

What Drives Customer Loyalty with Complaint Resolution?

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Abstract

Even though customer satisfaction and loyalty has been studied at length, few if any studies have focused on antecedents to customer loyalty for dissatisfied complaining customers. A theoretical model focusing negative affect, satisfaction with complaint resolution, and corporate image as antecedents to customer loyalty is proposed and tested empirically. First, satisfaction with complaint resolution has a positive impact on customer loyalty. Complaint resolution is thus an important element of the company's customer retention strategy. Second, negative affect caused by the initial service failure has a negative impact on satisfaction with complaint resolution and customer loyalty. From this finding we can imply that the customer starts the resolution process from a deficit. Finally, corporate image has a positive impact on customer loyalty. From this finding we can learn that corporate image plays a role not only in attracting new customers, but also in retaining existing dissatisfied customers.

Key words: Dissatisfaction, complaint resolution, negative affect, corporate image, customer loyalty.

Introduction

Today it has become a truism that service quality is crucial to customer satisfaction, customer retention, and profitability. Statements like “Satisfaction guaranteed”, “Quality is our number 1 priority”, “Built to last”, and “No surprise or money back” are evidence of service companies’ belief in quality as the bridge to future revenue. However, not all companies manage to deliver services of high quality and to the satisfaction of its customers. Whereas satisfaction with a service or service provider may be a strong incentive for customers to maintain or increase current retention rate, dissatisfaction with a service or service provider may be a strong incentive to exit from the interaction. In fact Reichheld & Sasser (1990) claim that for suppliers of services, customer defection may have a stronger impact on the bottom line than scale, market share, unit costs, and other factors usually associated with competitive advantage.

The primary focus of previous research on customer dissatisfaction, cf. (Day & Landon, 1976; Gilly & Gelb, 1982; Bearden & Teel, 1983a; Richins, 1983; Richins, 1987; Singh, 1990; Folkes, 1984, 1988) has been to explain which particular type of complaint behavior a dissatisfied customer might choose. In a review of the complaint literature, Robinson (1978) claims that most studies have not been generalizable. On the other hand, work related to resolution management, cf. (Hirschman, 1970; Fornell and Wernerfeldt, 1987, 1988; Rust, Subramanian and

Wells, 1992) is mostly theoretical derivations based on stringent mathematical assumptions.

In short one is left with the impression that work related to antecedents to customer loyalty for dissatisfied complaining customers is lacking. This is surprising given current research focus on relationship marketing, customer loyalty and the importance of customer retention for the company's long term profitability.

The purpose of this paper is to examine the impact of negative affect, corporate image and satisfaction with complaint resolution on customer loyalty. The study is limited to dissatisfied complaining customers. Respondents are recruited from twelve different service industries. A conceptual model treating satisfaction with complaint resolution, initial negative affect, corporate image, and customer loyalty as latent variables with multiple indicators is proposed. Next, the results of an empirical study testing the model are presented. Finally the implications of the findings are discussed.

The conceptual model

Management discovers the organization's inability to satisfy its customers via two feedback mechanisms: exit and voice (Hirschman, 1970). Exit implies that the

customer stops buying the company's services while voice is customer complaints expressing the consumers' dissatisfaction directly to the company. Customer exit or change of patronage will have an impact on the long-term revenue of the company. According to Hirschman (1970) and Fornell and Wernerfeldt (1987) the number of customers who defect due to dissatisfaction, may be reduced;

- if the number of dissatisfied customers is reduced (e.g. improved service quality).
- if the number of dissatisfied non-complaining customers is reduced (e.g. increased voice).
- if the number of lost complaining customers is reduced (e.g. improved complaint resolution).

In our model we do not limit customer loyalty of dissatisfied complaining customers to a function of satisfaction with complaint resolution. We believe that negative affect caused by negative disconfirmation of expectations from the initial service encounter may have a negative impact on the satisfaction judgement of complaint resolution and customer loyalty. We also believe that most customers have formed a perception of and attitude toward the supplier. Previous experience, word-of-mouth, media or advertising may be the background for this corporate image. This customer held image of the company is believed to have a positive impact on customer loyalty. The conceptual model is illustrated in Figure 1.

Place Figure 1 about here

Since the effects of disconfirmation on satisfaction are well established, we will briefly describe customer satisfaction and customer loyalty, but focus our discussion on initial negative affect and corporate image as the "new" variables.

Methods

In the following section we will discuss the constructs in the conceptual model, proposed analysis, and sample.

Defining the measures

Initial negative affect

Most references on affect build on Bradburn's (1969) affect-balance theory which claims that events in life alternate between the positive and the negative, and that instances of one do not preclude occurrences of the other. This argument is particularly relevant to services since the service product consists of a number of attributes which may be perceived as pleasant or unpleasant (Oliver, 1993). Bearden and Teal (1983b) suggest that consumer complaint behavior (i.e. voice/no voice) is an action resulting from the emotions of dissatisfaction. Due to monetary costs, frustration, anxiety, tension the customer begins in a deficit (Oliver, 1997).

Initial negative affect is the common denominator describing the unsatisfactory service encounter experienced by customers who voiced or have not voiced their dissatisfaction to the company. Depending on degree of deficit, initial negative affect is believed to impact on the satisfaction judgment of the resolution process and customer loyalty. Affect is a generic term covering a whole range of preferences, evaluations, moods and emotions. Emotions refer to a complex

variety of affects, beyond merely feeling good or bad. It involves intense feelings with physiological arousal, which may last for some time (Fiske & Taylor, 1991). Research in consumer satisfaction, (cf. Westbrook, 1980), and in psychology, (cf. Schwartz & Clore, 1983), shows that positive and negative affective orientations color later affective judgment of every variety. The Mano and Oliver Framework (1993) identifies negative affect as a negative antecedent to satisfaction. Initial negative affect triggered by the initial service failure may thus have a negative impact on the satisfaction judgment of complaint resolution due to the customer being in a negative state of mind. It is also likely that initial negative affect for the same reason may have a negative impact on customer loyalty. Based on the above discussion there is ample reason to believe that excitation transferred from one source, i.e. dissatisfaction with the initial service, to another, i.e. satisfaction with complaint resolution, may color subsequent customer loyalty both directly and indirectly.

In summary, a customer who is dissatisfied with the initial service encounter experiences some degree of negative affect, e.g. anger, disappointment, negative surprise. For dissatisfied complaining customers, initial negative affect is believed to impact on the satisfaction judgment of complaint resolution and customer loyalty. In this respect both cognitive and affective elements are assumed to influence customer loyalty, i.e. whether customers exit or remain.

We express the above as:

H₁: For dissatisfied complaining customers, initial negative affect (INA) is negatively correlated with satisfaction with complaint resolution (SCR).

H₂: For dissatisfied complaining customers, initial negative affect (INA) is negatively correlated with customer loyalty (CL).

Satisfaction with complaint resolution

Oliver claims that satisfaction is derived from the Latin *satis* (enough) and *facere* (to do or make) (Oliver, 1997, p. 11). Satisfaction is consequently related to providing what is being sought to the point where fulfillment is reached. In the marketing literature, satisfaction is defined in several ways:

The evaluation of emotions. (Hunt, 1977, p. 460)

Favorability of the individual's subjective evaluation. (Westbrook, 1980, p. 49)

Summary psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with the consumer's prior feelings about the consumption experience. (Oliver, 1981, p. 27)

A positive outcome from the outlay of scarce resources. (Bearden & Teel, 1983a, p. 21)

Satisfaction is the consumer's fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, included levels of under- or overfulfillment. (Oliver, 1997, p. 13)

Finally, Fornell & Wernerfeldt (1987) define customer dissatisfaction as:

[...] a state of cognitive/affective discomfort caused by an insufficient return relative to the resources spent by the consumer at the stage of the purchase/consumption process.

From the above definitions it is understood that satisfaction is related to a subjective evaluation of emotions. The emotion occurs as a function of disconfirmation and relative output to input. The end result is a positive or negative feeling of fulfillment. From the latter definition it is clear that negative fulfillment can be restored by increasing the customer's return, e.g. through good complaint resolution.

In line with previous customer satisfaction studies where satisfaction is found to impact on customer loyalty, we claim that satisfaction with complaint resolution have a positive impact on customer loyalty. We express this as:

H₃: For dissatisfied complaining customers, satisfaction with complaint resolution (SCR) is positively correlated with customer loyalty (CL).

Corporate image

According to Dowling (1988) corporate image is a construct similar to the construct of self-concept in psychology. Both terms refer to a set of thoughts and feelings having reference to an object (e.g. a company or person). Corporate image is believed to have the same characteristics as self-schema (Markus, 1977). It consists of cognitive generalization about the self and is derived from past experiences. To most consumers schemas develop -become richer or change- over time. In the case of dissatisfaction with complaint resolution this update may be gradual or massively. In keeping with Rothbart's (1981) terminology this may be termed bookkeeping and conversion respectively.

Building on Keller (1993), substituting brand with organization may give a definition of corporate image: "[P]erceptions of an organization reflected in the associations held in consumer memory." Associations are close to what is termed schemas in cognitive psychology, i.e. "[P]eople's cognitive structures that represent knowledge about a concept or type of stimulus, including its attributes

and the relations among attributes” (Brewer & Nakamura, 1984; Fiske & Linville, 1980).

Proof of the importance of corporate image was found in the Norwegian Customer Satisfaction Barometer (NCSB). In all industries studied a positive correlation between corporate image and customer satisfaction existed, and customer satisfaction was positively correlated with customer loyalty in eight industries. Interestingly, in the service station industry a positive correlation existed between corporate image and customer loyalty. This may be due to the nature of the service (generic) and the structure of the industry (large concentration, and similarity in service concepts) which means there are hardly any switching costs associated. Andreassen and Lindestad in their studies found that corporate image played an active role in the formation of customer loyalty among existing customers (Andreassen & Lindestad, 1998a, 1998b).

Since an existing consumer's attitude toward a company is primarily experience-based, positive/negative disconfirmation may strengthen/ weaken the customer's impression of and attitude toward the company. There are several possible reasons why attitudes formed through direct experience are good predictors of behavior. First, direct experiences provide a great deal of information. An attitude developed as a function of experience may be better informed and more robust. Second, because behavior provided an initial basis for forming the

attitude, the behavioral implications of the attitude may be clearer. Third, the links between the attitude and the actual experience may make the attitude more accessible in memory, and thus come to mind more readily confronted with a similar situation. In the context of dissatisfaction with services and/or dissatisfaction with complaint resolution we believe that corporate image may function as a moderator to intended consumer behavior, i.e. one or two negative experience does not cause the customer to exit from the market or change patronage. In the case of dissatisfaction with services we believe that a good corporate image may function as moderator on future intent and thus reduce incentives to exit as a function of dissatisfaction with complaint resolution.

We express the above discussion as:

H₄: For dissatisfied complaining customers, corporate image (CI) is positively correlated with customer loyalty (CL).

The above hypotheses can be tested empirically by calculating the significant path coefficients. The existence of significant path coefficients in the right direction with the right sign is needed in order to clarify the hypothesized antecedents to customer loyalty for dissatisfied complaining customers.

The sample

Data for this study were generated as a function of the annual process of collecting data for the Norwegian Customer Satisfaction Barometer (NCSB) in 1996. At the end of the NCSB-interview each respondent was asked if she, within the last six months, had reason to be dissatisfied with the service for which he or she was interviewed. If the respondent answered affirmatively, he or she was, as the last question of the NCSB-interview, asked to participate in a new dissatisfaction study at some agreed date and time within the next two to three weeks. No incentives were promised or mentioned. If the respondent accepted the invitation, he or she was called back and interviewed at the agreed date and time. Each interview lasted from 12 to 15 minutes. No response at this stage was handled using three callbacks. All telephone interviews both for the NCSB and the dissatisfaction study were handled by an independent professional market research bureau.

The final sample contained 201 respondents of whom 55.2 per cent were males and 44.8 per cent females from 12 service industries. The average household income was about NOK 380,000 (USD 60,000). The respondents' age varied between 18 and 80, a small skewness toward younger respondents. Mean birth year was 1955. Average education was one to two years of college education, with a small bias towards respondents not having finished their college degree. The respondents were equally distributed between urban and rural areas.

Operationalizing the measures

Initial negative affect, corporate image, satisfaction with complaint resolution or customer loyalty cannot be measured directly by using an objective measure (Simon, 1974). If, however, they are treated as abstract and theoretical phenomenon they can be measured as a weighted average of multiple indicators (Johnson & Fornell, 1991). Measurement errors in the index are taken care of through the quality and quantity of the measures being used (Fornell, 1989). Consequently initial negative affect, corporate image, satisfaction with complaint resolution, and customer loyalty were measured using multiple indicators. A description of the indicators is presented in Appendix A. Standardized parameter estimates for the indicators of the latent variables in the model are included in Appendix B. The number of items making up each measure and Cronbach alpha coefficients, which express internal consistency in measures, gives characteristics of the latent variables. The Cronbach alpha coefficients are presented in Appendix B. All Cronbach alpha scores are within the accepted zone.

Proposed analysis

We treat initial negative affect, satisfaction with complaint resolution, corporate image, and customer loyalty as latent variables with multiple indicator measures (i.e. n_i , s_i , c_i , and cl_i) (Bolton & Drew, 1991; Oliver, 1992). Customer loyalty is a

function of initial negative affect (-INA), satisfaction with complaint resolution (+SSR), and corporate image (+CI). This can be expressed as:

$$\text{Eq. 1} \quad \text{CL} = f(\text{INA}, \text{SSR}, \text{CI}, \zeta_1)$$

$$\text{SCR} = f(\text{INA}, \zeta_2)$$

ζ_i are error terms containing all other elements not accounted for in the equations.

A reflective measurement model was used, where the observed variables are caused by the latent variables (Bollen, 1989). Endogenous (dependent) latent variables are labeled η , and the exogenous (independent) latent variable is labeled ξ . The dependence of the latent variables is then expressed as $\eta = B\eta + \Gamma\xi + \zeta$.

The relationships hypothesized in this study were analyzed by using structural equation modeling (LISREL VIII, ML) (Jöreskog & Sörbom, 1989). A selection of fit indices reported by LISREL 8.12a is included in Appendix C. According to the fit indices the theoretical models fit the data reasonably well (Medsker, Williams, & Holahan, 1994; Hair, Anderson, Tatham, & Black, 1995). Reestimation of the same model using Generalized Least Squares (GL) reports parameter estimates in the same range with the same sign. This is an indication of good model fit of the structural model (Olsson, 1996).

Parameter estimates

According to Jöreskog (1993) and Anderson and Gerbing (1988) a two-step approach is preferable for testing structural equation models.¹ First, the measurement model is estimated without imposing any structural constraints. This allows for inspection of the lack of fit that can be attributed to the measurement alone. The second step includes the structural relationships proposed by the theoretical framework. By using the two-step approach one avoids the confusion in interpretation that can result from one-step approach (Anderson & Gerbing, 1988). This study employed the two-step approach.

The estimated standardized path coefficients between the endogenous and exogenous variables (i.e. the gamma matrix) are illustrated in Table 1.

Place Table 1 about here

¹ Fornell and Yi (1992) who claim that the underlying assumptions of the two-step approach are difficult to meet challenge this view.

As can be seen from Table 1 initial negative affect has a negative impact on satisfaction with complaint resolution and customer loyalty. Corporate image has a positive but somewhat weaker impact on customer loyalty. Satisfaction with complaint resolution has strong positive impact on customer loyalty (0.57, $t = 5.52$).

Discussion

The growing recognition of relationship marketing makes the importance of understanding post-purchase consumer evaluations more important. Based on the model structured and the data sampled H_1 is accepted. Initial negative affect has a significant negative impact on satisfaction with complaint resolution. H_2 is accepted. Initial negative affect has a significant negative impact on customer loyalty. H_3 is accepted. Satisfaction with complaint resolution has a significant positive impact on customer loyalty. H_4 is accepted. Corporate image has a significant positive impact on customer loyalty.

A successful complaint resolution, as perceived by the complainer, is a positive surprise and may create strong positive feelings (delight). An unsuccessful resolution will create strong negative feelings (anger). Both outcomes will impact customer loyalty. This finding is in keeping with numerous studies of customer satisfaction. Interestingly in this study satisfaction with complaint resolution was

the stronger driver of customer loyalty. These findings support the importance of understanding antecedents to satisfaction with complaint resolution.²

The negative affect cause by negative disconfirmation of expectations in the initial service encounter has a carry over effect on the satisfaction judgment of complaint resolution. Independent of the outcome of the resolution process, negative affect stimulates exit behavior. The findings from hypotheses one and two point to the importance of improving service quality in order to avoid failures. Johnston goes one step further when he suggests that manager must actively seek out dissatisfied non-complaining customers (Johnston, 1995). His claim is supported by this study.

A good corporate image can compensate for a bad or mediocre complaint resolution. Customers will balance the complaint resolution experience with previous encounters, i.e. customers may consider the initial incident as irregular and not representative for the company. If the customer perceives the incident which gave reason to complain as a one-time episode this will not change the customer's attitude toward to company. In this respect corporate image functions

² In a forthcoming study one researcher found that equity rather than disconfirmation of expectation was the stronger driver of satisfaction with service recovery (Andreassen, forthcoming 2000).

as an aggregated expectation formed through previous encounters or external sources.

Managerial implications

The findings from the present study illustrate the importance of a professional resolution process. The fact that satisfaction with complaint resolution has the strongest impact on customer loyalty underscores the importance of complaint resolution in creating long-term customer interactions. This calls for a deeper understanding of antecedent to satisfaction with complaint resolution in order to achieve satisfaction. Negative affect caused by the initial service failure has a strong carryover effect on the satisfaction judgment of the resolution and future intent. This calls for programs, which may improve the company's current service quality. Given negative affect's impact on customer loyalty the importance of actively seeking out dissatisfied non-complaining customers is apparent from this study. The importance of developing and confirming a good corporate image is also apparent from this study. Like a shadow from the past a good corporate image moderates any negative effects caused from dissatisfaction with complaint resolution. On the other hand, dissatisfied complaining customers who were not satisfied with the company's effort in trying to recover, will update their current perception of and attitude toward the company. A similar experience in the next encounter may stimulate exit behavior despite numerous previous successful

encounters. This argument is supported by the carry over effect from negative affect on customer loyalty. A good corporate image is created partly as a function of what the company does in its daily operations, and partly through its marketing communication, and partly through the media. People's perception of a company will create expectations of the company with regard to complaint resolution. Dissatisfied complaining customers expect more from a company they have experienced as or perceive as being customer oriented. Complaint management and complaint handling must thus be designed in accordance with the company's profile communicated through media or advertisements.

Summary

Building on theory from consumer behavior, affect-balance theory, and cognitive psychology this paper considered dissatisfaction with services and antecedents to customer loyalty. A theoretical model was proposed and tested empirically based on a cross-sectional national sample of 201 dissatisfied complaining customers of services. The results suggested that negative affect caused by the initial service failure have a negative impact on satisfaction with complaint resolution and customer loyalty. Second, satisfaction with complaint resolution has a positive impact on customer loyalty. Finally, corporate image had a positive impact on customer loyalty. Of the three constructs, satisfaction with complaint resolution has the strongest impact of customer loyalty. The paper pointed out the

importance of successful complaint resolution and initiatives that actively seek out dissatisfied non-complaining customers. Finally, customers' satisfaction with complaint resolution may confirm or stimulate change of current perception of and attitude toward the company. A negative outcome plus the effect of negative affect from the initial service failure may speed up this process.

APPENDIX A

Measures

Initial negative affect

Using Watson & Telgen's (1985) typology of affect, high negative affect was measured combining three works (Watson & Tellegen, 1985; Russel, 1980; Plutchik, 1980).

- disappointed
- angry
- surprised

To which degree would you say that your dissatisfaction at that moment can be described as follow: (to the interviewer: by “that moment” we refer to the moment dissatisfaction arose)

1. Disappointment (possible description of dissatisfaction at the moment dissatisfaction arose) (-5=in very low degree, +5=in very high degree)
2. Anger (possible description of dissatisfaction at the moment dissatisfaction arose) (-5=in very low degree, +5=in very high degree)

3. (negative) Surprise (possible description of dissatisfaction at the moment dissatisfaction arose) (-5=in very low degree, +5=in very high degree)

Corporate image

The construct is operationalized through the use of four items, which is believed to reflect corporate image. These items were derived after a pretest among 400 respondents concerning banking and charter services and applied in the dissatisfaction study. The items are:

- opinion of the company
- the company's profile
- perception of company being customer-oriented
- company related word of mouth from other

I am going to ask you now some few questions regarding your general attitude and feelings for *?COMPANY.

1. In general, how positive or negative would you say that your perception of *?COMPANY is? (-5=very negative, +5=very positive)
2. How satisfied or dissatisfied are you with the way *?COMPANY presents itself? (To the interviewer: we refer here to the way the company presents itself to the public e.g. through advertising, attitudes the company expresses and the like) (-5=very dissatisfied, +5=very satisfied)

3. To what extent do you perceive *?COMPANY as customer oriented? (-5=in very low degree, +5=in very high degree)
4. How positive or negative do you perceive that others mention *?COMPANY? (-5=very negative, +5=very positive)

Satisfaction with complaint resolution

Market researchers distinguish between transaction-specific satisfaction and their global evaluation of the service (Holbrook & Corfman, 1985; Olshavsky, 1985). In this study satisfaction with complaint resolution (SCR) was measured using two items;

- overall satisfaction with complaint resolution (aided)
- compared to ideal performance, i.e. complaint resolution

1. How satisfied or dissatisfied are you with the way *?COMPANY has so far kept you informed regarding the development of your case? (-5=very dissatisfied, +5=very satisfied)
2. Imagine an ideal way of processing complaints. If you consider *?COMPANY's way of processing your complaint so far, how far from or close to do you think *?COMPANY is to this ideal? (-5= very far from the ideal, +5= very close to the ideal).

Customer loyalty

Two items are used.

- remaining loyal to the company
- providing referrals

1. How probable or improbable is that you will continue being a customer of *?COMPANY in a year from now? (-5=very improbable, +5=very probable)
2. In case a friend of yours asks you for advice when choosing COMPANY, how probable or improbable is that you would recommend the person to choose *?COMPANY? (-5=very improbable, +5=very probable)

APPENDIX B

Place Table B-1 about here

Place Table B-2 about here



APPENDIX C

Model fit

Place Table C-1 about here

Table 1

Influence on the exogenous variable on the endogenous variables

	Satisfaction with complaint resolution	Initial negative affect	Corporate Image
Satisfaction with complaint resolution		- 0.28 (0.09) t = -2.97	
Customer loyalty	0.57 (0.10) t = 5.55	-0.19 (0.09) t = -2.00	0.17 (0.09) t = 1.93

Table B-1

**Standardized parameter estimates for the indicators of the seven latent variables
in the model**

Indicator	Estimate
Initial negative affect $\lambda_{x1.1}$	0.78
Initial negative affect $\lambda_{x1.2}$	0.46
Initial negative affect $\lambda_{x1.3}$	0.62
Corporate image $\lambda_{x4.13}$	0.69
Corporate image $\lambda_{x4.14}$	0.55
Corporate image $\lambda_{x4.15}$	0.53
Corporate image $\lambda_{x4.16}$	0.48
Customer loyalty $\lambda_{y1.1}$	0.77
Customer loyalty $\lambda_{y1.2}$	0.77
Satisfaction with complaint resolution $\lambda_{y2.3}$	0.85
Satisfaction with complaint resolution $\lambda_{y2.4}$	0.88

Table B-2

Chronbach alpha coefficients for seven constructs

Construct	Number of items	Cronbach's alpha
Satisfaction with complaint resolution	2	.88
Initial negative affect	3	0.55
Corporate image	4	.79
Customer loyalty	2	.76
“Norms”		
(Nunnally, 1967, p. 226)		0.5 - 0.8
((Nunnally, 1978, p. 245-246)		0.7 - 0.8
(Peterson, 1994)		0.77 ³

³ Mean score across 4.286 alpha coefficients, 1.032 samples and 832 studies investigated

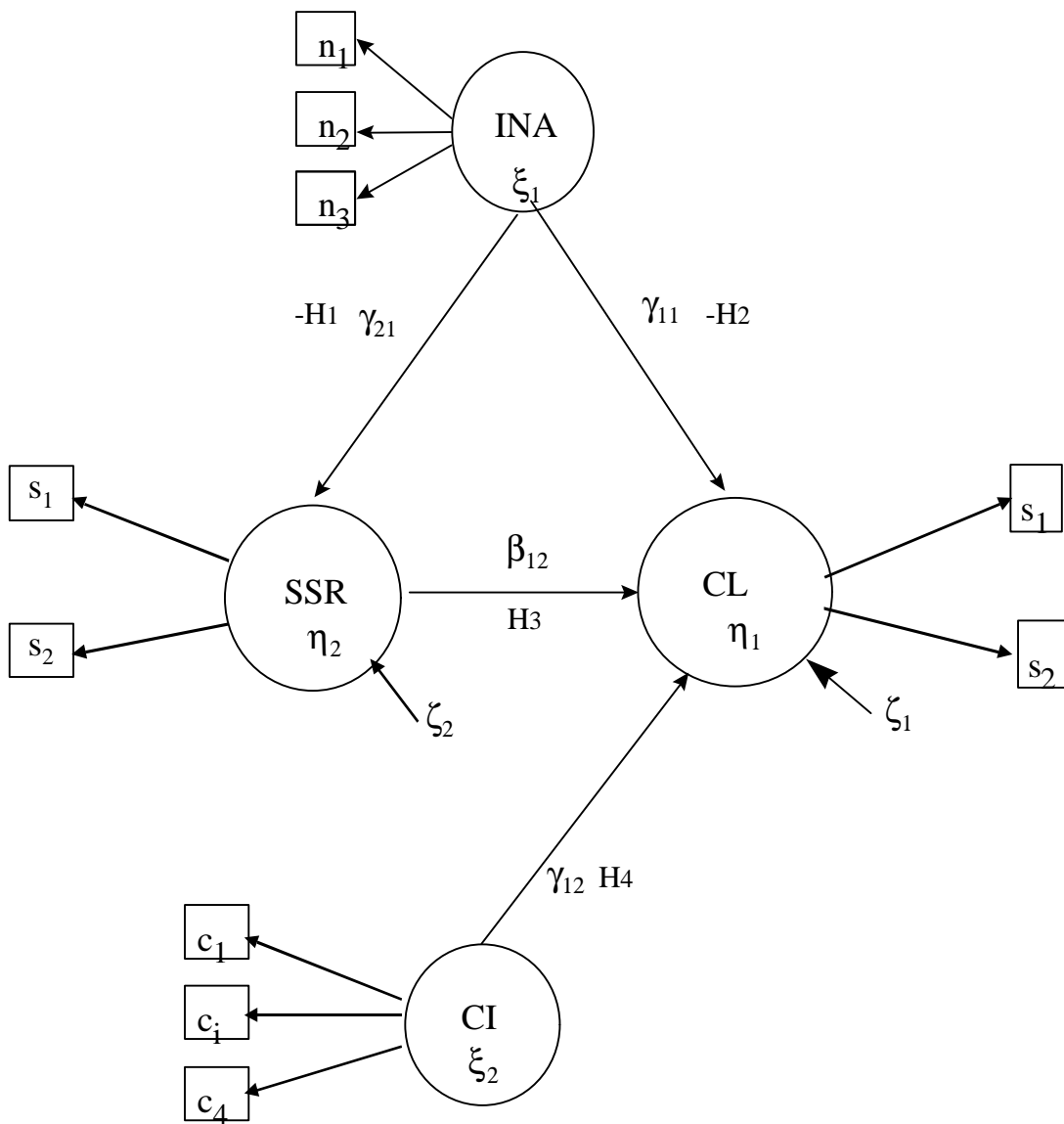
Table C-1

Fit indices provided by LISREL

Indices	Values
Chi square	40.71 39 df (P = 0.40)
RMSEA	0.015
GFI	0.96
AGFI	0.94
NFI	0.93
NNFI	1.0
CFI	1.0
CN	307.70

Figure 1

The conceptual model



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