

What Are Your Customers Saying About you?

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What Are Your Customers Saying About you?

Researchers examine the relationship between satisfaction, loyalty and complaint behavior.

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Although there is a long list of benefits associated with relationship marketing, little is understood about the actual influences of the dimensions of relationship marketing and its effects on customer (dis)satisfaction, complaint/praise and customer (dis)loyalty. Thus, the objectives of this research are to develop an integrated model that uses relationship marketing as an antecedent construct to explain customer satisfaction/dissatisfaction, public and/or private praise or complaint and brand loyalty or switching behavior.

Relationship Marketing Dimensions

Relationship marketing may be viewed as a strategy to attract, maintain and enhance customer relationships. The goals of relationship marketing are to create and maintain lasting relationships between the firm and its customers that are rewarding for both sides. The following are key characteristics of relationship marketing: (1) every customer is considered an individual person or unit, with activities of the firm predominantly directed toward existing customers, (2) it is based on interactions and dialogues and (3) the firm is trying to achieve profitabil-

ity by decreasing customer turnover and strengthening customer relationships.

Some factors that underpin relationship marketing include competence, trust, commitment, communication and conflict handling. These are integral dimensions of relationship quality involving relational exchange not just in the B-to-B context but also in the B-to-C context, especially in high credence service situations involving uncertainty and high perceived risk.

Competence. Competence is defined as the buyer's perception of the supplier's technological and commercial competence. From this definition, there are four items that are linked to competence. These include the supplier's (1) knowledge about the market for the buyer, (2) ability to give good advice on the operating business, (3) ability to help the buyer plan purchases and (4) ability to provide effective sales promotion materials. For example, the National Retail Merchants Association reported that businesses lose approximately 20 percent of their customers each year. Most of these defections arise from issues relating to incompetent service delivery. This undermines customer retention.

Trust. Trust has been defined as the belief that a partner's word or promise is

reliable and a party will fulfill his obligations in the relationship. It is a willingness to rely on an exchange partner in whom one has confidence. The resources of the seller (e.g., personnel, technology and systems) have to be used in such a manner that the customer's trust in the resources involved, and thus in the firm itself, is maintained and strengthened.

Commitment. Scholars have looked at commitment as one of the important variables for understanding the strength of a marketing relationship, and it is a useful construct for measuring the likelihood of customer loyalty. Commitment is an enduring desire to maintain a valued relationship. This implies a higher level of obligation to make a relationship succeed and to make it mutually satisfying and beneficial. Commitment to the firm-customer relationship involves sacrifices that few organizations are willing to make, but are very rewarding in the long run. Studies have shown that often there is a negative correlation between early entrepreneurial success and becoming a highly successful company, indicating the strategic role of long-term commitment, as reported in Collins and Porras' article, "Building a Visionary Company" (*California Management Review*, 1995). Companies such as Wal-Mart and Sony



are highly successful today because of their long-term vision and commitment.

Communication. Communication is the exchange of information between supplier and customer. It is the ability to provide trustworthy information in time. Prior studies suggest that the exchange of information is an important part of both traditional industrial selling and relationship marketing. There is a new view of communication as an interactive dialogue between the company and its customers that takes place during the pre-selling, selling, consuming and

post-consuming stages. Besides providing timely and trustworthy information, effective communication oils and keeps the wheel of trust rolling. When there is effective communication between the marketer and customers, better relationships, customer satisfaction and loyalty are likely to result.

Conflict handling. Conflict handling refers to the supplier's ability to minimize the negative consequences of manifest and potential conflicts. Conflict handling reflects the supplier's ability to avoid potential conflicts, solve manifest conflicts

before they create problems and discuss solutions openly when problems arise.

Customer Satisfaction

Satisfaction is determined to a large extent by the disconfirmation or confirmation of consumer expectations. The disconfirmation model has been widely accepted, and many researchers have tried to define satisfaction further using this model. The disconfirmation model focuses on the condition where the product disconfirms expectation. If the product disconfirms expectation

Executive Summary

By integrating the relationship marketing, customer (dis)satisfaction, complaint/praise and switching and loyalty streams of literature, the authors have developed an integrated model that explains customer switching, loyalty and indifference. They also have developed a causal framework and derived several hypotheses. Two separate studies attempt to examine these hypotheses: One investigates customer satisfaction and loyalty while the other examines complaint behavior and switching. The results have several managerial implications.

by exceeding it, customers experience satisfaction; in contrast, if a product disconfirms expectation by falling short of expectation, dissatisfaction arises. The expectations are determined by factors such as advertising, prior experience, personal needs, word of mouth and the image of the service provider. Consumers form pre-purchase expectations and post-purchase evaluations, and dissatisfaction is generated when evaluations do not meet expectations. Dissatisfaction leads to complaint behavior.

Complaint behavior. Customer complaint behavior constitutes a subset of all possible responses to perceived dissatisfaction around a purchase episode, during consumption or during possession of the goods or services. It has been argued that complaint behavior is not an instant response but a process, which does not directly depend on its initiating factors but on evaluation of the situation by the consumer and its evolution over time. Consumer complaint behavior is a distinct process, which begins when the consumer has evaluated a consumption experience (resulting in dissatisfaction) and ends when the consumer has completed all behavioral and non-behavioral responses such as leaving the company with or without complaining (i.e., public complaint vs. private complaint).

Consumer complaint behavior has been identified as the consumer dissatisfaction response style. Thus, complaint is actually the response following the dissatisfaction. These responses/actions include (1) *voice*, that is, response directed toward a salesperson, retailer or service provider; (2) *private*, that is, negative word-of-mouth communica-

tion to friends and family and exit from exchange relationship or switching patronage; and (3) *third party*, that is, complaints to formal agencies not involved in the exchange relationship (e.g., complaining to a consumer agency). We argue that complaining to the service

provider directly or indirectly through a third party constitutes public complaint in contrast to private complaint. This is in line with the two-level hierarchical classification (public or private action) proposed by some scholars.

Public complaint refers to the direct complaint actions to the seller or a third party (e.g., consumer agency or government), which include seeking redress directly from a retailer or manufacturer and taking legal action. The public actions that could be taken by consumers include making verbal complaints to a retailer/manufacturer, writing a comment card or complaint letters, writing to the local newspaper or complaining to a consumer council. *Private complaint* indicates that a complaint is private through negative word-of-mouth communications to family and friends or the decision not to repurchase the product or service again or to boycott a store without a word to the organization or service provider. Private actions generally do not get the direct attention of the seller and thus could have a serious impact on sales and profitability.

Customer loyalty and defection.

Loyalty is a deeply held commitment to rebuy or repatronize a preferred product or service in the future despite situational influences and marketing efforts that have the potential to cause switching behavior. It has been argued that, for loyal buyers, companies must invest in relationship-building and develop closeness to customers. Customer defection is also referred to as customer exit or switching behavior. The terms switching, defection and exit are used interchangeably. Defection can be defined as customers

forsaking one product or service for another. Defection is an active and negative response to dissatisfaction, exhibited by a break of the relationship with the object (brand, product, retailer, supplier, etc.).

Switching costs. One of the significant influences on customer defection or loyalty is switching cost, the cost of switching between different brands of products or services. It may be defined as the costs of finding, evaluating and adopting another solution. Switching costs are one-time costs, as opposed to the ongoing costs associated with using a product or provider once a repeat purchase relationship is established. While switching costs must be associated with the switching process, they need not be incurred immediately upon switching.

Switching costs can be explicit or implicit. Explicit switching costs include transaction costs (costs that occur in order to start a new relationship with a provider and/or costs necessary to terminate an existing relationship), learning costs (the effort required by the customer to reach the same level of comfort with a new product that they had with an old product) and artificial costs (costs created by deliberate actions of a company). Implicit costs are associated with decision biases (e.g., the “status quo bias”) and risk aversion. The costs of switching depend on the levels of the information search cost, perceived risk, substitutability of the service provider and geographical proximity to the service provider. Thus, these costs are both monetary as well as nonmonetary.

Dissatisfied consumers might be reluctant to change to a new supplier because of high switching costs. Conditioned by high switching costs, a decrease in satisfaction will not cause switching until some threshold of dissatisfaction is reached. Switching costs are perceived to be low when product complexity and provider heterogeneity in the marketplace are low. A less complex product/service is less likely to involve a large number of learned skills that must be relearned in order to switch providers. Similarly, when service providers are perceived low on heterogeneity, it enhances the extent to which knowledge concerning one provider is applicable to another provider.

Demographics: Income and Ethnicity

Demographic variables, such as income, education level and age have been found to have consistent impact on consumer complaint. As reported in Singh's article, "A Typology of Consumer Dissatisfaction Response Styles" (*Journal of Retailing*, 1990), consumers who choose to complain were found to be relatively younger, earn higher income and be more educated, although the discriminatory power was modest.

Higher income consumers tend to have more resources in terms of information and self-confidence to deal with marketplace problems and tend to perceive less risk and embarrassment in complaining. However, the role of income in consumer complaint is not quite well-understood, and prior results have been mixed.

Another demographic variable that should be considered is ethnicity. It is common that income distribution is inequitable across ethnicities. Thus, it is important to look at ethnic groupings as a moderator of the complaint-defection relationship.

Theoretical Framework and Hypotheses

Based on the foregoing literature review and the distinctly separate models proposed in Malhotra, Ndubisi and Agarwal's article, "Public Versus Private Complaint Behavior and Customer Defection in Malaysia: Appraising the Role of Moderating Factors" (*EsicMarket*, 2008) and in Ndubisi, Malhotra and Wah's "Relationship Marketing, Customer Satisfaction and Loyalty: A Theoretical and Empirical Analysis from an Asian Perspective and Implications for International Marketing" (*Journal of International*

Consumer Marketing, 2009), we present an integrated model.

Relationship marketing is conceptualized as a second-order construct consisting of five first-order dimensions of trust, competence, commitment, communications and conflict handling. Depending upon the level of relationship marketing (or lack of it), the customer will be

characteristics. The customer who is neither satisfied nor dissatisfied is unlikely to engage in either complaint or praise behavior and is likely to remain neutral in terms of loyalty or switching. Please see boxes below.

Research Methodology

To our knowledge, no study has empirically investigated the integrated model explaining both customer loyalty and switching in terms of customer (dis)satisfaction and complaint/praise behavior. However, the authors and their associates did conduct two empirical studies. One examined customer switching and the other customer loyalty. In both studies, the data were collected from randomly selected customers of retail banks in Malaysia. All the constructs were measured using the scales published in the literature. The questionnaire was written in English and translated into Malay and Chinese languages by following recommended procedures. The survey examining switching yielded a net sample of 218 while the one investigating customer loyalty was based on a sample of 217. The data were analyzed using sophisticated multivariate techniques including factor analysis, stepwise discriminant analysis and hierarchical regression.

Results. The results show that the three dimensions contribute significantly to customer satisfaction, albeit only communication and conflict handling have

a significant relationship with customer satisfaction. Satisfaction is significantly associated with customer loyalty and also mediates in the association of communication and conflict handling with customer loyalty. The results of the second investigation showed that both public and private complaints are significantly associated with defection, albeit private

We propose the following hypotheses:

Hypothesis 1a:
Competence will lead to customer satisfaction.

Hypothesis 1b:
Trust will lead to customer satisfaction.

Hypothesis 1c:
Commitment will lead to customer satisfaction.

Hypothesis 1d:
Communication will lead to customer satisfaction.

Hypothesis 1e:
Conflict handling will lead to customer satisfaction.

Hypothesis 2a:
Customer dissatisfaction will lead to public complaint behavior.

Hypothesis 2b:
Customer dissatisfaction will lead to private complaint behavior.

Hypothesis 2c:
Customer satisfaction will lead to public praise behavior.

Hypothesis 2d:
Customer satisfaction will lead to private praise behavior.

Hypothesis 3a:
Customer public complaint behavior will lead to customer defection or switching.

Hypothesis 3b:
Customer private complaint behavior will lead to customer defection or switching.

Hypothesis 3c:
Customer public praise behavior will lead to customer loyalty.

Hypothesis 3d:
Customer private praise behavior will lead to customer loyalty.

Hypothesis 4a:
Switching costs will moderate the effect of public complaint behavior on customer defection or switching.

Hypothesis 4b:
Switching costs will moderate the effect of private complaint behavior on customer defection or switching.

Hypothesis 5a:
Income will moderate the effect of public complaint behavior on customer defection or switching.

Hypothesis 5b:
Income will moderate the effect of private complaint behavior on customer defection or switching.

Hypothesis 6a:
Ethnicity will moderate the effect of public complaint behavior on customer defection or switching.

Hypothesis 6b:
Ethnicity will moderate the effect of private complaint behavior on customer defection or switching.

satisfied or dissatisfied or may experience neutral satisfaction. If the customer is satisfied, then he is likely to engage in private or public praise behavior that will lead to loyalty. On the other hand, if the customer is dissatisfied, then he is likely to engage in private or public complaint behavior and may switch, with the switching behavior being moderated by switching costs and selected demographic

complaint had a stronger impact. Ethnicity and switching cost did not moderate the observed relationships. Income has a significant moderating effect in the relationship between private complaint and defection. Low-income earners are more likely to defect without complaining to the bank than high-income earners. We do not want to dwell on these results as they may be specific to the context examined. Our discussion and implications will focus more on the theoretical framework and hypotheses.

Final Notes

By building quality relationships with customers, based on competence and trust, marketers can satisfy customers better than competitors and in turn keep them loyal. By furnishing timely, reliable and useful information on new and existing products and services and communicating and fulfilling promises that demonstrate commitment, companies can

attain customer satisfaction. Customer satisfaction can also be delivered through proactive and reactive conflict-handling mechanisms. Marketers can generate customer satisfaction by pre-empting potential sources of conflict and by ensuring that manifest problems are discussed openly and solutions are offered. Although taking proactive measures is preferable and deserves emphasis, reactive measures are important because no organization can guarantee 100 percent error-free services.

It is important, therefore, that marketers create an impression among customers that complaints are welcome and not considered as confrontation. Creating a positive image of direct complaint to the marketer will encourage more customers to do so when needed. Watkins and Liu's article, "Collectivism, Individualism and In-Group Membership: Implications for Consumer Complaining Behaviors in Multicultural

Contexts" (*Journal of International Consumer Marketing*, 1996), reports that positive consumer perceptions of supplier responses to complaints resulted in greater satisfaction and increased repurchase intentions and behaviors.

At the same time, marketers should also impress upon customers that complaining privately (to family and friends) denies companies the opportunity to learn from their mistakes. Management may even show them how damaging negative word-of-mouth can be through newsletters, seminars and other customer enlightenment initiatives. Within the organization itself, management should not only encourage complaints through dedicated complaint mechanisms, they should also reward employees that have been successful in engaging customers on their grievances, successfully solving the problems and retaining those customers eventually.

Another key lesson for management

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from this research is that it should not wait for complaints to drive quality improvements. The possibility that private complaint has stronger influence on defection than public complaint shows that most customers may not complain to the marketer, yet they are not satisfied and are defecting. If management therefore (advertently or inadvertently) interprets no complaint as a high level of satisfaction or waits for complaints to drive quality improvements (instead of acting pre-emptively), it risks losing many customers before realizing that customers are unhappy.

Marketers should develop effective strategies for competing in an industry with very low switching costs, for example by differentiating the products and services. Service providers can differentiate on the basis of service quality dimensions including tangibility, reliability, assurance, responsiveness and empathy.

The comparative analysis of extant

literature on the relationship marketing approach shows the approach has universal appeal. However, further research is necessary to compare the effectiveness of the relationship marketing approach in the different cultural settings.

Readers should not confuse the disconfirmation model of consumer expectations with other measures of consumer expectations that have been discredited in the literature. For example, researchers in services quality have found that perception scores better measure service quality than the difference scores (i.e., the difference between expectations and perceptions). For more information, see "A Comprehensive Framework for Service Quality: An Investigation of Critical Conceptual and Measurement Issues through a Longitudinal Study" by Dabholkar et al (*Journal of Retailing*, 2000) and Page and Spreng's article, "Difference Scores Versus Direct Effects in Service Quality Measurement"

(*Journal of Service Research*, 2002).

While we acknowledge that customer satisfaction is dependent on product quality, product value and perceived price (i.e., intrinsic utility), we do not include these variables in our framework because our central focus is on relationship marketing dimensions (i.e., relationship quality) and their staged linkages to (dis)satisfaction, complaint (praise) and (dis)loyalty variables. •

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