service firms. The key contact employees might exploit this unique position vis-à-vis the client, for example by taking the clients with them if moving to a competitor or starting their own business. In fact, professional service providers often are hired and valued due to their client-producing capacities and it is expected that experienced professionals not only bring with them their competencies but also clients when they go to another service firm. Therefore, due to the high mobility of the professional workforce, clients constantly face the choice between following their key contact employee or remaining with their incumbent firm, while service firms face the threat of losing customers.

In professional services, defining and solving the client's unique problems also mean client acquisition and retention. Previous studies recommend individual service providers to establish friendship relationships with their clients through social encounters to increase commitment. By contrast, this study suggests that when the contact employees are professional service providers, they should primarily concentrate on developing their professional skills and abilities in the client encounters. Professional skills and abilities are best developed when the contact employees in the client interactions are presented with new problems challenging their previous knowledge which, in turn, attach them closer to demanding clients. Furthermore, our results suggest that clients value their contact employees' skills and abilities more highly when the clients and contact persons additionally develop mutually beneficial relations encompassing both interpersonal relationships and reciprocity and informational benefits. Hence, the contact employee should develop the social dimension in the client relationship as a vehicle for advancing knowledge rather than as an objective in its own right. Unfortunately, this strategy represents a potential threat to their employer. Professionals are highly mobile, and clients might follow if they change firms.

A challenge for managers of professional service firms is therefore to reduce the dependence on the key contact employee and increase clients' commitment to the firm. We argue that in the same way financial capital without organization has little value, so too is the case for human capital within a firm. A key contact employee might benefit from organization through company-level structural capital in the form of company-specific operating procedures and client-specific routines and knowledge to create customer value. Knowledge and problem-solving capacities are the core assets of professional service firms. A promising strategy for client retention should therefore be to develop knowledge and problem-solving capacities at the company rather than the individual level. Successful professional service firms that depend on creative thinking manage knowledge by developing networks for linking people so they can share tacit knowledge. At the same time, successful service firms hire highly educated people that like problem solving and reward them for sharing knowledge with others. Our results suggest that structural capital investments at company level such as company-specific capabilities, recruitment procedures, and client-specific databases and working processes encourage clients to remain in the relationship with the incumbent service organization. The results also show that these investments reduce the value of the key contact employee's individual skills and capabilities should the contact employee leave. By investing in company-specific routines, methods, and recruitment procedures, as well as in client-specific databases and working processes, the service firms build a collective knowledge base. This knowledge base then improves service outputs and the payoff is threefold. First, the presence of company-specific structural capital creates collective organizational capabilities. Second, it makes replacement of a contact employee more acceptable and less costly to the customer. Finally, our results indicate that the buyers perceive structural capital to increase the value of the contact employee's human capital when being a member of the firm, thus reducing the threat of client desertion should the contact employee leave.

APPENDIX: MEASURES OF THE CONSTRUCTS

Scale	Response anchor	Items
Human capital	4 items, 7-point scale from "completely inaccurate description" to "completely accurate description"	Our contact employee in agency XYZ has a background that is highly appropriate for working with advertising. Our contact employee in agency XYZ has long experience in process of creating advertising. Our contact employee in agency XYZ is highly competent in the production of advertising solutions. Our contact employee in agency XYZ is highly professionally skilled.
Social capital	3 items, 7-point scale from "completely inaccurate description" to "completely accurate description"	Our contact employee in agency XYZ and I have developed a close social relationship. Our contact employee in agency XYZ and I are close business friends. The relationship between me and our contact employee in agency XYZ gives me access to valuable information.
Structural capital		Composite scores of (1) company-specific capabilities, (2) selection procedures, and (3) client-specific investments
Company-specific capabilities	3 items, 7-point scale from "completely inaccurate description" to "completely accurate description"	Agency XYZ has well-defined procedures as a basis for each project. Agency XYZ has a standard operating procedure for every project it carries out. Agency XYZ has well-proven working methods that it employs to solving advertising projects for its clients.
Selection procedures	3 items, 7-point scale from "completely inaccurate description" to "completely accurate description"	Agency XYZ places strong value on recruiting competent employees at all levels. Agency XYZ has demanding hiring procedures for employees at all levels. Agency XYZ places strong weight on the professional background of employees before hiring them.

(*Continued*)

APPENDIX (Continued)

Scale	Response anchor	Items
Client-specific investments	3 items, 7-point scale from “completely inaccurate description” to “completely accurate description”	Agency XYZ has invested a lot of time and resources in the working procedures between itself and our company. Agency XYZ has devoted significant resources to developing working procedures to solve our company’s specific marketing requirements. Agency XYZ has devoted significant resources to gain insight into our company’s market situation.
Likelihood of following the contact employee	4 items, 10-point scale from “very unlikely” to “very likely”	Imagine a situation when your key contact employee in agency XYZ leaves to join another agency or to start a new agency. Based on your relationship with agency XYZ and with your contact employee, you have to make a decision whether your company would follow the contact employee to the new agency or remain as a customer in agency XYZ. How likely is it that you would recommend your company to follow the key contact employee to the new agency? How likely is it that your company would follow the key contact employee and transfer all the work currently carried out by agency XYZ to the new agency? How likely is it that your company would transfer some advertising projects to your contact employee’s new agency? How likely is it that your company would have a long-term relationship with this specific contact employee even after he or she has started working at another agency?
Control variables		
Prior length of relationship	Actual number of years/months	How long has your company been a client of agency XYZ?
Complex buying center	Number of persons involved	How many persons in your company are involved in advertising agency selection decisions?
Autonomous decision making	7-point scale from “very little” to “very large”	To what degree do you personally have an influence on your company’s advertising agency selection decisions?