COMPLAINT MANAGEMENT SYSTEM IN BANKS: INTRODUCTION TO COMPSAT GRID TO MINIMIZE RISK

Shalini Sharma, Dr. Sonia Munjal
Research Scholar, Associate Professor
TAPMI School of Business,
Manipal University, Jaipur
Address: 638-B, Rani sati Nagar, Jaipur, Rajasthan
shaliniwise04@gmail.com

Abstract- **The purpose of paper is to recommend strategies to increase customer loyalty through complaint management and as a tool to manage risk. The paper encompasses the theoretical concepts which emerge from the extensive review of literature on complaints and risk. It was found that complaints and risk have a significant relation and through complaint management, risk can be reduced. The study has proposed COMPSAT Grid (reinforced with literature review) demonstrating the state of Banks based on no. of complaints and loyalty of customers. COMPSAT Grid can become a base to design the strategies to increase customer's loyalty. The study is limited to the customer's perceived risk. The paper stresses on the importance of complaints in managing the risk. Through COMPSAT grid the service providers may modulate existing strategies to increase customer loyalty. The concepts will establish complaint management as a basis of marketing strategy modulation. The model is a theoretical approach which is based on the concepts.**
Keywords- **Complaint Management, Risk, COMPSAT Grid, Banks, Loyalty**

I. Introduction

With the rise of Globalization, the customers are becoming the driving force of an organization. In recent years, the relationship aspect of marketing is becoming more important for the industries. The customer relationship has enlarged the prominence of customer loyalty. Through complaint management customer loyalty can be achieved because complaints are the negative responses of customers (Mattila & Wirtz, 2004).Complaints are source of information by which customers expresses their interest and expectation from the services (Cho Y. et.al. 2002). Complaints are the opportunities for the service providers to enhance and attract the new customers. Complaint can become a tool of risk minimization. Risk can be termed as uncertainty, failure or possibility of loss which may or may not occur and which results into loss (Kaplan & Garrick, 1981). Risk affects the customer base, profits and market share (Rust & Zahorik,1993), goodwill, capital planning (Kim & Santomero,1988),Technological risk(Lim, 2003) Governmental and legislative compulsions viz. capital adequacy norms, Set-up regulations of a business (Raghwan, 2003).

II. Complaint Management

Customer's complaints are the sources of information to enhance the quality, selling preposition and performance of the service. To develop and utilize this source, enterprises are required to design, build, activate and constantly upgrade the strategies and system to take advantage from the complaints. This system is called Complaint management System (Bosch, & Enriquez, 2005). Suitable management and redressal of customer's complaints will enhance Loyalty and commitment of customers (Tax, Brown & Chandrashekaran1998), Develop prospect into customer (Tronvoll, B. 2011), Positive WOM (Buttle 1998), Less switching of customers to available alternatives, Information to develop strategies (Stauss & Schoeler (2004). Researchers have talked upon risk (Cox& Rich 1964; R.S. Raghwan 2003; Lim 2003), switching behavior (Ranaweera C. & Prabhu J. 2003); (Athanassopoulos, A. D. 2000), customer loyalty (Michael and Joseph Cronin Jr. (2001) but there is lack of research emphasizing on the relation between risk and complaint management.

Managing complaints is vital for Banks to deal with customers. Reports how that complaint is increasing day by day and resolution of complaints is necessary to increase customer's loyalty.

III. Risk mitigation through complaint management

As banks are financial institutions, they have inherent risks (Raghwan 2003). Risk can be termed as a failure or possibility of loss which may occur or may not occur and which results into loss (Kaplan & Garrick, 1981). Risk affects the customer base, profits, goodwill, capital planning, Governmental and legislative compulsions (capital adequacy norms, Set-up regulations) of a business (Raghwan 2003). Complaint management builds customer relationship and helpful in customer relationship management. Suresh and Paul (2010) has articulated marketing as a coin, if it comes heads then the bank can lend up in enhanced CRM and if it leads to tails it generates advertisement. Risk to a business can be understood by segregating the risk to service provider and customers.

IV. Customer's Risk

Lovelock (2011) has proposed the perceived risk as perceived by a customer before taking the decision to purchase the service offered by the Banks, which can affect the sales and turnover of the company. These risks are also important because these risks may change the mindset of the prospect to

purchase the product or service (Walker& Johnson, 2006). Before making a purchase decision, customers takes various factors into account. If a person wants to open an account in bank, he would consider his on the criteria of minimum balance required, available alternatives and features, Interest rates, sector in which the bank lies(Private sector and public sector), financial turnover and Influencers. (Ramaswamy & Namakumari (2002) have explained the participants in buying process. According to him "Influencer is a person who explicitly or implicitly has some influence on final buying decision". The purchase and repurchase decision may be driven by the choice of relatives and friends. According to Lovelock, following are the risk perceived by the customer before taking purchase decision (Kim et.al. 2003). Kotler et al. (2009) has talked about perceived risks. These are **Functional Risk:** The risk is related to the operational and functional attributes of service. In case of banks, mechanical performance, prompt services. **Physical Risk:** This risk is related to the well-being of the surroundings. **Financial risk**: Monetary loss, hidden cost (use of cheques, AMB/AQB charges) and unexpected extra cost. **Time Risk:** Time risk is the opportunity cost which arises due to the failure of one service because failure results in efforts, money loss and time to find another alternative service provider. In banks, money is the main component of business so the risk automatically arises. Before depositing money in banks, customer thinks about the quality of services (Teas 1994), company's image or brand (Kim, et. al.2003), operational policies, security, sector (public and private) and influencers (Solomon et.al. 1985). Influencers play an important role in case of banks. Customers tend to transact with banks in which their family members are having their accounts. If a company manages its complaints properly then the existing customers who are somewhat influencers of new customers will motivate the new customers to get associated with the Banks.

V. Risk to service organization

Complaints are the risk to organizations. Reserve bank of India emphasizes on the importance of complaint reduction (R.B.I. Report, 2011). (Raghwan 2003) has mentioned the three type of risk in banks: credit risk, market risk and operational Risk. Through complaint management all risks can be minimized. If the customers are satisfied then there is a possibility that they will pay back the loans on time. Timely resolution of complaints will create a feeling of responsiveness and motivation in loan repayment. Operational risk is the risk of loss arising from failed internal processes, people and systems (Jonathan et.al. 2006).In banks, operational risk increases due to mechanical failure, error, fraud and performance failure and interdependent processes of service(delay in one process consecutively occurs delay in whole process). (Davies, J., Finlay, M., McLenaghen, T., & Wilson, D. (2006) has discussed that complaints are the example of KRI (key risk indicators). According to them, there is a possibility that increasing no. of complaint is due to mistakes and errors. Complaint are the source by which Banks may know its incapability and shortcomings (Zairi 2004).Complaints are positive for the business so that business may know the mistakes and correct him as per the customer's

expectations. If the Banks make efforts to satisfy the complaint, it decreases the operational risk. Continuous feedback of customers will increase the functionality and efficiency of banks and it will lower down the chance of failures and which results into good image and less market risk (Jonathan et.al. 2006; Kaufman, G. G. (1996). Complaints are necessary for an organization because it gives the opportunity to trace the efficacy of quality and performance (Javalgi, Martin & Young 2006) of the service delivery process and critically examine the existing business and marketing strategies.

In a business, if continuous decrease in complaints is not good because there is a possibility that the decrease is due to diminution in customer's interest and switching which can become operational risk for the business. Researchers has recognized no. of complaints as a *common indicator* (which would appear to be risk), *current indicator* (provides a current picture of operational risk experience).

Each Banks is required to access its appearance in view of customers through the relation between customer's complaints and their loyalty level. The researcher has developed COMPSAT Grid which can be helpful in assessing the Bank's condition accordingly and designing the strategies to increase customer loyalty.

VI. COMPSAT Grid: Strategy modulation

A Banks can be in four situations as per the number of complaints and the loyalty of customers. The grid shows the status of the Banks and Banks should modulate its marketing and operational strategies keeping in mind the two factors. It can be understood by the following figure:
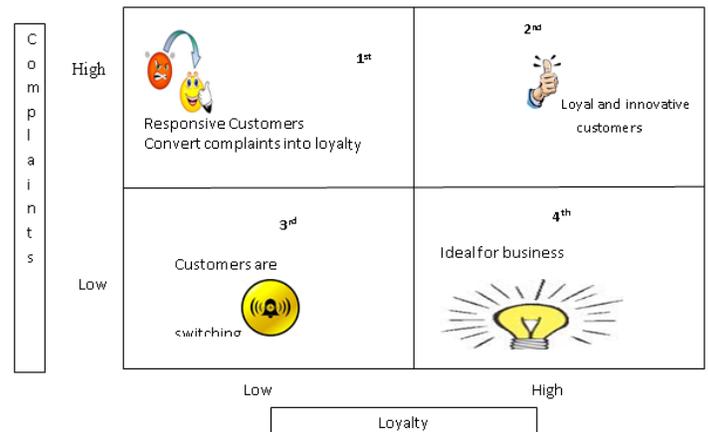

Figure 1: COMPSAT Grid

The above figure is the grid called COMPSAT Grid. The Grid is coined by the researcher which shows the position or status of the Banks as per the number of complaints and the loyalty level of the customers. The grid is useful for Banks to evaluate its position in the industry and to mold its policies and strategies according to the situation.

Quadrant 1:
In first quadrant, the complaints are high but the loyalty level of the customers is low. This situation shows that customers are inclined to the service but they want company to modify the services according to their expectations. Customers are

expressing their views in form of complaints. Banks are required to act accordingly to create and enhance the customer loyalty (Anderson and Sullivan 1993; Karatepe & Ekiz, 2004). To convert the "customers" in "loyal customers" it is necessary to respond afBanksatively to customer's complaints. Prompt and Responsive complaint management system can be a tool to fulfill the objective.

Quadrant 2:

Second quadrant shows the situation where number of complaints as well as loyalty level of customers is high. This situation is "ideal" for an organization. The customers are satisfied. Customer's complaints tend to be an inspiration and basis for new product/service development. This condition fulfills both the objectives of the Banks; welcoming the complaints and satisfied and delighted customers.

Quadrant 3:

This quadrant depicts the situation wherein the number of complaints and loyalty of customers is low. In this condition, it is possible that customers are not lodging the complaints and they simply switch (Ranaweera C. & Prabhu J. 2003) to other service providers. This condition is "red signal" or "alarming situation" for an organization because the less no. of complaints shows that customers are not interested in the service and they do not want to employ money and time in complaints or they think that no action in response to complaint would be taken by the management. Organization should work on applying "switching barriers" to avoid diminution of customers and profits.

Quadrant 4:

The quadrant articulates the situation that every service provider dreams for. In this condition the complaints are low and the loyalty level is high. Every business Banks wants to gain the popularity and delighted customers but this situation is not permanent in nature as the new entrants enters into the industry with innovative services and alternatives to pertaining service, customer's expectations and service choice will change which would result in either switching or complaints. Companies are required to acquaint with innovative product/services to increase customer base and create competitive advantage.

VII. Conclusion

Complaint management is very crucial tool of enhancing customer loyalty, risk minimization and CRM. Failure in satisfactory complaint redressal may cause double failure for the company as it will magnify the effect of service failure. The paper emphasizes on the importance of complaint management in minimizing the risk with an understanding of risks to service providers, employees and the customers. This understanding further leads to relationship between complaints and risk and ultimately lends up into formulation and designing of operational strategies on the basis of number of complaints and loyalty level. Complaint management can be a better tool of knowing customer responses and expectations which minimizes the cost of market survey to develop a new product or service. It may act as a guidance note while making a blueprint of new services or new markets.

VIII. Limitations and Future Research

The paper has some limitations. First, Systematic and unsystematic risks are not the part of the study. The banks are risk averse. The paper does not involve the financial and legal obligations of risk regulations. Future study can be done on the implementation part of the risk mitigation strategies. Second, the paper did not consider the types and severity of complaints and service failures. Problems and factors which motivate the employees to actively participate in complaint management are required to be studied. Employees can be a warehouse of ideas for new product development so understanding the problems encountered by employees in handling complaints are to be studied. The empirical validation of COMPSAT Grid can be further studied in the light of industries viz.travel, hotels and banks.

REFERENCES

[1] Acharya, V. V. (2009), a theory of systemic risk and design of prudential bank regulation. Journal of Financial Stability, 5(3), 224-255.

[2] Anderson, E. W., & Sullivan, M. W. (1993) The antecedents and consequences of customer satisfaction for firms, Marketing science, 12(2), 125-143.

[3] Anna S. Mattila, Jochen Wirtz, (2004) "Consumer complaining to firms: the determinants of channel choice", Journal of Services Marketing, Vol. 18 Issue: 2, pp.147 – 155.

[4] Athanassopoulos, A. D. (2000). "Customer satisfaction cues to support market segmentation and explain switching behavior"; Journal of Business Research, 47(3), 191-207.

[5] Bitner, Mary J., Booms, Bernard H. and Tetreault, Mary S. (1990), "The Service Encounter:Diagnosing Favorable and Unfavorable Incidents", Journal of Marketing, Vol. 54,January, pp. 71-84.

[6] Bosch, V. G., & Enriquez, F. T. (2005); TQM and QFD: exploiting a customer complaint management system. International Journal of Quality & Reliability Management, 22(1), 30-37.

[7] Buttle, F. A. (1998). Word of mouth: understanding and managing referral marketing. *Journal of strategic marketing*, 6(3), 241-254.

[8] Cho, Y., Im, I., Hiltz, R., & Fjermestad, J. (2002, January). An analysis of online customer complaints: implications for web complaint management. In system Sciences, 2002, HICSS. Proceedings of the 35th Annual Hawaii International Conference on (pp. 2308-2317).

[9] Cox D. F., & Rich S. U. (1964), "Perceived risk and consumer decision-making: The case of telephone shopping"; Journal of marketing research, 32-39.

[10] Davies J., Finlay M., McLenaghen T., & Wilson, D. (2006) "Key risk indicators–their role in operational risk management and measurement" ARM and RiskBusiness International, Prague, 1-32.

[11] Davies, J., Finlay, M., McLenaghen, T., & Wilson, D. (2006). Key risk indicators–their role in operational risk management and measurement. *ARM and RiskBusiness International, Prague*, 1-32.

[12] Day, R.L. (1984), "Modeling choices among alternative responses to dissatisfaction', Advances in consumer research, 11, pp. 496-499.

[13] Francis a. Buttle (1998);*Word of mouth: understanding and managing referral marketing* Manchester Business School, Booth St. West, Manchester, Journal Of Strategic marketing 6 241–254 (1998).

[14] Grönroos, C. (2004). The relationship marketing process: communication, interaction, dialogue, value. Journal of Business & Industrial Marketing, 19(2), 99-113.

[15] Gruber T., Szmigin I. and Voss R. (2006) "The desired qualities of customer contact employees in complaint handling encounters" Journal of Marketing Management, 22(5-6), 619-642.

[16] http://www.businessdictionary.com/definition/risk.html

[17] Javalgi, R. R. G., Martin, C. L., & Young, R. B. (2006),Marketing research, market orientation and customer relationship management: a framework and implications for service providers. Journal of Services Marketing, 20(1), 12-23.

[18] Kaplan, S., & Garrick, B. J. (1981);On the quantitative definition of risk; Risk analysis, 1(1), 11-27.

[19] Kaufman, G. G. (1996). Bank failures, systemic risk, and bank regulation. *Cato J.*, *16*, Karatepe, O. M., & Ekiz, E. H. (2004)"The effects of organizational responses to complaints on satisfaction and loyalty: a study of hotel guests in Northern Cyprus" Managing Service Quality, 14(6), 476-486.

[20] Kim B., Kim G., & An, A. (2003) "The effect of consumer-based brand equity on firms' financial performance" Journal of consumer marketing, 20(4), 335-351.

[21] Kim C., Kim S., Im S., & Shin C. (2003) "The effect of attitude and perception on consumer complaint intentions" Journal of consumer marketing, 20(4), 352-371.

[22] Kim, D., & Santomero, A. M. (1988)"Risk in banking and capital regulation" The Journal of Finance, 43(5), 1219-1233.

[23] Kotler P., Keller K., Koshy A., & Jha, M. (2009); Marketing Management A South Asian perspective, Dorling Kindersley (India) Pvt. Ltd., New Delhi, 13; 150-151.

[24] Lim, N. (2003). Consumers' perceived risk: sources versus consequences. Electronic Commerce Research and Applications, 2(3), 216-228.

[25] Lovelock, C. (2001), Services Marketing: People, Technology, Strategy, 4th ed., Prentice-Hall, Englewood Cliffs, NJ.

[26] Lovelock, C. H. and J. Wirtz (2004), Services Marketing: People, Technology, Strategy (5th ed.). Upper Saddle River, N.J.: Pearson/Prentice Hall.

[27] Macaulay, S., & Cook, S. (1994), Performance management as the key to customer service, Industrial and Commercial Training, 26(11), 3-8.

[28] Mattila, A. S., & Wirtz, J. (2004), Consumer complaining to firms: the determinants of channel choice. *Journal of Services Marketing*, *18*(2), 147-155.

[29] Michael K. Brady, J. Joseph Cronin Jr. (2001) Some New Thoughts on Conceptualizing Perceived Service Quality: A Hierarchical Approach. Journal of Marketing: July 2001, Vol. 65, No. 3, pp. 34-49.

[30] Phillips, B., Tan, T. T. W., & Julian, C. (2006), The theoretical underpinnings of emotional dissonance: a framework and analysis of propositions. Journal of Services Marketing, 20(7), 471-478.

[31] Raghavan, R. S. (2003). Risk Management in Banks; chartered accountant-new delhi-, 51(8), 841-851.

[32] Ramaswamy, V. S., & Namakumari, S. (2002). Marketing Management: Planning, Implementation & Control: Global Perspective Indian Context. Macmillan.

[33] Ranaweera C.& Prabhu J. (2003), The influence of satisfaction, trust and switching barriers on customer retention in a continuous purchasing setting, International Journal of Service Industry Management, 14(4), 374-395.

[34] Rust, R. T., & Zahorik, A. J. (1993) "Customer satisfaction, customer retention, and market share" Journal of retailing, 69(2), 193-215.

[35] Solomon, M. R., Surprenant, C., Czepiel, J. A., & Gutman, E. G. (1985) "A role theory perspective on dyadic interactions: the service encounter" The Journal of Marketing, 99-111.

[36] Suresh, P & Paul, J. (2008) Management of Banking and financial services, Second impression, Dorling Kindersley (India) Pvt. Ltd., PHI, 78-116.

[37] Tax, S.S., Brown, S.W. and Chandrashekaran, M. (1998), "Customer evaluations of service complaint experiences: implications for relationship marketing", Journal of Marketing, Vol. 62, April, pp. 60-76.

[38] Teas, R. K. (1994), Expectations, performance evaluation, and consumers' perceptions of quality, The journal of marketing, 18-34.

[39] Tronvoll, B. (2011)"Negative emotions and their effect on customer complaint behaviour. Journal of Service Management, 22(1), 111-134.

[40] Walker, R. H., & Johnson, L. W. (2006)"Why consumers use and do not use technology-enabled services" Journal of Services Marketing, 20(2), 125-135.

[41] Zairi, M. (2000). Managing customer dissatisfaction through effective complaints management systems. *The TQM magazine*, *12*(5), 331-337.