DO COMPLAINING CUSTOMERS SIGNAL MANUFACTURING SUCCESS?

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ABSTRACT

This paper synthesizes Better Business Bureau and COMPUSTAT data to examine how customer complaining and organizational responsiveness impact performance. The results provided by a sample of 344 US manufacturing firms suggests that complaints about service are positively related to performance, as is general responsiveness to complaints of any form.

INTRODUCTION

Linking complaining and responsiveness to tangible marketing metrics, like net income, is paramount to answering these questions. The consequences and value of complaints have long been recognized in marketing literature, yet avoidance is shown to be the primary practice for dealing with complaints. The value of complaints is indicated by increased returns, limiting of other detrimental actions such as negative voice, and internal improvement. However, there is a fair amount of conflict in the findings regarding the effectiveness of complaints and recoveries. The objective of this research is thus to provide the first theoretical and empirical examination of how complaining and responsiveness affect the net income of manufacturers.

BACKGROUND

In general, the literature results agree that complaints are bad and responsiveness is good. Complaints follow failures, represent dissatisfaction, and suggest low quality. Profitability follows as a primary consequence of product improvement and customer retention following failures. Consumers derive brand meaning partially from product experience and a key component of brand meaning is performance. The resulting perceived brand quality is among the most important attitudes toward a brand and is strongly related to value and satisfaction. Failures represent poor performance and hence diminish perceptions of brand quality. As such, we hypothesize the following:

H_1: There is a negative association between the number of complaints lodged against a firm and net income.

Responsiveness, or recovery, is hailed as the primary means of retaining customers following a product failure. There is ample research to suggest that responding to complaints is better than ignoring them. In fact, recovery can significantly dilute the negative impacts of failure and even generate positive word-of-mouth. Responsiveness following a failure in both service and physical good settings has been shown to positively impact satisfaction and quality perceptions. Accordingly, we hypothesize the following:

H_2: There is a positive association between the rate of responsiveness to complaints and net income.

FINDINGS

Complaints explain a significant amount of net income above and beyond firm size and advertising intensity. Contrary to H_1, complaints were positively related to net income (Beta = .336, $p < .001$). This finding is, on the surface, counterintuitive. Responsiveness had a positive impact on net income for manufacturers (Beta = .105, $p < .05$), which supports H_2. A breakdown of complaints into service and physical goods categories shows that service complaints are what lead to higher net income (Beta = .52, $p < .001$) as opposed to physical good complaints, which do not impact net income (Beta = -.03, $p > .51$). Manufacturers are primarily in the physical goods business and have little interaction with customers to begin with. Physical distance may simply stifle consumer willpower to complain. Service recoveries are shown to benefit both service providers and retailers, while manufacturers are typically concerned with physical good recoveries. Combining the physical good and service findings suggests that skimping on peripherals may be profitable as long as core products are taken care of.

References Available on Request