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How do firms benefit from customer complaints?

Cengiz Yilmaz^{a,1}, Kaan Varnali^{b,*}, Berna Tari Kasnakoglu^{c,2}^a Middle East Technical University, Department of Business Administration, 06800, Ankara, Turkey & Abdullah Gul University, Faculty of Leadership and Management, 38038, Kayseri, Turkey^b Istanbul Bilgi University, Department of Advertising, 34060 Eyup, Istanbul, Turkey^c TOBB University of Economics and Technology, Department of Business Administration, 06520, Ankara, Turkey

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ABSTRACT

The study explores the effects of two sets of factors relating to complaint management on firm performance, namely, (1) customer response factors and (2) organizational learning factors, thereby integrating organizational learning into the conceptualization of complaint management. Symmetric testing using hierarchical regression analysis of data obtained from complainants and firm managers revealed the joint effects of the two main paths on firm performance, independently from one another. Learning from complaints is shown to influence both short- and long-term firm-level performance measures positively. However, contrary to expectations, complainants' and managers' perceptions of fairness in the complaint handling processes of firms are found to (1) be nonrelated to short-term firm performances and (2) influence long-term performance expectancies negatively. Asymmetric analyses involving contrarian cases and further utilizing the fuzzy-set qualitative comparative analysis (fsQCA) disclosed distinct sets of antecedents that are sufficient for explaining short- and long-term firm performance.

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Extending the exit-voice theory of Hirschman (1970), a complainant has long been viewed in the marketing literature as a dissatisfied customer bearing the costs associated with submitting a complaint to the firm in order to receive a solution to an experienced problem and/or initiate a change in the practices, policies, or offerings of the firm. A complainant, thus, chooses to communicate with the firm regarding a problematic consumption experience, rather than simply withdrawing from being a customer, giving the firm an opportunity to provide some form of remedy and/or to take some corrective action regarding its processes (Folkes, Koletsky, & Graham, 1987; Maxham, 2001). Despite the implications in this conceptualization for firms to not only “take an action for a solution” in response to customer complaints but at least on occasion also to “change something,” the notion of customer complaint management continues to be viewed rather narrowly as a reactive strategy in marketing just aiming to lower complainant defection rates and prevent damaging word of mouth (Blodgett, Hill, & Tax, 1997; Fornell & Wernerfelt, 1987; Richins, 1983). That is, the conceptual boundaries and practical applications of customer complaint management are somehow limited to include the processes through which a firm registers and handles customer complaints to produce immediate reactions for the purpose of resolving the issues raised. Consequently, research on effective customer complaint management has focused

extensively on the perceived fairness of the conflict resolution efforts with complaining customers and on how such processes relate to customer satisfaction and loyalty (Homburg & Furst, 2005; Homburg, Fürst, & Koschate, 2010; Hui & Au, 2001; Orsinger, Valentini, & Angelis, 2010; Tax, Brown, & Chandrashekar, 1998).

Alternatively, from the *firm as a learning organism* perspective (e.g., Argyris & Schon, 1978), customer complaints present a valuable opportunity to gain strategic marketplace information on how to improve internal processes and focus managerial attention on specific problem areas (Slack, Chambers, Harland, Harrison, & Johnston, 1998). Understanding the root causes of customer problems and achieving complaint-based improvements facilitate competitive success (Johnston, 2001). This rather critical role of customer complaints seems to have been largely overlooked in prior empirical research and in the practice of complaint management. As Homburg and Fürst (2007, p. 523) state firmly, “many firms do not use the information inherent in complaints to facilitate systematic improvements.”

Relatedly, it has been established in the extant research that return on investments from an effective customer complaint management system can be substantial (Gupta, Lehmann, & Stuart, 2004; Harmon & McKenna-Harmon, 1994; Luo, 2007). More important, whereas such performance impacts may take place through a variety of processes and mechanisms, as the preceding discussion elucidates, the *customer response path* and the *organizational learning path* are categorically the most prominent ones (i.e., Homburg & Furst, 2007; Tax et al., 1998). Firms may benefit from effective customer complaint management practices (1) through creating satisfied customers, that is, the *customer response path*, and (2) through improving business processes and

* Corresponding author. Tel.: +90 212 311 7536.

E-mail addresses: ycengiz@metu.edu.tr (C. Yilmaz), kaan.varnali@bilgi.edu.tr (K. Varnali), btari@etu.edu.tr (B.T. Kasnakoglu).

¹ Tel.: +90 312 210 2004.² Tel.: +90 312 292 4148.

practices based on insights derived from customer complaints, that is, *the organizational learning path*. Therefore, from the firm's perspective, an effective customer complaints management system should involve more than a complaint handling design (high quality formal guidelines and a supportive internal environment for complaint handling), and further incorporate systems facilitating the management of (1) customer-level (i.e. justice perceptions and satisfaction) and (2) firm-level outcomes of complaint handling (i.e., learning). Considering the individual roles of the customer response path and the organizational learning path, questions such as “which path offers what specific benefits as a result of which form of complaint handling design independently from each other” constitute the main research issues focused in the present study.

The study aims to shed light on the aforementioned issues by exploring the relative effects of the customer response path and the organizational learning path of complaint handling on firm performance. Following Homburg and Furst (2005), we make a distinction between the organic approach to complaint handling, that is, an organizational culture supporting effective complaint handling, and the mechanistic approach to complaint handling, that is, formal guidelines regulating and facilitating complaint handling, and explore the specific effects of each approach on firm performance *through both the customer response path and the learning path*. We further differentiate between immediate performance effects and long-term performance effects and explore the effects of complaint handling constructs through the customer response path and the learning path separately for each temporal span of firm performance. We explore the relationships of interest using both traditional symmetric analyses (i.e., hierarchical regression analyses) and asymmetric configural analyses. The latter sets of analyses are based on the tenets of the complexity theory, which acknowledges the complex nature of reality and focuses on patterns in phenomena under investigation.

Two tenets of complexity theory are particularly of interest in the customer complaints management domain. The first one is the “*equifinality*” principle, which states that a few (not just one) of the many possible paths (configurations of antecedent factors) may lead to the same outcome (Woodside, 2014; Wu, Yeh, Huan, & Woodside, 2014). More specifically, alternative asymmetric combinations of complaint management practices and perceptual factors (i.e., algorithms) are sufficient but no one combination is necessary for accurately predicting, for instance, highly positive firm performance. The second tenet is the “*causal asymmetry*” principle, which proposes that configurations leading to negative outcomes are not the mirror opposites of configurations leading to positive outcomes (Woodside, 2014; Wu et al., 2014). An important implication of causal asymmetry for complaint management is that the recipes for failure in complaint management may not be the mirror opposites of recipes for success. Accordingly, for a nuanced understanding of how complaint management practices relate to firm performance, a method of configural analysis that grounds on the tenets of complexity theory and an asymmetrical way of thinking about relationships among antecedent conditions, namely, fuzzy-set qualitative comparative analyses (fsQCA), is employed (Ragin, 2009; Woodside, 2014). fsQCA is a relatively new methodological approach that follows a “causes-of-effects” approach seeking to explain individual cases, unlike the traditional “effects-of-causes” approach that seeks to estimate net effects of independent variables (Mahoney and Goertz 2006, p. 229). Given that firms subject to customer complaints are meaningful yet complex configurations of complaint management practices (Ragin, Drass, & Davey, 2006), in addition to the traditional symmetric analyses, fsQCA is utilized to explore combinatory statements of antecedents that relate to high and low levels of firm performance (Feurer, Baumbach, & Woodside, 2015).

Another distinctive nature of the study is that multiple source data are obtained and used in the analyses, both from firms in the sample and from their complaining customers. An online complaint website provided data regarding real complainants' fairness perceptions of the

complaint handling processes of respective firms and their after-complaint loyalty. In addition, multiple correspondents from the firms in the sample provided data regarding the complaint handling approaches, fairness perceptions of complaint handling practices, learning, and immediate and long-term performance assessments of firms. We now continue with a brief overview of the customer complaint management literature and the foundations that form the conceptual framework upon which we base our analyses.

1. Conceptual background

1.1. Complaint management and the customer response path

Drawing upon the principles of the behavioral theory of the firm (Cyert & March, 1992) and the justice theory (Gilliland, 1993; Lind & Tyler, 1988), and synthesizing the accumulated knowledge in the field of service recovery (e.g., Blodgett et al., 1997; Goodwin & Ross, 1992; Messick & Cook, 1983; Smith, Bolton, & Wagner, 1999), Homburg and Furst (2005) offer a comprehensive theoretical framework for customer complaint management. This framework suggests that two organizational complaint handling approaches affect customer fairness evaluations regarding a firm's complaint management, which in turn predict complainant satisfaction and re-patronage intentions (e.g., Kelley, Hoffman, & Davis, 1993; Homburg & Furst, 2005; Tax et al., 1998). *First*, adopting an *organic approach*, firms can influence employee behavior with respect to complaint handling by creating a supportive internal environment, mainly through motivational processes as well as by creating shared values and norms (Maxham & Netemeyer, 2003). Such a supportive organizational environment requires a customer-oriented corporate culture (e.g., Deshpandé & Webster, 1989). Employee customer orientation in general and customer orientation toward complainants in particular should be supported and motivated (e.g., Bulut, Yilmaz, & Alpkan, 2009; De Ruyter & Brack, 1993; Maxham & Netemeyer, 2003). *Second*, based on the *mechanistic approach*, firms can influence employee behavior by developing and installing formal organizational policies for complaint handling processes. Homburg and Furst (2005) group formal organizational policies for complaint handling processes into three categories: (1) *Processes* for registering and processing customer complaints, (2) *outcomes* designed as remedies and compensations, and (3) *behavioral guidelines* dealing with employee attitudes and behaviors toward complainants. The quality of the three categories of guidelines—assessed based on their degree of customer orientation, clarity, and simplicity—predicts complainant justice evaluations. Accordingly, and following the traditional approach, justice perceptions are conceptualized as a three-dimensional construct involving (1) *procedural justice* (perceived fairness of the end-to-end complaint-handling process) (2) *distributive justice* (perceived fairness of the tangible outcome), and (3) *interactional justice* (perceived fairness of the treatment the complainant receives during the resolution process). Customer satisfaction and loyalty are then posited as outcomes of justice perceptions. Drawing on this framework, we expect the quality of complaint handling guidelines and supportiveness of the internal environment to exert positive influences on firm-level performance through justice evaluations, i.e., the customer response path.

Observe that the aforementioned justice-theory based framework guiding the majority of the studies in this domain focuses mainly on complainant perceptions and responses as a result of the firm's complaint handling practices. Indeed, despite the fact that Tax et al. (1998) define complaint management as “the strategies firms use to *resolve and learn* from service failures in order to (re)establish the organization's reliability in the eyes of the customer” (p.61), extant empirical works has focused almost exclusively on the customer response path to understand outcomes of complaint management practices (see Orsinger et al., 2010 for a meta-analysis of satisfaction with complaint handling), largely overlooking potential performance implications of learning from complaints. Considering the fact that firms can

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