

The Henley Centre for Customer Management



# Complaints Management 2.0: Dealing with unhappy customers when everybody has an audience

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## 1. Executive Summary

This report examines customer complaint management practices in an era where customers expect instant action from companies and, if service does not meet their expectations, they do not hesitate to voice their disappointment in both public and private arenas. This research includes an extensive literature review of both academic and practitioner sources in order to identify best practice for complaint management in the business to consumer environment.

Four key steps in developing a comprehensive complaints management strategy have been identified. The first step is about developing an effective approach to complaint management by understanding how, and why, customers voice their dissatisfaction. This needs to be followed by having the right procedures in place to facilitate customers' access to the organisation in order to streamline customer interaction and to optimise the outcome for the company and the customer. Thirdly, companies need to take a strategic view of complaint management giving it equal weight to other marketing strategy initiatives such as customer satisfaction targets and loyalty programs. The fourth and final step is to identify and measure the benefits of complaint management along with its associated costs in order to ensure the appropriate allocation of resources required not only to track improvements but also to communicate the importance of consistent complaint management processes across all levels of the organisation.

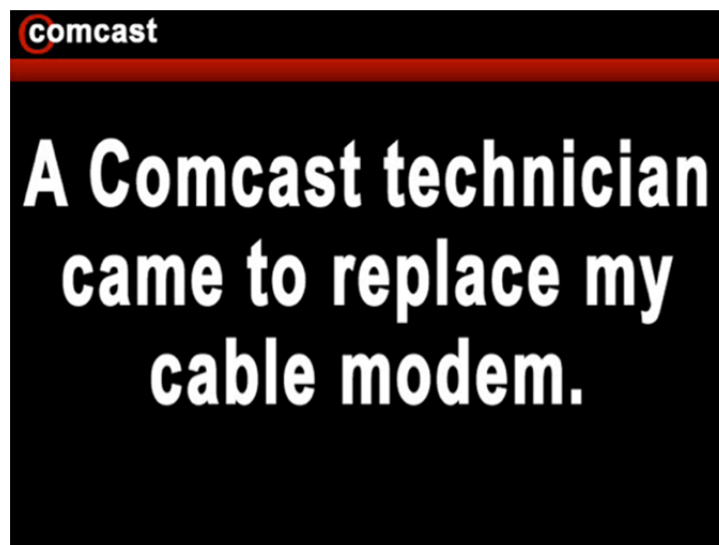
Without a thorough understanding of the costs and benefits of a comprehensive complaint management system it is difficult to engage the organisation at the strategic level. Addressing complaint management strategically provides coherence, unity and integration with the myriad policies and procedures that make up the smooth and successful running of an organisation. Coherence is needed to meet the expectations of customers who want seamless interaction with the organisation and who are increasingly likely to voice their dissatisfaction through the highly visible mechanisms of social media such as blogs or twitter feeds.

This research concludes that both researchers and practitioners need to develop a solid understanding of the potential benefits and financial implications of managing complaints in a timely and satisfactory manner. In order to do this it is necessary to monitor performance and close the gap between strategic goals and customer behaviour. They also need to understand the barriers to complaining faced by less confident and less vocal, customers, so that the business can gain a true and holistic view of its customer service operation. Finally, social media platforms need to be integrated into the portfolio of communication channels available to organisations and customers alike in order to develop the power of electronic word of mouth.

## 2. Introduction

Mistakes are an unavoidable part of human endeavour and, thus, complaints are a natural part of service delivery (Boshoff 1997, Johnston 2001). Indeed, even if companies did not make mistakes, complaints would still arise whenever service levels fall below customers' expectations (Zeithaml, Parasuraman et al. 1990, Headley and Miller 1993). Disappointed customers may switch to competitors (Holloway and Beatty 2003) and engage in negative word of mouth (Blodgett, Wakefield et al. 1995). Complaint management is, therefore, a crucial activity for every business that has customers.

In the technological world that we now live in, complaint management has become more important than ever. The blog posts, videos or status updates of disgruntled customers may reach viral status rapidly; spreading words of dissatisfaction instantly around the globe where they remain for existing or potential customers to read long after the original problem has been rectified. For example, the video that Brian Finkelstein posted on YouTube to vent his frustration with internet provider Comcast (figure 1) is still available four years after it first appeared and has been viewed over 1.5 billion times. On the other hand, the blog post that he wrote praising the way that the company subsequently handled his complaint is no longer available.



**Figure 1. Snapshot of video 'A Comcast Technician Sleeping on my Couch'**

*Source: <http://www.youtube.com/watch?v=CvVp7b5gzqU>*

To deal with individual consumers' enthusiasm with social media, many companies are investing considerable resources in order to monitor blogs, social networks and other electronic outlets. Comcast, for example, has been reaching out to users on Twitter since 2008, in the process earning considerable positive attention (Reisner 2009) while inspiring others to follow suit. Yet, the same company scored very poorly in a customer service survey released in May 2010 (Aho 2010). This gap between online and offline perceptions reflects just how critical it is to develop an effective approach to managing customer complaints.

Johnston (2001) proposed that complaint management *'involves the receipt, investigation, settlement and prevention of customer complaints, and recovery of the customer'* (p.61). This definition portrays complaint management as a process that starts when an unhappy customer first delivers a complaint to the firm. It should also be a catalyst for change, in order to prevent more complaints. The final part of the definition puts the emphasis back on the dissatisfied customer, who is the source of the complaint. Johnson's definition has guided our approach to the review of the literature on customer complaint management. We considered both the customers and their complaining behaviour, as well as the management processes required to collect, investigate, settle and prevent further complaints.

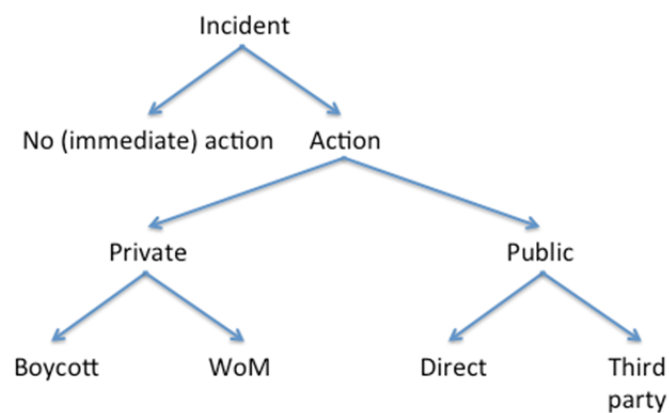
The next section of this report summarises the findings from the literature review on customer behaviour when making a complaint. The following three sections review respectively; complaint management processes and systems, the link between complaint management and a company's chosen strategy and the identification and measurement of the benefits and cost associated with these activities. The report then discusses the insights obtained from the literature before concluding with a reflection of the implications of these insights on the understanding and the management of complaints, as well as an assessment of the areas that need further investigation.

A broad range of academic and practitioner sources have been used in the production of this report.

### 3. Complaining behaviour

Consumer dissatisfaction can lead to a range of outcomes as illustrated in figure 2 (customer complaining behaviour). Following a negative incident, customers may or may not choose to act on their dissatisfaction (Day and Landon Jr 1977, Singh 1990). However, should customers feel compelled to act, this can take the form of a private action or a public one. Private activities may include boycotting the company and its products and switching to another service provider, as well as sharing negative experiences with social connections, a practice described as negative word of mouth. Public actions include complaining directly to the company and involving a third party such as the corresponding regulatory body or another provider of consumer protection (Day 1980, Richins 1983, Singh 1990).

**Figure 2. Consumer complaining behaviour**



*Source: (Day and Landon Jr 1977)*

While it is difficult to assess the proportion of customers that decide not to take action when they have a negative experience with a company, research conducted by Holloway and Beatty (2003) suggests that the majority of customers who consider themselves to be dissatisfied intend to take action. However, only a minority will complain directly to the firm (TARP 1986, Richens 1987, Mattila and Wirtz 2004). Numerous authors and research projects have already explored the factors that lead customers to voice their dissatisfaction directly to the company; these are summarised in table 1.

**Table 1. Summary of factors influencing direct complaining behaviour**

<b>Factor</b>	<b>Selected authors</b>
The characteristics of the complaining customer	Ngai, Heung et al. 2007, Grougiou and Pettigrew 2009, Kim and Chen 2010
Attitudes	Richins 1982, Stephens 2000, McKee, Simmers et al. 2006, Bodey and Grace 2007, Rothenberger, Grewal et al. 2008, Chan and Wan 2009, Robertson and Shaw 2009, Thogersen, Juhl et al. 2009
Purchase situation	Thogersen, Juhl et al. 2009, Kim and Chen 2010
Attribution of blame	Folkes 1984, Meuter, Ostrom et al. 2000, Moon 2003, Snellman and Vihtkari 2003, Harris, Grewal et al. 2006, Chan and Wan 2009, Donoghue and de Klerk 2009, Robertson and Shaw 2009
Likelihood of successful redress	Lazarus and Folkman 1984, Folkes and Kotsos 1986, Singh 1990, Tax and Brown 1998, Priluck 2003, Marshall and Brown 2004, McKee, Simmers et al. 2006, Huppertz 2007, Robertson and Shaw 2009, Kim and Chen 2010

A large section of the literature regarding complaining behaviour explores the **characteristics of complaining customers** (McAlister and Erffmeyer 2003) including attributes such as age, nationality and even personality. For instance, Grougiou and Pettigrew (2009) studied complaining behaviours among the over 60s market in the UK concluding that senior citizens are less likely than average to voice complaints to service providers. In another study, Ngai and colleagues (2007) decided that Asian hotel guests are more likely to engage in negative word of mouth, whereas non-Asian ones will complain directly to the firm. In turn, Kim and Chen (2010) found a positive relationship between perceived self-importance of the individual and their likelihood to complain.

**Attitude** is an important driver of complaining behaviour. Research shows that complainers are likely to be knowledgeable and confident about the service (McKee Simmers et al. 2006, Rothenberger Grewal et al. 2008) and about registering a complaint (Richins 1982, Stephens 2000, Thogersen, Juhl et al. 2009). Thus, customers scoring high in self-efficacy are more likely to complain directly to the organisation (McKee, Simmers et al. 2006, Bodey and Grace 2007, Robertson and Shaw 2009). Conversely, customers with less confidence and a high concern for 'face' are more likely to complain to family and friends than to the company concerned (Chan and Wan 2009).

Another stream of research concluded that the **purchase situation** might also influence complaining behaviour. Complaints are more likely with higher value goods and services when there is a potential big loss for the customer (Thogersen, Juhl et al. 2009). Furthermore, dissatisfied customers are more likely to complain when service failure occurs



during a high-involvement purchase – one that has higher personal expectations attached to it such as an outing on a special occasion or having an expensive meal (Kim and Chen 2010).

Complaining is also influenced by the perceived **locus of blame**. Specifically, customers are more likely to complain when they feel that the service failure is the organisation's fault (Folkes 1984, Donoghue and de Klerk 2009), and that there is a legitimate cause for the complaint (Robertson and Shaw 2009). Conversely, customers with high belief in fate are less likely to complain (Chan and Wan 2009). The locus of blame is particularly relevant in the context of self-service due to the emphasis on the user as the sole producer of the service, as opposed to co-producer with service personnel (Anitsal, Moon et al. 2002, Robertson and Shaw 2005, Menon and Bansal 2007). Self-service consumers are likely to blame the service provider for the failure (Meuter, Ostrom et al. 2000, Moon 2003, Snellman and Vihtkari 2003, Harris, Grewal et al. 2006). Yet, it is often the case that organisations deny responsibility for the failure and reproach consumers for the incident (Holloway and Beatty 2003, Lee 2003, Pujari 2004).

The impact of the likelihood of **successful redress** on complaining behaviour is addressed by various authors including Grougiou and Pettigrew 2009 who note that voicing dissatisfaction to a company has both a physical and emotional cost for the customer. If customers perceive that their efforts may lead to a successful outcome, then they are more likely to complain directly to the firm (Singh 1990, Priluck 2003, McKee, Simmers et al. 2006, Kim and Chen 2010). In turn, these perceptions are influenced by the reputation of the organisation (Robertson and Shaw 2009), the degree of leniency of the firm's return policy (Huppertz 2007), and the customers' optimism (Marshall and Brown 2004). Conversely, if customers feel powerless towards the organisation and anticipate that their efforts in complaining are going to be in vain, then they are unlikely to contact the firm (Lazarus and Folkman 1984, Folkes and Kotsos 1986, Tax and Brown 1998).

In summary, there are several factors that clearly influence whether a customer who is dissatisfied takes their complaint directly to the organisation. Having an awareness of these factors can help a company assess the extent to which a particularly low level of customer complaints results from the fact that customers are delighted with the service being provided or, instead, occurs because customers are choosing not to voice their dissatisfaction. Once understood, there may be an opportunity for the company to take corrective action by addressing some of the potential barriers to customer complaints outlined in this section. Only then can the true levels of customer satisfaction with the service be determined.

While handling customer complaints is not a substitute for creating genuine customer satisfaction in the first place (Hansen, Wilke et al. 2010), it is a very important component of a company's actions in the marketplace and its customer relationship management strategy (Ramaseshan, Bejou et al. 2006). As Hansen and colleagues (2010) emphasise even loyal customers may experience service failure – it is therefore vital that complaints are handled effectively and seriously, by a well-developed complaint management system.

In the next section the literature on best practice regarding complaint management procedures is reviewed.

## 4. Complaint management processes and systems

Dissatisfied customers tend to contact the organisation for one of two reasons: to seek redress or to vent frustration (Blodgett, Hill et al. 1997, Nyer 1997, Nyer 1997, Bushman, Phillips et al. 2001). While there is limited understanding of complaint satisfaction (Kim, Kim et al. 2003), it is clear that customers need more than a positive financial outcome in order to feel that justice has been done – complaint-related justice is also a matter of procedure and interaction (Donoghue and de Klerk 2009).

The British Standards Institute has published guidance on designing and implementing complaint management systems. This guidance is intended to help organisations of all sizes, in the private, public and voluntary sectors (Brennan and Douglas 2002) – thus it is fairly generic. However, it does emphasise the need to treat complaints holistically from the stage of initial reporting to the resolution of the problem (BSi 1999).

From an operational perspective, the complaint management process may be divided in three sub-dimensions (Johnston 2001): complaining accessibility, retailer-customer interaction and compensation policy.

### *Accessibility*

Researchers note that receiving few complaints can lead organisations into a false sense of security, believing that customers are largely happy; whereas the dissatisfied consumers may simply be switching to a competitor without voicing a complaint (Stephens and Gwinner 1998, Goodmann 1999). It is important that organisations do not make it easier for their customers to switch than to complain and express their dissatisfaction.

Dissatisfied customers may hesitate to contact the organisation if making a complaint causes them discomfort or if they had a previous unpleasant experience (Tax and Brown 1998, Johnston 2001, Grougiou and Pettigrew 2009). Customers also need to have clarity about where and how to deliver the complaint, as well as believing that the company is interested in hearing from its customers (Singh 1990, Johnston 2001).

It is therefore crucial to have the right channels of communication in place so that customers have a clear mechanism through which to not only voice complaints but also be heard. Research findings indicate that customers looking for compensation opt for interactive channels such as face to face or telephone, whereas customers who want to express their frustration lean towards remote channels using letters or e-mail (Mattila and Wirtz 2004). There is uncertainty, however, regarding the impact of staff on complaining accessibility. On the one hand, high-rapport between customer and employee reduces the negative feelings associated with service failures. On the other hand, customers have difficulty delivering bad news to members of staff they have affinity with and, consequently, are less likely to complain in a high-rapport condition (DeWitt and Brady 2003).

Given that many dissatisfied customers never complain to the company (TARP 1986, Richens 1987, Mattila and Wirtz 2004), organisations need to implement alternative mechanisms to capture information about customer dissatisfaction. Best practice firms, for example, develop internal complaints systems whereby staff submit information about issues encountered and/or suggest improvements (Johnston and Mehra 2002).

## *Interaction*

The interaction between the customer and the company is a critical aspect of complaint management. Research shows that customers make separate determinations between the fairness of the process and the actual outcome of that process (Singh and Widing II 1990). Moreover, they may be more concerned with obtaining a fair and serious procedural treatment than in obtaining a specific result from the complaint process (Lind and Tyler 1988, Greenberg 1990, Saxby, Tat et al. 2000, Davidow 2003). Therefore, a favourable outcome of the complaint process may not be sufficient to compensate for a poor complainant-firm procedure and customer experience.

Johnston and Mehra (2002) advocate a combination of centralised and decentralised complaint handling approaches, where decentralised units collect information and deal with the problems where they can, while central departments analyse trends, develop policies and oversee improvements. Centralisation, however, needs to be tempered with the knowledge that complaining customers accept decisions more readily when they feel a measure of control within the process and are able to refute or appeal the decision (Saxby, Tat et al. 2000).

Perceived employee competence is another important variable in the customer-company interaction. Competence gives customers a sense of security. When they perceive frontline employees as competent, customers believe that staff will be able to handle, and ultimately solve, their problem (Gruber, Szmigin et al. 2006). Specifically, complaining customers value employees who are genuinely friendly, courteous, honest, and who listen carefully, while being open to suggestions and giving the impression of being motivated and willing to help (Saxby, Tat et al. 2000, Gruber, Szmigin et al. 2006).

## *Outcome*

The primary reason why customers complain is that they feel some kind of loss – either of material or of trust – as a result of using the product or through their interaction with the company (Johnston 2001). Compensation therefore serves a double purpose: to recompense the customer for the real loss experienced and to re-establish confidence in the organisation (de Ruyter and Brack 1993, Hui and Au 2001).

Companies also need to understand the expectations of their complaining customers. As Stauss (2002) noted, complaint satisfaction is a subjective evaluation process, where customers compare the perceived outcome with their expectations from the complaint handling activities. Specifically, customers are only satisfied if the complaint handling experience exceeds their expectations otherwise they remain dissatisfied. Customer-facing employees are key determinants of customer perceptions (Hartline and Ferrell 1996) and play a critical role in the successful outcome of the process (Boshoff and Allen 2000, Maxham III and Netemeyer 2003). For instance, customer-facing employees can adapt their behaviour to meet customers' underlying expectations and so have a positive impact on overall customer satisfaction (Botschen, Thelen et al. 1999).

Finally, it is important that there are follow up procedures in place within organisations to ensure that complaints are handled satisfactorily. These allow the organisation to check that the customer is happy with the resolution and that relevant changes have been made in the organisation so that the problem does not recur (Johnston and Mehra 2002).

In summary, to effectively manage customer complaints, organisations need to consider three sub-dimensions: accessibility, interaction and outcome. Our review of the literature has identified a number of factors and aspects that must be taken into consideration when developing a complaint management system. These are summarised in table 2.

**Table 2. Summary of key aspects of a complaint management system**

<b>Dimension</b>	<b>Factor</b>	<b>Selected authors</b>
Accessibility	Discomfort or previous unpleasant experiences when making complaints	Tax and Brown 1998, Johnston 2001, Grougiou and Pettigrew 2009
	Process clarity and belief of a firm's interest	Singh 1990, Johnston 2001
	Fit between channels and reason for complaint	Mattila and Wirtz 2004
	Rapport between customer and employee	DeWitt and Brady 2003
	Internal complaint systems	Johnston and Mehra 2002
Interaction	Customer perception of fairness of the system	Lind and Tyler 1988, Greenberg 1990, Singh and Widing II 1990, Saxby, Tat et al. 2000, Davidow 2003
	Centralised – decentralised approach	Johnston and Mehra 2002
	Some control within the process and ability to refute the decision	Saxby, Tat et al. 2000
	Employee competence	Saxby, Tat et al. 2000, Gruber, Szmigin et al. 2006
Outcome	Dual purpose	de Ruyter and Brack 1993, Hui and Au 2001
	Subjective evaluation	Stauss 2002
	Role of employees	Botschen, Thelen et al. 1999, Boshoff and Allen 2000, Maxham III and Netemeyer 2003
	Follow-up	Johnston and Mehra 2002

Paying attention to these factors increases the likelihood that companies will learn from their mistakes and contribute to a successful recovery from a negative incident. However, complaint handling is a reactive process and should be seen as only the first step in winning back customers. Proactive action is needed to address the underlying causes of the problem and avoid recurrence of similar complaints (Rothenberger, Grewal et al. 2008). In order to go beyond solving immediate problems, organisations need to take a strategic approach to complaint management.

## 5. The strategic imperative

Stauss and Schoeler (2004) note that complaint management departments are often operational units that handle customer dialogue but are not involved in the strategic planning processes of the business. Even the British Standards Institute guidelines (see BSi 1999) focus entirely on operational procedures and do not include strategic direction (Brennan and Douglas 2002). This gap is observed despite the fact that both the academic and practitioner literature recognises the strategic relevance of complaint management (Fornell and Wernerfelt 1987, Maxham III 2001, Stauss and Seidel 2004). The literature also supports the view that best practice in complaint management requires companies to adopt a strategic approach (Johnston and Mehra 2002).

Across organisations and industry sectors there are variances in terms of the emphasis towards the strategic management of complaints. Specifically, industries with higher profit margins such as car dealers or furniture retailers tend to take a more strategic approach (Fornell and Wernerfelt 1988). However, there are also examples of best practice among non-commercial organisations including a general hospital described by Johnston and Mehra (2002). In a study of different types of retailers in Denmark and Sweden, Hansen and colleagues (2010) found that those shops that perceive their customers to be problematic with a high propensity to complain are more likely to develop a strategic approach to complaint handling, regardless of the size of the organisation or of the type of product sold .

Approaching complaint management strategically ensures that it complements the company's actions in the marketplace and that there is a consistent customer experience throughout the organisation (Hansen, Wilke et al. 2010), as opposed to taking an ad-hoc approach. For instance, Best Buy has been criticised for its inability to resolve customer problems in-store or on the phone, whereas the same issues are promptly rectified when customers complain through social media channels (Temkin 2010).

Adopting a strategic approach to complaint management is reflected in a variety of behaviours (table 3). These include the formal participation of complaint management staff in strategic planning sessions to bring the voice of the customer to the attention of the board. Regular feedback into company training programmes and operations ensure that the root cause of any problem is addressed, while the frequent production and circulation of reports across the whole organisation of any complaint issues and outcomes helps to keep staff informed. By proactively involving top-level members of the board complaints handling remains firmly on the business agenda. In addition information should be sought about customers with problems and followed up to confirm their level of satisfaction with the resolution (Johnston and Mehra 2002).

**Table 3. Behaviours exhibited by organisations that manage complaints strategically**

<b>Behaviour</b>	<b>Purpose</b>
Participation in strategic meetings	Represent the voice of the customer
Focus on communication and improvement	Address the root cause of the problem
Reporting of issues and learning points	Foster common understanding
Proactive top-level involvement	Signal that complaints are taken seriously
Surveys targeted on problems and resolution	Assess satisfaction levels with complaint process

*Source: adapted from (Johnston and Mehra 2002)*

In summary, complaint management should be of strategic concern to the organisation across all functions and departments. In order to gain the attention of all members of staff including the senior management and to motivate them to focus their activities, it is necessary to develop an understanding of the cost and benefits to an organisation of implementing best practice in complaint management.

## 6. Benefits and Costs

The literature reviewed enumerates a broad range of benefits associated with capturing customers' complaints, these are summarised in table 4.

**Table 4. Benefits of complaint handling**

<b>Benefit</b>	<b>Selected authors</b>
Opportunity to redress the problem	Tronvoll 2007
Increased customer satisfaction	Brennan and Douglas 2002, Powers and Bendall-Lyon 2002
Increased customer loyalty	Walker 1990, Whiteley 1991, Brennan and Douglas 2002, Powers and Bendall-Lyon 2002, Tronvoll 2007
Additional referrals	Walker 1990, Rothenberger, Grewal et al. 2008
Better insight into causes of customer complaint	Johnston 2001, Crie´ 2003, Tronvoll 2007, Robertson and Shaw 2009
Enhanced employee well being	Matteson and Ivancevich 1982
Improved financial performance	Johnston 2001, Brennan and Douglas 2002, Powers and Bendall-Lyon 2002

One of the immediate benefits to be derived from effective complaint handling is the opportunity for the firm to redress consumers' problems (Tronvoll 2007). If the complaint process has a successful outcome, companies may expect to gain increased customer satisfaction (Brennan and Douglas 2002, Powers and Bendall-Lyon 2002).

Customer loyalty is another major benefit that can be gained through competent complaint handling. It has long been established that service failures are a leading cause of customer switching behaviour in service organisations (Keaveney 1995). Yet the majority of dissatisfied customers who choose to complain to the firm and whose complaints are handled in a timely and effective manner go on to repurchase from the business (Walker 1990, Whiteley 1991, Brennan and Douglas 2002, Powers and Bendall-Lyon 2002, Tronvoll 2007). Retaining customers has very tangible benefits for the organisation; existing customers are more profitable because they ask fewer questions, have more realistic expectations, and are more familiar with company employees and products, as well as have lower price sensibility than new customers (Reichheld and Sasser 1990).



Researchers also believe that those customers whose complaint is satisfactorily addressed go on to create positive word of mouth referrals (Walker 1990). Indeed, Rothenberger and colleagues (2008) believe that the effective handling of complaints has significantly more impact on a customers' willingness to recommend them than on their intention to use that company again. This discrepancy is most relevant in situations, such as air travel, where customers have fewer alternatives (Rothenberger, Grewal et al. 2008).

Importantly, analysis of complaint data offers insight into the causes of customer dissatisfaction (Johnston 2001). It allows problem areas to be identified and the subsequent development of innovative product or service improvements (Tronvoll 2007). In turn, this information provides the company with an opportunity to consolidate and strengthen relationships with its customers (Crie´ 2003), increases levels of service quality (Tronvoll 2007, Robertson and Shaw 2009) and offers a source of competitive advantage (Crie´ 2003).

Effective complaint management can also increase feelings of wellbeing within the company. Employees report that when companies implement complaint management systems that are easy to use by employees and that satisfy customers they have greater feelings of being in control which leads to reduced levels of stress in their jobs (Matteson and Ivancevich 1982).

Finally, organisations with a strategic plan to deal with complaints may notice increased financial performance (Brennan and Douglas 2002, Powers and Bendall-Lyon 2002). However, this effect seems to be moderated by the company's culture (Johnston 2001).

Curiously, there is less discussion in the literature about the cost of complaint management, even though, as Johnston and Mehra (2002) noted, those companies who implement best practice have a good understanding of the cost associated with handling complaints. The authors identified two types of costs: financial expenditure and time (table 5). Information about the cost of complaints can be used to forecast budgets and expenses, as well as help communicate, to managers and staff, the practical and monetary realities of not getting things right the first time.

**Table 5. Type of costs associated with complaint handling**

<b>Type</b>	<b>Examples</b>
Financial	Staff salaries Compensation Goodwill
Time	Investigation Making improvements in products, services and processes

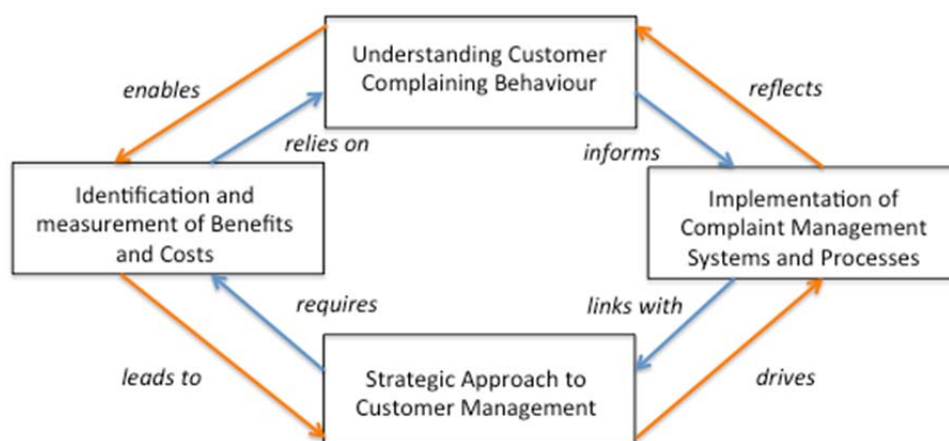
Despite the extensive list of benefits, many companies report great difficulty in calculating the profitability of their complaint management system (Johnston 2001, Stauss and Schoeler 2004). Indeed, we only found references to one company, in Johnston and Mehra (2002), which was formally attempting to link the cost associated with handling complaints and making improvements, to the potential savings that could be gained in the future. The

company, a financial services organisation frequently cited for best practice in customer service, attempted to determine how many future complaints of a specific type could be avoided if they took corrective action. Multiplying this estimate by the total cost of handling one of these complaints gave the organisation a measure of how much money could be saved by identifying the source of the problem and rectifying it.

## 7. Discussion

The literature reviewed in sections two to five covers customer complaining behaviour, complaint management processes, the importance of adopting a strategic approach and the benefits and cost associated with successfully handling customer complaints. The starting point for an effective approach to complaint management must be to obtain a thorough understanding of the behaviour of customers who complain, specifically recognising how and why customers voice their dissatisfaction. Only with this knowledge can organisations decide on the correct procedures for them to employ in order to handle complaints successfully. A strategic approach, however, is required if organisations are to go beyond simply reacting to complaints and successfully recovering from a negative incident, to a taking a pro-active approach that includes learning from the complaints received and addressing the underlying causes of dissatisfaction. Last, but not least, it is important to identify and measure the cost and benefits of complaint management. An awareness of these factors assists companies in the allocation of resources and in communicating the issues surrounding complaints handling across all levels of the organisation. The link between the various aspects reviewed is illustrated in figure 3.

**Figure 3. A holistic approach to complaint management**



The shortage of specific, tangible, measurable benefits may be the underlying reason why most companies still invest relatively little in terms of customer retention (Cranage 2004). Consequently, fewer than 50% of complainants receive either a response from the company or a response that they consider satisfactory (Naylor 2003). In today's hyper-competitive environment characterised by static numbers of customers and a saturation of solutions on offer (Egan 2008) customer retention is critical for survival. Unfortunately, many organisations still take a reactive approach to managing customer complaints which are often addressed in an ad-hoc fashion from silos throughout the organisation (Johnston and Mehra 2002).

Similarly, in our review, we found more sources describing and explaining customer behaviour than offering practical guidance on processes and systems for complaint management. We also found more sources discussing the operational aspects than giving guidance on adopting a strategic approach. In terms of the cost and benefits of complaint

management, a broad range of benefits are cited in the literature alongside some financial information, but there is limited guidance on how to measure them.

Researchers such as Holloway and Beatty (2003), however, believe that most customers will take action following a negative incident. Our review identified a range of behaviours available to dissatisfied customers. We believe that the situation where an unhappy customer complains directly to the firm offers the best outcome from the point of view of the organisation. Direct complaints present the company with an opportunity to intervene and, hopefully, recover from the adverse incident. In contrast, complaints to a third party may be lengthy and acrimonious, while private action is, typically, unseen by the company. Unfortunately, most dissatisfied customers will never complain to the company and will opt for private behaviours such as word of mouth or boycotting (TARP 1986, Richens 1987, Mattila and Wirtz 2004). Therefore, it is vital for organisations to develop an environment where customers can choose, and are encouraged, to easily voice their dissatisfaction directly to the company.

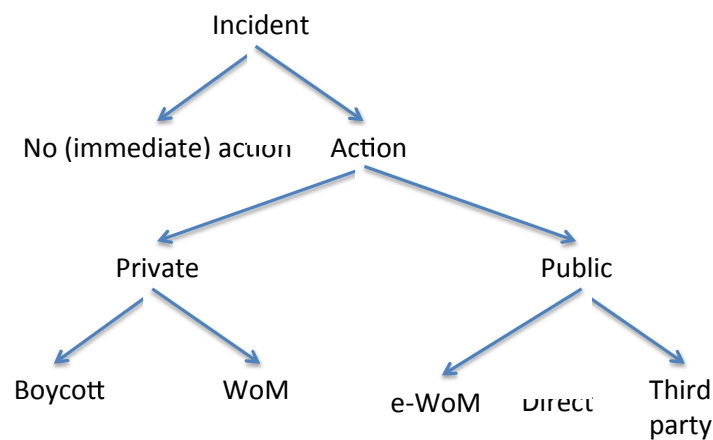
Our review examined the circumstances under which customers are inclined to complain directly to the company. In essence, dissatisfied customers choose to file a complaint when the perceived benefit of doing so outweighs the cost of taking action. While the benefits cannot be measured solely in terms of the financial outcome, complaining customers need to feel that the process has been fair. Moreover, the outcome must take into account the consumption scenario, as customers' perception of loss increases for higher-involvement purchases. For the customer the cost of complaining also has a tangible component (e.g. the effort needed to contact the organisation) as well as an intangible one (e.g. the stress or discomfort endured during the process of making the complaint). The latter is higher for customers with less knowledge or lower confidence about the service and the complaint process. This means that organisations may overlook valuable opportunities to intervene and recover less confident customers, who may also be newer to the firm and, therefore, lower down the ladder of loyalty (cf. Clark and Baker 2004). The assessment of cost and benefits is also highly subjective as it is influenced by the characteristics of the organisation (e.g. the leniency of its compensation policy) as well as of the individual customer (e.g. their personality). This relationship and its subjectivity are illustrated in the equation depicted in figure 4.

**Figure 4. The customer's decision to complain**

$V_{ij} = B_{ij} - C_{ij}$ <p>Where:</p> <ul style="list-style-type: none"> <li>• <math>i</math> = specific dissatisfied customer</li> <li>• <math>j</math> = service provider</li> <li>• <math>V</math> = net value for customer <math>i</math> of registering complaint with firm <math>j</math></li> <li>• <math>B</math> = benefit for customer <math>i</math> of registering complaint with firm <math>j</math>. <math>B</math> includes financial outcome as well as perceived procedural fairness</li> <li>• <math>C</math> = cost for customer <math>i</math> of registering complaint with firm <math>j</math>. <math>C</math> has tangible and intangible elements</li> </ul>
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Please note, however, that while the literature treats word of mouth as a private behaviour, in our view this is no longer an accurate description of reality. Indeed, an increasing number of customers voice their dissatisfaction on public platforms including blogs and social networks. Therefore, we propose a revised model of possible customer complaining behaviours as represented in figure 5, where eWOM stands for 'electronic word of mouth'.

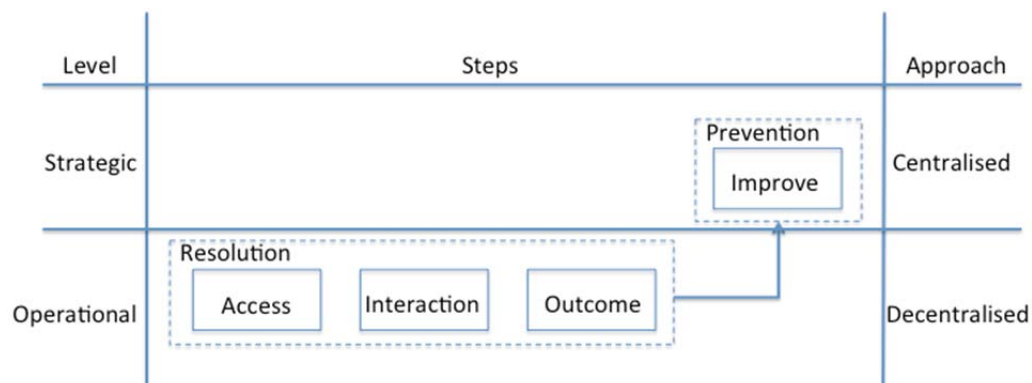
Figure 5. Revised consumer complaining behaviour



This move of word of mouth from the private to the public sphere presents both an opportunity and a challenge for organisations. It is an opportunity in that it allows the company to participate in what were, previously, private conversations. This means that companies can, for instance, acquire insight into customer satisfaction, learn about problems with their products and, very importantly, create an opportunity for service recovery. It is a challenge, however, because it rewards, and may encourage, the act of publicly criticising the business. More customers may then choose to voice their dissatisfaction through blogs, posts on social media and other very public outlets. These negative comments may reach viral status and remain on-line long after the problem has been resolved. This is of grave concern to all companies targeted in this way as negative word of mouth has the power to influence existing customers as well as potential future ones (Haenlein and Kaplan 2009). It may also lead to concern among shareholders, as exemplified by the sharp decline in the share price of United Airlines, shortly after the release of the video ‘United Breaks Guitars’ on YouTube following musician Dave Carroll’s poor experience when travelling with his band and their instruments. (Ayres 2009).

The literature advocates the need to approach complaint management holistically across three sub-dimensions: complaining accessibility, company-customer interaction and compensation. This is, however, a reactive approach to customer interaction, focused only on solving the immediate problems. It is only the first step in service recovery (Rothenberger, Grewal et al. 2008) and further initiatives need to be taken so that the problem does not recur. For that, complaint management needs to be elevated to the strategic level and involve all aspects of the organisation. We therefore propose the formal addition of a fourth sub-dimension as illustrated in figure 6 (the four steps of complaint management). At the fourth level, complaint management becomes a proactive activity, alongside other marketing strategy initiatives, such as customer satisfaction or loyalty programs, which focus on keeping ‘*the customer close to the retailer*’ (Hansen, Wilke et al. 2010, p7). Building on Johnson and Mehra’s (2002) recommendation to combine centralised and decentralised approaches, we further propose that the first three steps are dealt with in a decentralised manner to allow for flexibility and customer input, as per Saxby et al (2000); the fourth level, however, needs to be handled centrally.

Figure 6. The four steps of complaint management



An important insight obtained from the review regarding 'access' is the need to provide a variety of channels through which dissatisfied customers can contact the organisation. Mindful that channel preference can vary with each customers' complaining motivations, Mattila and Wirtz (2004) recommend the provision of both interactive and remote complaint channels. For the customer seeking redress, web-chats, possibly with video, would enable one-to-one interaction between the customer and the company representative (Harrison-Walker 2001). These could be complemented, for example, with electronic cash and coupon transfer to speed up financial compensation, as described in Turban et al (2000). For the customer interested in expressing their frustration, remote channels such as anonymously submitted feedback cards would be preferable (Mattila and Wirtz 2004). Encouraging text messages to be sent to the company is another useful way of increasing the voice of the consumer. When coupled with the analysis of content or sentiment, as provided by customer engagement specialists Fizzback, it can provide valuable insight.

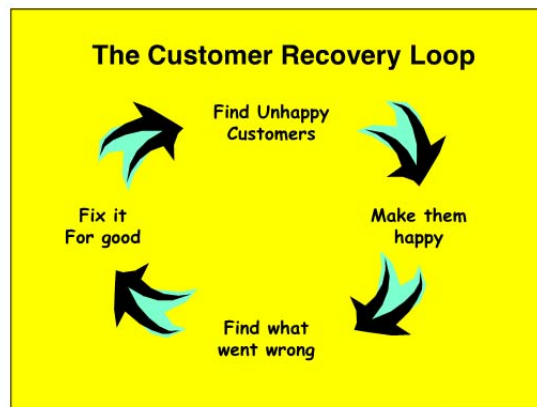
Organisations, however, must not lose sight of the fact that many unhappy customers will never complain. Therefore, internal complaint systems need to be developed to capture as much information as possible about negative incidents. Johnston and Mehra (2002), however, advocate against providing financial rewards to encourage complaints. Instead, the authors highlight the need to develop a no-blame culture where errors are seen as inevitable, are accepted and where employees are expected to take an active part in looking for solutions so that mistakes are never repeated.

The importance of the customer's satisfaction with the recovery process itself was emphasised by numerous authors reviewed in section three. Aspects such as fairness, flexibility, the opportunity to appeal and the competence of staff were noted. To achieve this, Rothenberger et al. (2008) believe that companies have to take both the complaint and the complainant seriously. In addition, the organisation has to identify and recruit individuals who are genuinely willing to help consumers and to act on behalf of complaining customers (Rothenberger, Grewal et al. 2008).

When approaching the issues of compensation, organisations need to remember its dual purpose. Specifically, that compensation needs to recompense any tangible loss resulting from the service failure, as well as repair the intangible aspects (figure 4 the customer's decision to complain) such as loss of confidence in the service provider. The former is easier to assess, although the self-serving bias (Gooding and Kinicki 1995) means that customers

may blame the organisation for the service failure, even if objectively this was not the case. The subjective nature of the latter makes it a particularly challenging issue (Stauss 2002). Stewart (2009) urges managers to resist their instinct to find out what went wrong as soon as possible, and instead focus first on reducing customers' negative feelings (figure 7 the customer's recovery loop). Once again, flexibility and empathy are crucial skills for the complaint handler.

**Figure 7. The customer recovery loop**



Source: (Stewart 2009)

Frontline employees influence how the service is perceived before, during and after any purchase (Chung-Herrera, Goldschmidt et al. 2004, Van Dolen, De Ruyter et al. 2004). They have a major influence on customer satisfaction, loyalty and positive word of mouth (Gremler and Gwinner 2000). Yet the role of customer-facing staff varies according to the stage of the incident recovery process. In situations of high rapport, the presence of a member of staff may be a hindrance to receiving a complaint. Therefore, service providers need to develop alternative methods to identify service failure; these can include actively tracking waiting times (DeWitt and Brady 2003) or implementing internal complaint systems (Johnston and Mehra 2002). During the complaint handling process, however, capable and competent employees can dramatically influence the customer's feeling of satisfaction with the process (Bitner, Booms et al. 1990, Rothenberger, Grewal et al. 2008). Employees are also important in helping to create closure for both parties on the event. External closure is achieved when the customer is happy with both the process and the outcome, whereas internal closure consists of ensuring that lessons have been learned (Johnston and Mehra 2002).

To ensure that full internal closure is achieved, complaint management needs to be viewed strategically by the business with senior management involvement. A study in Scandinavia found that retailers are more oriented towards complaints when they believe the customers are dissatisfied (Hansen, Wilke et al. 2010). Given that the reason for low volumes of complaints may be that the customers' relative cost of complaining outweighs the benefits, as per figure 4, companies may create a vicious circle where difficult access reduces knowledge about dissatisfaction, which in turn lowers the incentives to innovate in order to make it easier and less disagreeable for customers to complain.

Another barrier to embracing the strategic approach to customer complaints is, according to the literature, the difficulty in calculating the profitability of the complaint management system. We believe that this is largely due to two factors. The first concerns the type and nature of the cost and benefits of dealing with customer complaints. Specifically, we note that the costs summarised in table 5 are direct, fairly objective and tend to occur in the short term. The benefits listed in table 4, on the contrary, are indirect consequences of addressing the customers' concerns, may be influenced by many external factors such as competitors' actions and may take a long time to accrue. The second is the paucity of available guidance on performance criteria. For instance, little is known about how customers evaluate recovery approaches (Gruber, Szmigin et al. 2006). There are no parameters of success to judge the efforts of turning dissatisfied customers into satisfied ones (McCollough, Berry et al. 2000, Holloway and Beatty 2003). Furthermore, existing guidance on complaint management systems focus on the points to consider, rather than how to assess performance (Brennan and Douglas 2002).

We believe that researchers and practitioners should focus on the relative, not absolute, measures of performance around complaint management systems. They should also concentrate on improvements to the measures, rather than specific cut-off values. These measurements need to be relevant to both the industry and the company. They need to reflect the nature of the interactions the company has with its customers – for instance, the length of the purchase cycle. To measure performance, businesses need a solid understanding of customer behaviour, thus closing the loop depicted in figure 3 (a holistic approach to complaint management).



## 8. Concluding thoughts

We introduced this report by stating that mistakes and, therefore, complaints are a natural part of business. We further noted that the process of complaining to a company is an integral part of the customer experience and complaint management should therefore be fundamental to the strategic approach a company takes to customer management. Our review of the literature provides a number of insights into customer complaining behaviour and into complaint management, as discussed in section 6. We now focus on the implications of our findings for researchers and practitioners.

Throughout the report we discussed the limited understanding of the cost and benefits of complaint management, as well as specific guidance regarding how to identify and measure performance. Without a good grasp of the cost and benefits of complaint management it is difficult to engage the organisation at the strategic level. If a company refuses to adopt a strategic approach to complaint management, then the various internal policies and procedures devised to support the business will lack coherence, unity and integration. Disparate initiatives will fail to meet the expectations of customers who want seamless interaction with the organisation and who are increasingly likely to voice their dissatisfaction through highly visible mechanisms such as blogs, twitter feeds and social networking sites. In an age where every customer has an audience, it is crucial to develop a solid understanding of the cost and benefits of customer complaints, as well as to monitor the performance of the organisation's complaint handling initiatives.

The review noticed a relationship between levels of complaining customers and strategic orientation towards complaint management. This means that those companies who are good at listening to their customers may get better. The others may be lulled into a false sense of security until it is, possibly, too late to re-establish customer confidence. It is very important that marketing researchers and practitioners develop ways of closing this gap.

We also revealed that some customers are particularly reticent to voice dissatisfaction because it costs them more in emotional and real terms to complain. As a consequence managers need to pay particular attention to the barriers to complaining – real or perceived – from the perspective of the new, less confident customers. Businesses also need to make it as easy and as comfortable as possible for these customers to complain directly to the firm, be it face to face or through the use of technology.

We support organisations' use of social media channels as part of their customer management strategies. Such channels offer privileged access to what were previously strictly private exchanges between the customers and their social networks. However, companies shouldn't embrace social media as a complaint management channel at the expense of more traditional direct channels such as e-mail, contact centres or web-forms. Reacting more promptly and/or more effectively to complaints voiced through social media than to those made directly to the company only encourages further usage of that platform. This permits public displays of complaints, which in turn can lead to serious reputational damage for the company. What firms need to do instead is to elevate the level of engagement and problem resolution of direct channels and to explore ways of encouraging customers to contact the firm directly in the first instance.

It is important to note that our review focused on business-to-consumer scenarios. This is, arguably, a limitation of our study given the economic importance of other sectors of activity such as business-to-business or, indeed, business-to-government.

The examples reviewed also tended to focus on retail; valuable lessons may be obtained from studying other scenarios and identifying best practice that is independent of the company or the industry under analysis. More valuable insight could be obtained from investigating settings where the decision to complain is not dominated by the need to obtain a refund, as eWOM seems to be driven by the desire to vent frustration. Furthermore, research should be conducted in high-involvement purchase scenarios, where exact refund levels are particularly difficult to establish because of the intangible nature of the loss.

Future research is also needed regarding the integration of direct channels and electronic word of mouth, from the point of view of both customer behaviour and the systems and procedures for handling complaints.

Finally, we should acknowledge that the customer voice can also be viewed in a negative light (Robertson and Shaw 2009). This includes cases of illegitimate or fraudulent complaints. There are also instances of 'blackmail', where customers threaten to post very negative comments about the company on-line if they fail to get special treatment – for instance, an upgrade or a discount.

Social media has undoubtedly changed the way customers interact with organisations and with other customers. It has given them an audience and amplified their voice to levels that many could not imagine possible just a few years ago. Organisations too can benefit from social media if they understand how to take advantage of the opportunities created and avoid the many pitfalls. However, that requires a strategic approach to complaint management, grounded in a good understanding of the role of complaint handling in the overall customer experience.

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## **The Henley Centre for Customer Management**

The Primary Objective of the Henley Centre for Customer Management is to promote Customer Focus and Service Excellence best practice through observing practice in leading companies and synthesising this into useful knowledge that helps members to improve their own Customer Management and Customer Service plans and implementations.

### **Members**

Each year, the Centre aims to attract a membership of between 10 and 20 organisations, each a leader in their sector.

Members in 2010 were:-

Vertex (Main Sponsor)  
Bausch & Lomb  
Carphone Warehouse  
Cisco  
Cognizant Technology Solutions  
Ecclesiastical Insurance Group  
GSK  
HSBC  
Kelly Services  
Microsoft  
NCFE  
NHS Blood and Transplant Services  
Oracle

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*The Henley Centre for Customer Management is supported by members representing a diverse range of organisations.*

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