

# Complaint Management and the Role of Relationship Quality

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**Abstract** Facing dissatisfaction, customers have several alternatives: exit, loyalty and voice. The verbal answer (Voice) can be word-of-mouth communication or a complaint which is a constructive way to express dissatisfaction to obtain a correction or compensation. The management of complaints thus perfectly integrates within scope of customer relationship management to increase loyalty since it gives an organization a last chance to retain dissatisfied clients (Smith et al, 1999). In addition, complaints are a very rich source of valuable information to improve quality continuously. The investigations on complaint management show that the theory of justice (Adams, 1965) explains the satisfaction of complaining customers (Orsingher et al, 2010). However, the questions about the nature and the valence of the compensations as well as which consumer targets to privilege remain unanswered. The principal contribution of this article is thus to determine the most effective dimensions of the theory of justice in the context of customer complaint management to satisfy and retain customers. We differentiate the effectiveness of the complaint management process according to the relationship quality or strength between the firm and the customer. We first describe the key factors for complaint management and then we explain our conceptual model as well

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as our hypotheses and methodology. Finally, the article shows the results and finishes with a discussion, managerial implications and research directions.

## **1 Key factors in the management of complaints**

The management of complaints aims at preserving the quality of a relationship. It is the one critical moment during which customers can test the reality of the recompensation efforts which the firm is ready to grant to satisfy them.

### ***1.1 The role of relationship quality***

The quality of the relationship indicates a psychological connection that customers have with a firm. It can be considered as a global judgment of the relationship (Garbarino and Johnson, 1999). In the literature a consensus is established about the importance of satisfaction, trust, commitment and identity connection which influence the quality of the relationship (Bhattacharya et al, 1995).

The role of relationship quality is complex in the complaint management process and service incidents (Grégoire and Fisher, 2006). On the one side, a strong relationship quality may have a protective effect (Ahluwalia, 2002; Bolton et al, 2000). A strong bond between a customer and a company (and thus strong loyalty) could result in lower expectations of the customer concerning the service quality (being less confronted to competitors' offers), a less severe judgment of the problem by the customer, and lead to more satisfaction with complaint management (Hess et al, 2003). Furthermore, a bad complaint management might have a less negatively influence on the customers' trust and commitment (Tax et al, 1998).

On the other hand, the relationship quality may lead to judgments and behaviors that are relatively more negative for the company. Indeed, customers with strong relationship quality may have higher expectations in terms of complaint management and might be particularly demanding, because they know that they are very good customers (Tax et al, 1998;

Kelley and Davis, 1994). They may be more inclined to feel betrayed, because the trust they had in the company has been disappointed by an incident of service (Wetzel et al, 2012).

### ***1.2 The role of perceived justice***

The theory of justice explains how individuals react to situations of conflicts. The perception of justice results from a three-dimensional evaluation (Smith et al, 1999; Tax et al, 1998). A meta-analysis (Orsingher et al, 2010) shows that distributive and interactional justice strongly influences the satisfaction and the behavior of complainers while procedural justice plays a very weak role. Thus, when consumers are dissatisfied and when they have a feeling of injustice, they make a complaint to restore the balance of the exchange from an economic and relational point of view. From an economic point of view, they wish to receive a proportional answer to their costs: the utility of the complaint must therefore be higher than the perceived costs, including those related to the treatment of the complaint (Grégoire et al, 2009). From a relational point of view, customers wish to be treated with consideration and respect by the company.

## **2 Hypotheses**

The effectiveness of the complaint efforts of the company must be considered with regard to the type of customers (Bolton et al, 2000; Wetzel et al, 2012). The relationship quality with customers plays a fundamental moderating role on the compensations to be granted (Wetzel et al, 2012). If the relationship quality is good (bad), the level of necessary compensation efforts can (must) be lower (higher). A major weakness of this research is that these authors do not distinguish distributive and interactional efforts. We, therefore, suggest that the loyal individuals maintaining a strong relationship quality with the firm are searching more for interactional efforts than new customers. This could be justified by the importance of this dimension in the field of complaint management (Smith et al, 1999; Tax et al, 1998). In addition, the interactional efforts are more able

to restore a contract of trust and the status of the customer who might feel betrayed because of the service incident. They would like to be recognized as such (Thibaut and Walker, 1975; Lind and Tyler, 1988):

H1 Loyal customers having a strong relationship quality with the firm prefer interactional (non-monetary) compensations to distributive (monetary) ones.

On the other hand, new customers, having a low relationship quality with the firm, do not have identity connections with the company. They should therefore be attached to rebalance the exchange in economic terms:

H2 New customers having a weak relationship quality with the firm prefer distributive (monetary) compensations to interactional (non-monetary) ones.

In this context, we distinguish two types of compensations: money refunding and purchase voucher. The purchase voucher symbolizes the desire of the firm and the customer to continue the relationship. That is why we suggest that the loyal customers having a strong relational quality with the firm are more willing to accept purchase vouchers than refunding. This is coherent with their complaints' targets to improve a given situation in case of dissatisfaction and to continue the relationship with the firm.

H3 Loyal customers having a strong relationship quality with the firm prefer purchase vouchers to money refunding.

On the other hand, a new customer does not need to restore trust and inevitably has not committed yet into a new long term relationship.

H4 New customers having a weak relationship quality with the firm prefer refunding to purchase vouchers.

Finally, the intensity of the effort of compensation (i.e. generosity) must be considered. In H1 we suggest that loyal customers having a strong relationship quality with the firm are more searching for consideration (interactional dimension) than economic benefits (distributive dimension). On the other hand, customers having a low relationship quality with the firm are more instrumentally orientated, and consequently, they are probably more sensitive to the intensity of the effort of compensation (i.e. the monetary value; (Smith et al, 1999)).

H5 The importance of the intensity of the effort of compensation is lower for loyal customers having a strong relationship quality with the

firm than for new customers having a low relationship quality with the firm.

### 3 Methodology

To test our assumptions we choose the experimental methodology by scenario. The restaurant sector is selected, because consumption in a restaurant is a current situation and involves relatively frequent problems of non-quality, because of the importance and the complexity of the interpersonal relationships (i.e. customers and personnel in contact). Within the scenario the respondent invites his/her father at the restaurant for celebrating his 50th birthday. The incidents include long waiting in spite of reservation, poor dishes and quality, lack of reactivity of the staff.

We consider two types of distributive compensations to distinguish their relative impact and their valence and two interactional compensations:

1. The nature of compensation: The restaurant offers
  - a. a purchase voucher to be used on a forthcoming consumption or
  - b. money refunding.
2. The intensity (or the monetary value of refunding or the purchase voucher): The offer of the restaurant corresponds to
  - a. the total amount (100%) or
  - b. a part (66%) of the value of the meal.
3. The interactional compensation: We compare the situation where
  - a. the owner contacts the complainer by telephone in order to apologize (i.e. strong relational value) or
  - b. the restaurant sends an impersonalized email (i.e. low relational value).

8 compensation scenarios with  $2 \times 2 \times 2$  dimensions (3 attributes of compensations having each 2 levels) were thus generated by an orthogonal design.

A pretest of the scenarios ( $N = 80$ ) validates the experimental conditions:

1. In the case of strong relationship quality perceived trust (mean 5.95) and loyalty intention (mean 5.58) are significantly higher ( $p < 0.01$ ), than in the case of low relationship quality (mean perceived trust 1.63 and mean loyalty intention 1.08).
2. The scenario incident is judged critical (mean 5.03) and the restaurant is judged responsible for the problem (mean 6.16).
3. Concerning justice, the response (personal apology with a mean of 3.93; "Apologizes of the staff were sincere") is perceived as more just than the impersonalized response (mean 2.78) with  $p < 0.01$ . The media of response (mail versus phone) does not influence the distributive justice ("the response gives me the impression to have good value for my money":  $p > 0.2$ ).
4. But the intensity of compensation influences significantly the distributive justice (mean 100% compensation 4.02 vs. mean 66% compensation 3.13,  $p < 0.01$ ), but does not influence interactional justice ( $p > 0.5$ ).

The investigations have been carried out between 2010 and 2011 with 301 students from 3 French universities. The interviewees, either supposed to be a new client who comes for the first time ( $N = 152$ ) or a loyal client having a strong relationship quality with the owner and a strong attachment to restaurant ( $N = 149$ ), are invited to classify by descending preference the most desired compensation ("1") to the least preferred one ("8"). A random rotation of the scenarios is made before each investigation (type of client and scenario) to avoid systematic bias. To calculate the partial utilities of the attributes, a conjoint analysis is used.

## 4 Results

The relative importance of the compensations varies according to the type of client. Table 1 shows the importance of the attributes for new and loyal clients. Table 2 the partial utilities of the attributes' levels for new and loyal clients, respectively.

**Table 1** Importance of attributes

Attribute	New Clients Loyal Clients	
Nature of Compensation	28%	8%
Intensity/Monetary Value	20%	9%
Interactional Compensation	52%	83%

**Table 2** Partial utility (P.U.) of attribute levels

Attribute	Level	New Clients		Loyal Clients	
		P.U.	Std. Error	P. U.	Std. Error
Nature of Compensation	Voucher	-0.263	0.06	0.141	0.044
	Refund	0.263	0.06	-0.141	0.044
Intensity/Monetary Value	100%	0.182	0.06	0.147	0.044
	66%	-0.182	0.06	-0.147	0.044
Interactional Compensation	Personal call	1.211	0.06	1.401	0.044
	Impersonal mail	-1.211	0.06	-1.401	0.044
(Constant)		4.5	0.06	3.8	0.044

For loyal customers, compensations' interactional dimensions (i.e. the quality of the relationship) are much more important (83%) than for new customers (52%). H1 is thus validated. If the quality of the relationship with the firm is good, the compensations' distributive dimensions (nature of compensation (8%) and intensity of the effort (9%)) are significantly less important for loyal customers than for new customers. Moreover the purchase voucher, as expected in H3, is preferred to refunding by loyal customers. This confirms the intention of loyal customers to maintain the relationship with the supplier. In order to confirm this result, we carried out a supplementary inter-subject experiment with another group of students. For this, we created two scenarios:

1. the restaurant offers refunding ( $N = 39$ ) or
2. a purchase voucher ( $N = 31$ ).

In both cases, we only consider the case of loyal customers who are contacted by the owner of the restaurant who offers a compensation of a value equivalent to the amount of the meal. The feeling of perceived justice is not significantly different according to the nature of the compensation (mean of perceived justice for voucher (5.13) and for refunding (5.08),  $p = 0.86$ ).

On the other hand, for new customers the nature (28%) and the value (20%) remain important, in spite of the fact that the relational value is the most important dimension. H2 is rejected, but it becomes clear that the relational component of the complaint is less important for new customers than loyal ones. Refunding as a compensation with less links to the supplier has higher partial utility (0.263) than purchase vouchers (-0.263). H4 is validated. Finally, in support with H5, the importance of the monetary value of the compensation is lower for loyal customers having a strong relationship quality with the firm. The differences are significant for all the assumptions ( $\chi^2$ -test,  $p < 0.01$  or  $0.05$ ).

## 5 Discussion and implications

The results show the importance of the relationship quality with the customer. On the one hand, the interactional efforts are preferred for all customers types (loyal vs. new). It is thus important to establish a direct relationship with the customers; a phone call is preferred to an email. The quality of the relationship thus influences the effectiveness of the complaint management. For loyal customers with strong relationship quality, the direct contact with the firm is by far the most important compensation element. It is important for them to re-establish a contract of trust and to be considered as "special clients". It might even enable firms to reduce the compensations' amounts. Lastly, loyal customers more easily accept purchase vouchers than refunding, because vouchers symbolize their intention to continue the relationship. These clients have more attachment to symbols than to money.

For new customers, even if interactional efforts constitute the most important factor, they try to rebalance the exchange in economic terms. They prefer re-funding, because they do not need to restore trust, and they do not necessarily try to establish a long term relationship in case of dissatisfaction. These clients have an instrumental orientation, and are more sensitive to the intensity of the effort of the compensation. It is thus very important that the firm grants them a compensation equal to the full value of the service.

For the management of complaints, it is important to understand which compensations are most valued according to the type of customers



(new vs. loyal). This highlights the need for a differentiated reward management. The firm can offer limited distributive or monetary efforts to loyal customers, if managers pay attention to interactional or relational elements. On the other hand, the distributive efforts must be maximized, if the objective is to satisfy new customers.

Variables such as the sector, the responsibility of the company for the incident, and the customer involvement are likely to influence the results and could be integrated. On the theoretical level we study the impact of the compensations via preferences. It would be interesting to consider other variables of the complaint-handling process such as the perceived justice or satisfaction. The effectiveness of the complaint management could also be approached by the measure of purchase, word-of-mouth or retaliation intentions. The effects of interactions between the compensations could be studied more thoroughly. Finally, individual financial indicators, such as “Customer Lifetime Value”, could be integrated in future research, to grant compensations according to the value of the customers. This last point is important as the profitability of a complaint management program must especially be measured by its profit contribution.

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