Policy Briefing

Innovating into trouble: When innovation leads to customer complaints

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Definitions of innovation often stress its potential benefits in terms of creating new value for customers and financial returns for the firm. Here, we show that innovation can also have negative effects, causing an increase in customer complaints in the short-term with potentially negative financial and reputational consequences. Complaints may arise directly from adverse reactions to innovative services or service failures where firms prioritise innovation. Our empirical analysis focuses on legal services in England and Wales. Our analysis reveals that higher levels of innovation activity increase the probability and number of consumer complaints.

Key findings

We match 2015 survey data on innovation by legal service providers in England and Wales with publicly available complaints data from the UK Legal Ombudsman for the period 2013-18. This allows us to identify causal links between innovation activity and subsequent customer complaints. Our analysis suggests two main empirical conclusions:

- Higher levels of innovation activity increase the probability that legal services firms will receive customer complaints in the short term (1-2 years). This disruptive effect dissipates over time.

- Firms can reduce the potential for customer complaints by adopting collaborative innovation strategies with clients and engaging in multi-functional team-working. Prior empirical studies have shown that engaging consumers and employees across various functions in the innovation process can enhance creativity and innovation quality and help increase the market success of innovations.

Results prove robust for a range of different innovation and complaints metrics.

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From innovation to customer complaints

Innovation may not always be viewed as positive by consumers. Consumers may exhibit 'passive innovation resistance' – 'a pre-disposition to resist innovations that is caused by an individual's inclination to resist changes and satisfaction with the status quo prior to new product evaluation'. Consumers' direct experience of a new innovation may also generate either a positive or negative reaction. Positive reactions may generate consumer value and commercial benefits for innovators. Negative reactions may result in a range of consumer behaviours: exit, voice and loyalty.

For innovating firms, both 'exit' and 'voice' have potentially negative consequences in terms of lost business and reputational damage. Other indirect effects may also arise if firms over-allocate resources to innovation leading to failures in service delivery. This reflects the tension in resource allocation between firms' operational, customer-facing and innovation activities. As Hortinha, Lages, and Lages (2011, p. 37), comment: 'the trade-off between customer orientation and technology orientation is of the utmost importance … resources are limited, and firms must make choices in their allocation'. Both a direct (innovation resistance) and indirect (resource allocation) effect may therefore link innovation to customer complaints.

Policy implications

Recent regulatory changes in the legal services sector in the UK and internationally aim to stimulate innovation. Initial examinations of these regulatory changes point towards cost reductions and service improvements. Our results highlight the potential implications for regulatory agencies of such initiatives: Higher levels of innovative activity may generate additional value for consumers but our evidence suggests that more legal service innovation will also lead to an increase in consumer complaints. This emphasises the increased importance of dispute resolution organisations such as the Legal Ombudsman which have the capacity to resolve the increasing number of issues which are likely arise between legal service providers and their customers.

Full paper link: https://www.enterpriseresearch.ac.uk/our-work/publications/