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The effects of customer voice on hotel performance

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ABSTRACT

This paper investigates the effects of two critical customer voice variables on hotel performance. Specifically, the research provides a customer equity model in which the influences of both customer satisfaction and complaints are considered. The impact of the customer voice variables on hotel performance is investigated while considering the potential for moderating effects by hotel size and star rating. We use a more robust approach to measure firm performance than is traditionally used in satisfaction-performance studies. Finally the paper reports on the results of these investigations and outlines implications for both theory and practice.

1. Introduction

A significant portion of the service literature focuses on assessing the impact of customer satisfaction on firm performance (Anderson and Mittal, 2000; Johnston, 1995; Johnston et al., 1990; Mersha & Adlakha, 1992). Customer satisfaction is a form of customer voice. Specifically it is a post-consumption consumer response that leads to greater customer loyalty (Anderson and Sullivan, 1993; Fornell, 1992; LaBarbera & Mazursky, 1983) and help firms "secure future revenues, reduce the costs of future transactions, decrease price elasticities, and minimize the likelihood that customers will defect if quality falters" (Anderson et al., 1997, p. 129). Positive word-of mouth from satisfied customers also makes it simpler and less expensive to attract new customers (Anderson, 1998; Luo, 2009). Customer satisfaction also links to improve overall reputation, economic return, and shareholder value (Anderson et al., 2004; Fornell et al., 2006). In service industries such as hotels, customer satisfaction is not only an important goal, it is also a vital marketing tool for attracting future customers and ensuring stronger market positions (Luo and Homburg, 2007). However, customers may not only voice their satisfaction but also their dissatisfaction, and recently, scholars have also investigated customer complaints as an important customer voice (Luo, 2007, 2009).

Despite the attention and contributions to understand customer satisfaction and complaints on firm performance, the relationships have not been explored fully, and despite their importance to hotels – and academic interest – few studies analyze how they affect hotel performance (Chi & Gursoy, 2009). For example, hotels use many resources to improve customer satisfaction and attract/retain customers with the purpose of increasing performance, but the literature offers contradicting evidence regarding the impact of customer satisfaction on hotel performance (Barsky, 1992; Chi & Gursoy, 2009; Sun & Kim, 2013). It is not necessarily the case that customer satisfaction leads to improved firm performance; many reasons exist to suggest customer satisfaction does not improve firm performance (Anderson et al., 1997). Studies in the service literature also provide inconsistent conclusions regarding the longitudinal relationship between customer satisfaction and firm performance (Anderson, 1994; Anderson and Mittal, 2000; Ittner & Larcker, 1998; Johnston, 1995; Johnston et al., 1990; Mersha & Adlakha, 1992). If a firm improves performance by downsizing, it might achieve an increase in performance in the short-term, but future profitability might be threatened since lack of back-and front-office personnel influences both customer satisfaction and complaints negatively. Scholars note trade-offs between customer satisfaction and firm performance across several heterogeneous industries such as airlines, banking, education, hotels, and restaurants (Anderson et al., 1997). Customer satisfaction is also a given or expected factor in some service industries. In the hotel industry, for example, high satisfaction does not necessarily result in higher performance because customers expect to be satisfied when choosing one hotel over another (Gursoy & Swanger, 2007).

The goal of this paper is to contribute to the literature on customer satisfaction in a service context, focusing on three important gaps. First, customer satisfaction and complaints are two essential customer voice variables. Although these two have been analyzed

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separately regarding their impacts on firm performance, to date no study has included their impact on firm performance in a single model. This is a major gap; as Luo and Homburg (2008) suggest, "managers should no longer value satisfaction and complaint in isolation. Rather, both good news (of "angel" customers) and bad news (of "devil" customers) should be considered in one model" (p. 29). It might be more important for managers to reduce customer complaints than improve customer satisfaction (Luo and Homburg, 2008) since potential negative impacts of customer complaints on performance might matter more than upside gains in terms of customer satisfaction. Hence, it is important to also consider customer complaints for two reasons: (a) to provide a more robust assessment of customer satisfaction on performance and (b) to compare the impacts of both customer satisfaction and customer complaints on hotel performance. Thus, we provide an investigation of such a more complete customer equity model in which we analyze the impact of both customer satisfaction and customer complaints on hotel performance simultaneously.

Second, when analyzing the impact of customer satisfaction on hotel performance, the literature has yet to consider moderating variables, with few exceptions. This research gap of potential moderating influences is even more pronounced for the customer complaint–hotel performance relationship. We suggest that hotel size and star ratings moderate the influence of customer satisfaction and customer complaints on performance. We also include these moderators to advance a contingency view of customers' impact on hotel performance.

Third, this study uses a more robust approach to measure firm performance than extant satisfaction–performance studies. Instead of using financial indicators (e.g., ROA, Tobin's q[1]) used commonly in the literature, we focus on technical efficiency gap, which offers two advantages. It measures overall firm performance based on multiple inputs and outputs, not partial indicators alone, providing a comprehensive, realistic assessment of firm performance. It also reveals a company's efficiency gap when benchmarked against optimum, best-performing competitors. Hence, it provides a complete assessment of performance by measuring performance of every firm relative to the maximum performance it can achieve.

2. Conceptual framework and hypotheses

Consumers' post-consumption responses (e.g., expressing satisfaction or complaining) are important to managing loyalty and repeat purchases, and understandably, study of such responses attracts research from various fields (Anderson and Mittal, 2000; Johnston, 1995; Johnston et al., 1990; Mersha & Adlakha, 1992). Expressing low satisfaction is not synonymous with expressing dissatisfaction by complaining, and vice versa; research from sociology and psychology (Cashdan, 2001; Larsen et al., 2001) suggest positive and negative dispositions are distinct. We investigate whether creating satisfied customers leads to higher performance. Further, we investigate whether firms with less complaining customers perform better than firms with more complaining customers. We are interested in discovering whether the most efficient strategy is to (a) mostly allocate resources to increase satisfaction, (b) mostly allocate resources to avoid complaints, (c) balance resources between increasing satisfaction and lowering complaints, or (d) accept lower satisfaction, while satisfying the majority, and allow for some complaints. Our framework that includes the impact of consumer responses on firm performance is illustrated in Fig. 1.

[1] Tobin's q is the ratio between total market value of the firm and total asset value.

The hospitality management literature suggests that customer satisfaction is at "the core of hospitality operations" (Sun and Kim, 2013, p.70). Hotel revenues rely heavily on the service quality delivered by its employees, and consequently, customer satisfaction occupies an important role in the hotel industry, leading to improved brand reputation, faster market penetration, accelerated cash flows (Anderson et al., 2004), steady future sales (Anderson et al., 1994; Reichheld & Sasser, 1990), and higher shareholder value (Anderson et al., 1994, 2004). According to Barsky and Labagh (1992), the objective of satisfying customers is to improve profitability in a chain of effects from increased customer loyalty, improved product reputation, and increased sales. Since loyal customers provide increased repeat business with less effort and costs than finding new customers, and increased positive word-of mouth (Bowen & Chen, 2001), maintaining high satisfaction is essential, and has direct and indirect effects on hotel performance (O'Neill & Mattila, 2004).

Although the literature supports these theoretical advantages of customer satisfaction, the empirical evidence remains inconclusive. Banker et al. (2005) demonstrate that while Hotelcorp enjoyed positive effects on revenue as a result of implementing an incentive plan to improve customer satisfaction, the impact on operating costs was negative. Customer satisfaction influences a firm's revenue positively, but it might not always result in increased profits (Bernhardt et al., 2000; Schneider, 1991; Tornow & Wiley, 1991; Wiley, 1991). For example, to increase customer satisfaction, firms often invest in training and upgraded facilities (Chi & Gursoy, 2009), but this might affect profits and obscure the potential relationship between customer satisfaction and firm performance – at least in the short term (Bernhardt et al., 2000).

The service literature suffers from the same gap regarding the direction and strength of the customer satisfaction/firm performance relationship. Heskett et al. (1997) found a weak relationship between customer satisfaction and customer loyalty in a service-profit chain. Novelty-seeking customers might be very satisfied but not loyal, and some customers are price sensitive, searching for better deals even if satisfied with a hotel's property (Shoemaker & Lewis, 1999). In view of contradicting findings in this literature, it is difficult to hypothesize the nature and direction of the relationship between customer satisfaction and hotel performance. Following theoretical arguments found in the majority of the literature (Anderson et al., 2004; Luo and Homburg, 2007), we expect customer satisfaction to influence hotel performance positively.

H1. Customer satisfaction correlates positively with hotel performance.

2.1. Customer complaints and hotel performance

The focus on decreasing complaints should also be important for hotels just as customer satisfaction is. In a recent extension of the satisfaction literature, marketing scholars have focused on customer complaints (Luo, 2007; Luo and Homburg, 2007). For most firms, the cost of generating a new customer is higher than retaining a customer (Fornell & Wernerfelt, 1987; Yavas et al., 2004), and because complaints is a more extreme effect of being dissatisfied, these complaining customers may exit. Therefore managing customer complaints is important, particularly in industries such as hotels in which competition is fierce and customers can easily switch among service providers. Customer complaints also relate to the effectiveness of operations. For example, complaining is a way of providing direct feedback regarding a hotel's operating processes, and it is useful for initiating corrective actions (Banker et al., 2005). Service research has particularly designed complaint management strategies to reduce customer complaints and turnover. Fornell and Wernerfelt (1987) found that better handling of