

A signalling theory approach to firms' response strategies and their effect on customer relationship repair

Husni Kharouf

Coventry University

Donald Lund

Louisiana State University

Alexandra Abney

The University of Alabama at Birmingham

Chris Pullig

Baylor University

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Abstract

To maintain strong relationships with customers, firms must know how to appropriately respond if a relationship violation occurs. This research examines how signaling theory can be used to test the effect of firms' response strategies on trust repair, customer loyalty and customer satisfaction. We conducted two scenario-based experiments demonstrating that signaling theory can help predict how customers will respond to a firm's relationship recovery efforts following a competence, or integrity based violation. The findings indicate that the strength of the signal communicated by the firm can enhance the firm's efforts to rebuild trust and help retain customers who otherwise may have exited their relationship with the firm. Results extend the current literature by applying signaling theory to the relationship recovery and repair context. This research provides practical guidance to managers as they attempt to recover from violations and rebuild relationships with their customers.

Keywords: *Signaling theory; Willingness to reconcile; Relationship repair*

Track: Relationship Marketing