

The Influence of Complaint Handling and Service Recovery on Customer Satisfaction, Customer Loyalty and Customer Retention

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ABSTRACT

This research aimed at defining the concepts of "complaint handling" and "service recovery" and finding out their influence on customer satisfaction, loyalty, and retention. A systematic literature review was used as a research methodology to reach these goals. Based on the literature review, a model of the influence of complaint handling and service recovery on customer satisfaction, customer loyalty, and customer retention, was developed and described. The analysis of previous studies showed that customer satisfaction was highly affected by complaint handling and service recovery. The other two variables: customer loyalty and customer retention, did not directly correlate with complaint handling and service recovery. However, based on reviewed articles, it can be seen that the influence of complaints handling on customer loyalty could be mediated by customer satisfaction; the loyalty of customers was significantly affected by the level of customers' satisfaction. Meanwhile, another variable - customer retention was highly affected by customer satisfaction and customer loyalty. Therefore, it also had an indirect correlation with complaint handling and service recovery.

Keywords: Complaint Handling, Customer Loyalty, Customer Satisfaction, Customer Retention, Service Recovery.

1. INTRODUCTION

There is always a possibility that the company might face a service failure and customer complaint in its performance. Avoiding service failure and consumer complaints is almost impossible [1]. As proven many times before, an organization's ability to handle customer complaints properly and use them for service recovery plays a significant role in its functioning [2].

The question of complaint handling and service recovery is becoming more critical with the development of technology and communication because it increases the negative risks of customer complaints and the importance of effective firm recovery [3]. On average, one complaint posted online is read by 825 other consumers [4]. According to Customer Rage Survey 2020, customers with complaints are increasingly using email, live chat, and social media, which causes a bigger challenge than in the past for companies to address customer complaints.

The company's complaint handling can significantly affect the customers' level of loyalty and satisfaction [5]. Moreover, proper complaint handling can be an effective tool to generate more excellent retention of customers. It raises the importance of academic research in this field.

There are different studies dedicated to complaint handling and service recovery. The purpose of this paper is to make a literature review of some previous papers in order to define concepts of "complaint handling" and "service recovery" and find out the influence of these concepts on customer satisfaction, customer loyalty, and customer retention.

The research objectives of this paper are:

1. To find out the influence of complaint handling and service recovery on customers' satisfaction;
2. To find out the complaint handling and service recovery on customers' loyalty;

3. To find out the influence of complaint handling and service recovery on customers' retention.

2. METHODS

This paper used literature review as a research method. A systematic literature review was used to answer a research question of the paper and to receive reliable findings. A systematic literature review was chosen as a research method because it aimed to identify and critically appraise relevant research and collect and analyze data from said research [6].

Complaint handling and service recovery are related concepts learned as one phenomenon.

The research questions of this paper were:

- 1) Do complaint handling and service recovery impact customer satisfaction?
- 2) Do complaint handling and service recovery impact customer loyalty?
- 3) Do complaint handling and service recovery impact customer retention?

The variables, namely customer satisfaction, customer loyalty, and customer retention, characterize the successful performance of the company: the longevity of a client's relationship with a product and/or service provider [7], the development of sustainable competitive advantages of service companies [8] and the level of customer perceived value and perceived quality of the product [9].

3. RESULTS AND DISCUSSION

3.1. Complaint handling

There are various definitions of "complaint". It is a customer-initiated expression of dissatisfaction to the company [10].

When customers encounter service failures, the range of their possible actions is wide (Fig. 1).

Depending on personality, some customers take public actions: they complain to the service firm (that is preferable), they complain to a third party, or even take legal action. Some customers can take private actions such as switching providers or telling others about their unpleasant experiences (WOM). At the same time, some customers do not take any action [11].

Among all these three, Public Action is the most preferable for the company because it allows the company to detect the system's failure and fix it.

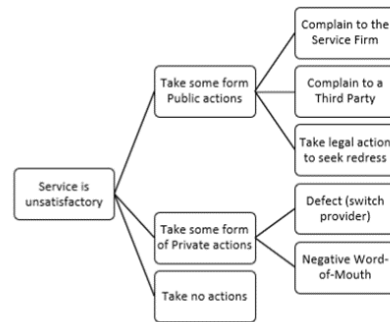


Figure 1: Day and Landon's (1977) Classification of Consumer Complaint Behavior [11]

There are also different reasons for customers to complain. Wirtz believes that overall, customers have four reasons to complain: a) obtain restitution or compensation; b) vent anger; c) help to improve the service; d) for altruistic reasons – to help other customers [12]. To handle complaints, companies develop complaint management, which could be described as how companies manage, act, respond to and, afterward, report customer complaints [13].

3.2. Service recovery

The ability of the system to recover shows the company's ability to develop and be profitable [14]. Recovery refers to a company's actions in response to the failure to keep the customer's goodwill [10].

Gelbrich & Roschk (2011), in their paper, built the model of service recovery (Fig.2) that includes several variables. The model shows the principles of service recovery and the influence of organizational response and customers' justice perception on customers' satisfaction and their behavior. Organizational responses, such as compensation, lead to Distributive justice and helps to increase the loyalty of customers' positive recommendations. Good employee behavior leads to interactional justice and increases customers' satisfaction level, which helps keep their loyalty and positive WOM. Organizational procedures help to increase procedural justice that also positively influences customers' satisfaction.

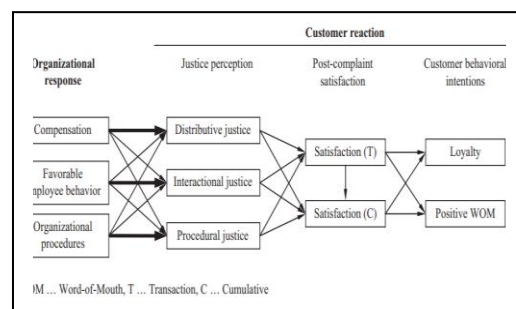


Figure 2: Meta-analytic framework for post-complaint behavior [15] and Landon's (1977) Classification of Consumer Complaint Behavior [11]

The justice perception of customers is the most critical factor in service recovery. Service recovery has four main attributes, namely: compensation, response speed, apology, and recovery initiation, that affect this justice perception, that has three dimensions such as distributive, procedural, and interactional.

Distributive justice refers to the perceived outcome of the customer in exchange for their complaint, while interactional justice refers to how customers perceive the way they are treated [16]. Procedural justice refers to how the complainant perceives policies, regulations, and time spent in the complaint handling process [17].

These three dimensions impact the service satisfaction of customers, which, in turn, influences customer behavior [16].

3.3. Customer satisfaction

Customer satisfaction can be defined as an overall evaluation based on the purchase and consumption experience made by the customers of a good or service over time [9]. The research question of many academic papers was the influence of complaint handling and service recovery on customer satisfaction. This paper built a customer satisfaction model with service failure/recovery encounters (Fig.3), which shows the strong correlation between complaint handling, service recovery, and customer satisfaction.

According to this model, the recovery attributes can differ depending on the type and magnitude of failure. It includes compensation, response speed, apology, and initiation. If the company takes these steps, it will be considered fair and positively influence customers' satisfaction. If there is no response from the company to the system's failure, it will also impact customers; however, it will be negative.

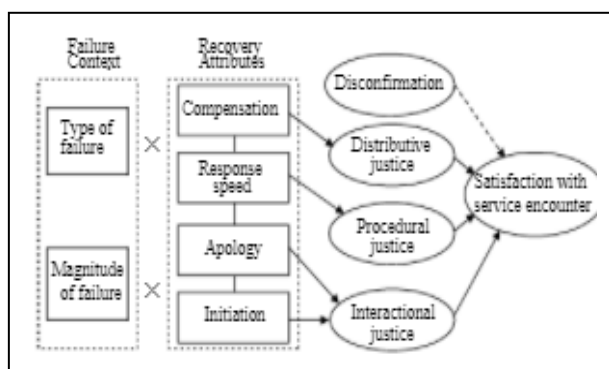


Figure 3: A model of customer satisfaction with service failure/recovery encounters [18]

This research suggested that in managing complaint handling and service recovery, organizations should consider perceptions of fairness because the fairness of compensation hugely influences customer satisfaction after a service failure.

Another paper by [19] has shown the strong impact of the customer's complaints' handling on customers' satisfaction. The research of five banks in Jordan showed that complaint handling is essential because it provides information that can improve the service and resolve dissatisfaction issues. The dimensions of complaint handling such as service recovery, service quality, switching cost, service failure, service guarantee, and perceived value affect customer satisfaction and performance of the whole organization.

Recent research of complaint handling and service recovery by [5] in Malaysia's hotel industry has shown that service recovery as a complex process positively affects customer satisfaction. In addition to dimensions of service recovery by [5], [19] highlighted other dimensions of service recovery, namely distributive justice, procedural justice, and interactional justice.

3.4. Customer loyalty

Customer loyalty has received attention in due to its contribution to creating a sustainable competitive advantage for service organizations [8]. Customer loyalty can be defined as an intensely involved commitment to consistently re-buy or re-patronize goods from the same service providers in the future [5].

According to [8], customer satisfaction is essential for customer loyalty. Considering that we have found that customer satisfaction is affected by complaint handling and service recovery, it is possible to deduce the influence of service recovery on customer loyalty.

Reference [20] examined the effect of customer complaints handling on customer loyalty in public sector banks owned by the government in Jakarta, Indonesia. The research confirmed that customer complaints handling has a positive effect on satisfaction. It added that the handling of customer complaints does not affect customer loyalty. However, the influence of complaints handling on customer loyalty can also be mediated by customer satisfaction, showing a positive relationship.

3.5. Customer retention

There are different approaches to defining customer retention. This paper views customer retention as customers' stated continuation of a business relationship with a firm [7]. Reference [7] showed the significant impact of customer satisfaction and customer loyalty on customer retention. Because these two variables are significantly affected by complaint handling and service recovery, it can be concluded that customer retention is also affected by complaint handling and service recovery.

The paper of [19] has investigated the relationship between customer retention, customer satisfaction, and customer relationship management. This research found

that customer satisfaction has a significant impact on customer retention and complaint handling as part of customer relationship management. Poor quality of service and a low level of complaint handling can lead to poor customer satisfaction, which results in a decrease in customer retention.

Another paper by [21] examined customer retention and how it was affected by customer feedback in South-Eastern Nigeria. Using SPSS in analyzing 300 questionnaires, it was found that customer feedback, including complaints and complaints handling processes, could improve the company's performance. The findings revealed that complaint management influenced customer retention. Moreover, the study revealed that effective complaint handling positively affected loyalty and customer satisfaction, which positively affected customer retention.

Based on the literature review of [1], [5], [18-21] it was found that customer satisfaction was highly affected by complaint handling and service recovery. Customer loyalty and customer retention did not directly correlate with complaint handling and service recovery. However, the influence of complaints handling on customer loyalty could also be mediated by customer satisfaction showing a positive relationship. Customer retention was highly affected by customer satisfaction and loyalty, which indirectly correlated with complaint handling and service recovery.

These findings allow building a model of the influence of complaint handling and service recovery on customer satisfaction, loyalty, and retention (Fig.4).

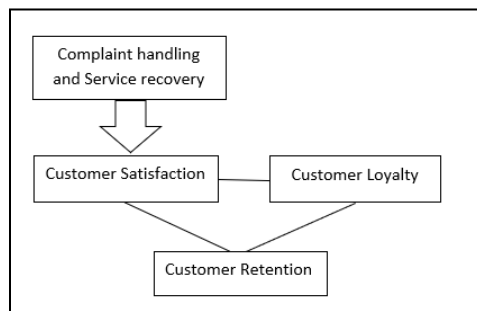


Figure 4: A model of the influence of complaint handling and service recovery on customer satisfaction, customer loyalty, and customer retention

This model showed that complaint handling and service recovery significantly influenced customer satisfaction. Customer satisfaction is a mediating variable between complaint handling, service recovery, and customer loyalty. In comparison, customer satisfaction and customer loyalty were influenced by complaint handling and service recovery and affected the retention of customers.

4. CONCLUSIONS

The purpose of this paper was to make a literature review of some previous papers to define the concept of "complaint handling" and "service recovery" and find out the influence of these concepts on customer satisfaction, customer loyalty, and customer retention.

Based on the literature review, a model of the effect of complaint handling and service recovery on customer satisfaction, customer loyalty, and customer retention was built. This model showed that among all three variables, customer satisfaction was significantly influenced by complaint handling and service recovery. Customer loyalty and customer retention indirectly correlate with complaint handling and service recovery, which means that these two variables were also affected by the company's ability to handle complaints and service recovery.

AUTHORS' CONTRIBUTIONS

Zhibek Adzhigalieva, Ratih Hurriyati, and Heny Hendrayati contributed to the design and implementation of the research, the analysis of the results, and the writing of the manuscript.

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