

Customer Retention and the Health Care Industry

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Abstract: This report examines the various aspects of customer retention in the area of health care. Concepts taken from the marketing literature are applied to the field of health care, noting the implications for the various publics involved, including the medical staff, support staff, insurers, and patients. The concepts of customer loyalty, quality of relationships, and customer recovery efforts, including promptness, courtesy, effort, and professionalism, are examined. These activities should help to improve satisfaction with the services themselves and with those who provide them.

The year 2009 emerged as a tumultuous time for the health care profession. A powerful national debate regarding the methods by which health insurance should be regulated and delivered has spurred protests and political reactions at all levels. Many of these arguments have generated more heat than light.

At the same time; however, the practice of medicine marches on. Whether changes in health care eventually are undertaken, the potential exists to work within the system to deliver services that both heal patients and create satisfactory interactions between them and the health provider.

There are a variety of circumstances in which the study of one academic discipline can be helpful to another. Many management and marketing departments share the same departmental name (e.g., “marketing and management”), chairperson, office space, and other facilities, however, the literature does not always overlap between the two departments. This report represents an attempt to apply marketing concepts regarding customer retention (e.g. Clow and Baack, 2010; Hart, Heskett, and Sasser, 1990) to the field of health care, including some managerial activities.

This paper begins with a review of the three pillars of customer retention. These concepts are then applied to health providers. Next, more detailed attention is given to the process of customer recovery, which is an organization's response to a service failure. Customer recovery tactics may be aimed at customer dissatisfaction as well as

reducing customer defections. The implications of these tactics in the management of a health care operation are then summarized.

Customer Retention

There are three "pillars" of customer retention (Clow and Baack, 2010). The first is building customer loyalty. Maintaining quality relationships constitutes the second pillar. Third, and perhaps most importantly, responding to customer complaints and defections completes the pyramid. Each of these activities may be adapted to health care providers, as is described next.

Customer Loyalty and Quality Relationships

Loyalty to any type of service provider, whether it is an insurance company, hospital, financial institution, or even a hair styling salon, may be divided into two key elements: (1) emotional attachment and (2) behavioral responses. These reactions are impacted by the quality of the relationships between the patients and doctors, nurses, and other medical personnel.

In the field of health care, emotional attachment often builds when a specific physician, nurse, or service provider, such as a hospital, has provided quality care over time. To those with access to the health care system, it is not unusual to hear a person state that he/she "loves" a doctor or nurse. This type of emotional affection results from two sources: (1) the quality of the actual medical care and (2) the quality of interactions with the medical professional and staff.

Quality medical care simply means the physician identified the problem and prescribed an effective method to resolve the medical condition. Emotional affection grows when the patient believes the care solved the problem. Emotional affection and loyalty declines when the patient becomes frustrated by a failure to improve.

It is in the second area, the quality of interactions with the medical staff, that doctors, nurses, and support staff may work to build loyalty. Previous writers have suggested that a decline in emotional attachment results from long waiting times for appointments and care in hospitals, emergency rooms, and walk-in clinics. Short, terse, uncaring interactions with medical providers also damage any type of emotional involvement. Conversely, emotional loyalty builds when care is delivered in a personal and warm manner.

Behavioral responses take the form of referrals and other word of mouth endorsements. It is clear that doctor's offices, clinics, and hospitals are more likely to prosper when they operate at high levels of capacity. A balancing act is likely to emerge between being fully "booked" and providing personalized attention. When the balance is achieved, loyalty grows.

Customer Recovery

In the field of marketing, customer recovery, the third pillar of customer retention, occurs when company's staff responds to a service failure. When a customer receives services that do not meet his or her expectations, the likely responses are to either complain or to seek a new provider. When a customer has had bad experience and complains, the firm's employees should make every effort to rectify the situation. These efforts are service recovery activities. Effective service recovery can actually build positive feelings toward the firm following a negative encounter (McCollough and Bharadwaj, 1992). When a customer leaves, attempts may be made to recover the customer and entice the individual to give the organization another chance. Both processes begin when a service failure has taken place.

Service Failure

A service failure occurs when customer expectations are not met. Bad hair cuts, "rush" orders that arrive late, and poorly cooked meals at restaurants are examples of service failures. When these events occur, a variety of negative consequences are often the result. For example, research suggests that an unhappy customer will tell approximately eleven (11) people about a negative experience, while only telling six (6) about a positive encounter (Hart et al, 1990). Also, customer dissatisfaction is related to brand-switching, or finding a new company with which to do business (Clow and Erdem, 1998; Warren and Gilbert, 1993).

In the field of health, a service failure occurs when a patient or family member related to a patient has a bad experience with a health care organization. Two separate types of service failures are possible: (1) failure in the actual medical care that has been provided (e.g. malpractice) and (2) failure of the support services surrounding that practice.

Failure of Medical Care

The first involves a failure in the delivery of the actual health services, by which a physician, nurse, or technician makes an error that is detrimental to a person's health. This type of service error or form of malpractice can be the result of an omission or commission. An *omission* would be the failure to diagnose a problem or to prescribe the proper medicine or medical technique. Ignoring symptoms, patient statements, and other information, due to nonchalance or arrogance, leads to errors of omission. Errors of *commission* would take place when a procedure is botched, the wrong medicine is prescribed, the wrong amount of medicine is given, or the doctor or nurse further injures a person by an action taken.

Typical responses to these types of service failures include hostile action toward the provider through shouting or anger directed at the provider on-site, letters of complaint, notification of local news media, lawsuits, and statements to others suggesting they go elsewhere for medical care.

Failure of Support Services

The second form of service failure is related to support services, such as billing, filing insurance forms, and other non-health-related activities, including enforcement of visiting hours, access to food in lunch room (and its quality), and matters such as granting an individual a private room when he or she wishes to have one.

Of these, monetary issues and paperwork may be the most frustrating. Reading hospital bills and being stunned by the prices charged for various medical procedures and medicines create frustration and anger in both the patient and those who take responsibility for the person's care. Clearly these types of service failures can create antagonism between individuals in a community and the health care organizations that provide such services.

Complication of Insurance Provider Activities

One of the confounding influences is the role played by the insurance provider. The insurance company can affect the services that are rendered (by approving or not approving a procedure or medicine) as well as billing and payment for those services. Many times frustration with the insurance company spills over into frustration with hospital or doctor.

In a marketing service failure, customers will consider four factors: (1) who is responsible for the dissatisfaction, (2) the magnitude of the dissatisfaction, (3) whether or not the dissatisfaction could have been prevented, and most importantly (4) what is being done to fix the situation (Folkes, Keletsky, and Graham, 1987). The fourth and final element is known as service recovery.

In health care, the person responsible can be the doctor, nurse, or a staff member. The magnitude of the dissatisfaction depends on the nature of the event and whether or not the incident could have been avoided. Service recovery is what can be done to fix the situation.

Service Recovery

Service recovery is any attempt made by the hospital, doctor, or support staff member to address the failure. Service recovery efforts affect subsequent levels of satisfaction with the provider and more generally the field of patient care, as well as other key responses and outcomes.

Past research indicates that customers who are dissatisfied can be recovered. There are four common tactics which are used in service recovery situations, including promptness, courtesy, effort, and a sense of professionalism (Hoffman, Kelley, and Rotalsky, 1995).

Promptness means the customer receives a quick response, even when the reply is unsatisfactory. There is some evidence which suggests that such a negative response will not have as powerful of a dissatisfaction impact if it is delivered quickly (Johnston

and Hewa, 1977). Courtesy includes politely listening to the complaint and then rendering a respectful or polite response. Effort is the perception that the employee is or was trying hard to find a way to fix the problem, even when he or she fails. Professionalism is the perception that the employee knows “what he/she is doing,” and has a sense of detachment associated with not taking a complaint personally while seeking to find an acceptable outcome (Hoffman et al, 1995).

In dealing with patients and their families, these approaches would seem to be valuable. A physician, nurse, or staff member who knows a patient believes that something has happened which was unfair or handled badly could respond using these same guidelines. A prompt explanation for the problem may mitigate some of the negative reaction. Being courteous is always advisable. Also, a patient or family member who believes that the health care employee “tried hard” to fix a problem (effort) is likely to express stronger satisfaction with the organization and the individual involved. Finally, the perception that members of the health care organization handled an issue in a professional manner bodes well for the organization and the future relationship between that patient and the hospital or doctor.

It is helpful to note the other three elements in the marketing formula: (1) who is responsible, (2) the magnitude, and (3) whether or not the incident could have been avoided (Folkes et al, 1987). These will clearly impact on the level of success of any service recovery efforts.

Mediating Factors

Two mediating factors affect success levels of service recovery efforts. The first is the individual patient’s or the patient advocate’s (parent, spouse, friend) level of involvement. In the case of medical care, some illnesses and accidents are clearly more life-threatening than others, thereby heightening the level of involvement at the outset. A person being treated for a minor rash is likely to have a much lower level of involvement than someone who is about to undergo a coronary by-pass. The level of involvement will be correspondingly lower and higher in all of the individuals who have a relationship with the patient.

The second mediating factor is the severity of the service recovery failure. A bill that overcharges someone by a hundred dollars is clearly a different degree of severity from a case in which the patient has the wrong limb amputated or the wrong medicine prescribed, leading to a life-long disability.

Outcomes

When a service failure incident has occurred, those in the provider organization will either respond utilizing service recovery techniques or they will not. In general, we expect that the presence of quality service recovery techniques will have a positive impact on subsequent outcomes, which can be categorized as: (1) satisfaction with the provider, (2) positive future intentions, and/or (3) negative future intentions.

Satisfaction with the Provider

Previous research indicates that when a person receives redress for a service failure in a satisfactory manner, the individual is more likely to express satisfaction with the service provider. At the same time, the person may be more cautious and tentative about future dealings with that organization. On balance, however, satisfaction with a health care provider for both medical and support services is a desirable outcome.

Positive Future Intentions

The most positive future intention would be the willingness to return to the provider in the event of another medical problem. Other positive future intentions include referrals of the doctor or facility to family, friends, and co-workers.

Negative Future Intentions

Many times, the lack of quality service recovery techniques will lead to negative future intentions. In the marketing literature, Johnson and Hewa (1997) describe what are called “retaliatory behaviors” connected to service failures. These include nursing a grudge, complaining to others and trying to turn them against the vendor firm, withholding opportunities for business, and other vengeful activities.

In the area of health care, retaliatory behaviors might include writing letters to the newspaper, negative word of mouth, complaining directly to a hospital’s board of directors, and in the extreme, filing a lawsuit or legal action. Unresolved conflicts and unsatisfactory responses medical service failures may easily be connected to such retaliatory behaviors.

The most salient negative future intention would be to change to a new health care provider. Doctors, hospitals, and clinics often cannot afford to lost too many patients, due to the impact on the institution's reputation and monetary well-being.

Hypotheses to Be Explored

A series of relationships can be hypothesized to exist between service failures, mediating factors, service recovery tactics, and subsequent outcomes. These include:

- H 1: Service failures related to actual medical care will be more strongly related to higher levels of personal involvement than for non-medical service failures.
- H 2: Service failures related to actual medical care will more strongly influence perceptions of the degree of the severity of any service failure incident than non-medical service failures.

- H 3: Service failures related to actual medical care will be more strongly related to higher levels of dissatisfaction with the hospital and the medical practitioner than non-medical service failures.
- H 4: A person's level of involvement will impact the relationship between perceived severity of the service failure and satisfaction with the health care organization and medical practitioner.
- H 5: Frustration with an insurance provider will be positively correlated with frustration with a health care organization and/or medical practitioner.
- H 6: The presence of service recovery activities (promptness, courtesy, effort, professionalism) following a service failure will be positively related to satisfaction with the provider and positive future intentions toward the provider.
- H 7: The presence of service recovery activities (promptness, courtesy, effort, professionalism) following a service failure will be negatively related to negative future intentions and retaliatory behaviors.

Potential Analysis

To study the impact of service failures and service recovery activities on subsequent outcomes would require the cooperation of a local hospital as well as clients who have experienced service failures in that hospital. Locating and being allowed to collect data from individuals who have experienced service failures would be the greatest challenge to any research effort.

Data regarding service failures would be categorized as being (1) due to direct medical care or (2) to the support services offered by the health care provider. The person's level of involvement would likely be self-reported as would the individual's perception of the severity of the service failure incident.

There are two possible sources of information regarding service recovery activities. The first would take the form of self-reports by health care providers regarding their perceptions of how well service recovery efforts are carried out. The second would come from those who have experienced service failures. The perceptions of these individuals may or may not be the same regarding the effectiveness of service recovery efforts made by the health care provider.

Both behavioral outcomes and self-reported perceptions could be used to measure the final outcome following a service failure. Aggrieved individuals may be asked to report levels of satisfaction with the health care provider and regarding future intentions. At the same time, letters of complaint should be on file as well as records of lawsuits and other legal actions that express continuing discontent with the provider.

Discussion: Potential Implications for the Health Care Management

The most general implication which may be drawn from this study is that health care providers should seek to build the three pillars of customer retention. Loyalty can be built through proper care. Quality relationships can grow from positive interactions with a provider and the staff. All types of health care organizations are able to create methods to deliver the service recovery techniques of promptness, courtesy, effort, and professionalism are present, whenever a patient or a patient's family and friends perceive that a service failure has occurred.

The managerial implications of these efforts include consideration of recruiting and selection practices, performance appraisal programs, and motivational/reward systems. Staff members should be recruited and selected based on the genuine willingness to be of service to others coupled with technical and problem-solving skills. Performance appraisals should incorporate methods to reveal whether the individual has delivered quality, caring services. Rewards and incentives, in the forms of better working hours (day versus night shift), pay raises, and non-financial rewards such as "employee of the month," a designate parking place, and even simple public praise should be developed.

One factor that deserves consideration when examining service recovery efforts is that, while these tactics may be highly successful for the support side of medical care, they may not have the same impact when the service failure is the actual medical service that was rendered. A person who struggles with life-long pain or a deformity due to an incidence of malpractice may not be placated at all by a prompt, courteous, professional, high-effort response, simply because the damage has been done and it is irreparable. In other words, the application of service recovery techniques may not be a "be-all and end-all" management practice.

At a more general level, the following questions could be addressed, "Does a continuum exist, positive future intentions at one extreme and negative future intentions, such as resorting to retaliatory behaviors, at the other?" Can service recovery activities help move an aggrieved patient away from retaliation to at least a neutral state, or, even more positive future intentions?

At the least, the application of the service recovery technique program to the field of health care management is a reminder of the value of looking outside the field for new and influential ideas. The goal is to help practicing managers create a consistent culture in which employees are most likely to feel comfortable, appreciated, and driven to succeed for themselves and the employer organization.

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