

## HOW RETAILERS HANDLE COMPLAINT MANAGEMENT

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### ABSTRACT

This article fills a gap in the literature by providing insight about the handling of complaint management (CM) across a large cross section of retailers in the grocery, furniture, electronic and auto sectors. Determinants of retailers' CM handling are investigated and insight is gained as to the links between CM and redress of consumers' complaints. The results suggest that retailers who attach large negative consequences to consumer dissatisfaction are more likely than other retailers to develop a positive strategic view on customer complaining, but at the same time an increase in perceived negative consequences of customer dissatisfaction leads to a more negative view on interacting with complaining customers.

### INTRODUCTION

Many authors have investigated the consumer complaint process (e.g., Homburg and Fürst, 2005; Saxby, Tat and Johansen, 2000; Singh, 1990; Stephens and Gwinner, 1998; Richins, 1981) and some have emphasized the importance of developing customer complaints handling (or complaint management, CM) systems (e.g., Lam and Dale, 1999; Johnston, 2001). Research suggests that a well-designed and well-implemented CM system may highly influence customer satisfaction (Berry and Parasuraman, 1991; Kelley and Davis, 1994). Also, CM has implications for internal company factors. For example, if the design of the CM system is easy to use by employees and if it also satisfies customers, this could result in employees feeling greater control

and experiencing less stress (Matteson and Ivancevich, 1982). Moreover, in an empirical study among 40 senior managers responsible for their customer service departments, Johnston (2001) found some support for the underlying hypothesis that a good complaint culture and good complaint processes may well lead to improved financial performance.

While many studies have investigated the complaint process from the consumer side, those from the side of business are few and far between. Kendall and Russ (1975) provided insight to the strategic management of complaints, through customer warranties, from a sample of 53 manufacturers. Bell, Menguc and Stefani (2004) gathered data on customer complaint handling from sales staff within a large retailer. The lack of large broad study from the business side may be due to the easier nature of collecting data from large groups of customers rather than large groups of retailers. Therefore, little is known about the complete picture or links between the company's perception of the level of dissatisfaction of their customers, their strategic view on how to handle complaints from these customers, their desire to interact with dissatisfied customers, and if or how to compensate complaining customers for their troubles. Such an investigation is important from a theoretical view to establish consistencies among what companies say they are doing in terms of strategy and what they are actually doing in terms of concrete retailer-customer complaint-based interaction.

It is the purpose of this article to investigate determinants (positive and negative) of retailers' CM handling. In order to meet this objective, four types of retailers (*grocery shops, furniture stores, electronic*

*stores*, and *car-dealers*) are used in an empirical study. A detailed discussion of the concept of CM is provided, with an argument that it should be treated from both a strategic and an operational view. Then the article develops a conceptual model for understanding CM handling and a total of eleven research hypotheses are proposed.

### **THE CONCEPT OF COMPLAINT MANAGEMENT**

CM involves the receipt, investigation, settlement and prevention of customer complaints, and recovery of the customer (Johnston, 2001), and may include both external factors (e.g., complaints filed by customers) and internal factors (e.g., internal complaints). Research suggests that most consumers who believe that their complaints are taken seriously by the company will consider repeat buying (Whiteley, 1991; Walker, 1990). CM has traditionally been regarded as a 'defensive marketing strategy' (e.g., Fornell and Wernerfelt, 1987), whereas consumer satisfaction and loyalty programs often are referred to as 'offensive' strategies.

CM does not substitute for the creation of customer satisfaction and the development of loyalty programs. Instead, CM complements a company's action in the marketplace. For example, even loyal customers may experience a service failure and therefore it is of vital importance that such customers can easily, incurring no additional cost, voice their complaint to the company (Huppertz, Mower and Associates, 2003, Homburg and Fürst, 2005). The customer also needs to perceive that the complaint is handled effectively and seriously by a well-developed CM system. Therefore key elements for a company to have a good CM process are: 1) the company does perceive the possibility that customers may be dissatisfied; and 2) that they believe negative consequences could result to the company from consumer dissatisfaction.

The development of CM has been dealt with and conceptualized in different ways by various authors. Adamson (1993) suggests that CM should evolve through a four-stage process starting with an in-depth analysis and correct use of past complaints and results. Cook and Macaulay (1997) deal with the normative concept of 'empowered complaint management'. Important elements in this concept include the following: companies should have a positive and proactive (non-defensive) attitude towards complaints; there is a fast reply and simple solution to the problem; and that complaint handlers should be regarded as an important part of the company.

To accomplish these tasks, the starting point is to make clear to staff members what authority they have when dealing with complaints and to encourage them to use the given authority. Brennan and Douglas (2002) review the standard 'Complaint Management Systems – Guide to Design and Implementation' (BS 8600:1999), which has been issued by the British Standards Institution. This standard gives guidance on designing and implementing CM systems for the management of complaints from the stage of initial reporting to resolution of the problem. It is proposed that the CM system should be described and analysed from both a strategic view and an operational view, the latter including the sub-components of 'complaining accessibility', 'retailer-customer interaction', and 'compensation policy'.

### **Strategic View on CM**

CM is a strategic management tool, which is not always easy to plan or set, but which is influenced by a number of internal as well as external company factors. The development of a CM system involves analyzing, planning, implementing, and controlling (Gilly and Hansen, 1992). In essence, the strategic planning of complaint-handling should therefore be treated as any

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other kind of strategic planning process involving the formulation of goals, needs for resources, and the like. The successful development of CM demands at least the same level of commitment from top management as is normally given to other kinds of strategic developments within a company [e.g., the formulation of competition strategies, brand strategies, etc.] (Gilly and Hansen, 1992; Welsh, 1995).

However, this commitment may be mostly talk and little action: based on a case-study of consumer complaints and associated handling systems, Lam and Dale (1999) found “a poor level of commitment in the company to complaints handling” (p. 846) and also that “among lower level employees and some of those holding managerial positions, ignorance was evident with regards to the concepts and requirements of Total Quality Management” (CM is here regarded as part of total quality management, TQM) (p. 845). Empirical results also suggest that many companies have great difficulty calculating the profitability of their CM system (Stauss and Schoeler, 2004; Johnston, 2001).

Although the literature reveals an increased understanding that CM is of strategic relevance (e.g., Fornell and Wernerfeldt, 1987; Maxham, 2001; Stauss and Seidel, 2004; Johnston and Mehra, 2002), this is not always reflected by the attention and effort given to this topic by companies. Stauss and Schoeler (2004) even claim that CM departments are often considered as operational units, that only have to handle consumer dialogue, and are not involved in strategic planning processes.

Based on such considerations, this article defines the strategic view of CM as when the company seems to believe complaining customers have valuable input to the firm and have written policies and procedures to deal with dissatisfied customers.

## **Operational View on CM**

The operational view on CM covers the process by which complaints are handled and customers are recovered (Johnston, 2001). The operational process highlights several factors which are important for the successful implementation of CM, including: speedy response; reliability and consistency of response; ease of access to the complaint process; keeping the complainant informed; and well-trained staff who understand the complaint process (e.g., Hart, Heskett and Sasser, 1990; Johnston, 2001, 1995; Barlow and Moller, 1996; Boshoff, 1997). An effective CM process can be an important quality improvement tool that allows organizations to obtain customer feedback. Such feedback may be very useful in making improvements that increase customer satisfaction, loyalty, and profit (Powers and Bendall-Lyon, 2002). Therefore we propose that the operational view of CM can be divided into three sub-components: (1) *complaining accessibility*; (2) *retailer-customer interaction*; and (3) *compensation policy*.

### ***Complaining Accessibility***

Retailers who receive few formal complaints may feel tempted to believe that their customers are generally satisfied and loyal. However, as emphasized by Johnston (2001) and Boshoff (1997), complaints are a natural consequence of any service activity because mistakes are an unavoidable feature of all human endeavour and thus also of service delivery. If a retailer receives only a few complaints the reason could be that dissatisfied consumers are just switching to a competitive retailer without voicing a complaint (Vorhees and Horowitz 2006; Goodmann, 1999; Stephens and Gwinner, 1998). Reasons for not filing a complaint usually have to do with the difficulty to which a customer perceives communication with the

source. A dissatisfied consumer may hesitate from complaining if s/he is uncertain on where/or how to deliver the complaint or, even worse, if s/he doubts the retailers' interest in receiving the complaint. It is therefore highly important that the retailer convince its customers that complaints are welcome and that they will be handled seriously (Huppertz, Mower and Associates, 2003). Therefore, complaint accessibility is defined as the ease to which the retailer facilitates the receiving of complaints from customers (Fornell and Wernerfelt, 1988; Tax and Brown, 1998).

### ***The Retailer-Customer Interaction Process***

Studies show that consumers are likely to separate the complaint process itself from the outcome of the complaint process (Singh and Widing, 1990). Also, consumers are generally preoccupied with obtaining 'procedural justice' (Saxby et al., 2000; Davidow, 2003), which can be conceptualized as 'the perceived fairness of a process that culminates in an event, decision, or action' (Sheppard, Lewicki and Minto, 1992). Furthermore, research suggests that consumers may be even more concerned with obtaining a fair and serious procedural treatment than with obtaining a specific result of the complaint process (Lind and Tyler, 1988; Greenberg, 1990). This indicates that a complaint process, in which the customer feels exposed to a poor retailer-customer interaction, may not necessarily be overcome by a favorable result of the process.

Dissatisfied consumers report the process of complaining as stressful. Negative feelings and emotions sometimes prohibit the process (Davidow and Dacin, 1997; Stephens and Gwinner 1998). Just as consumers feel stress in the process, it is likely that retailers feel the same stress in dealing with dissatisfied customers. After all, complaining is a negative behavior and it takes "two to tango"...one to give and one to receive. Therefore, the retailer-customer interaction

process is defined as exploring this perceptual relationship between customer and retailer. It is essential that retailers' keep an open mind towards complaining customers and that they do not regard such customers as costly, difficult and/or as a psychological strain. If they personalize the negative process, they are likely to try to avoid complaining customers.

### ***Compensation Policy***

The primary reason that a consumer chooses to complain is that the consumer perceives some kind of loss (e.g., lower product quality than expected, a product malfunction, a service failure, etc.). In relation hereto, the company can compensate the complaining customer by offering price-reductions, repair or exchange of poor products, compensate extra expenses incurred by the consumer for the product failure, and the like. Compensation serves a double purpose (de Ruyter and Brack, 1993; Hui and Au, 2001). First, compensation should compensate for the real loss experienced by the consumer. Second, and equally important, compensation may serve to re-establish and compensate for the potential decrease in confidence that the consumer may attach to the retailer as a consequence of the perceived loss. Therefore compensation policy is defined as the feedback the retailer gives the customer which can be monetary or a simple thank-you acknowledgement for the complaint.

## **A CONCEPTUAL MODEL FOR UNDERSTANDING HOW RETAILERS HANDLE COMPLAINT MANAGEMENT**

Using the considerations above as guidance, a framework for understanding how retailers handle CM is proposed in Figure One. The framework suggests eleven hypotheses, which are derived from both the strategic and the operational view on CM. By

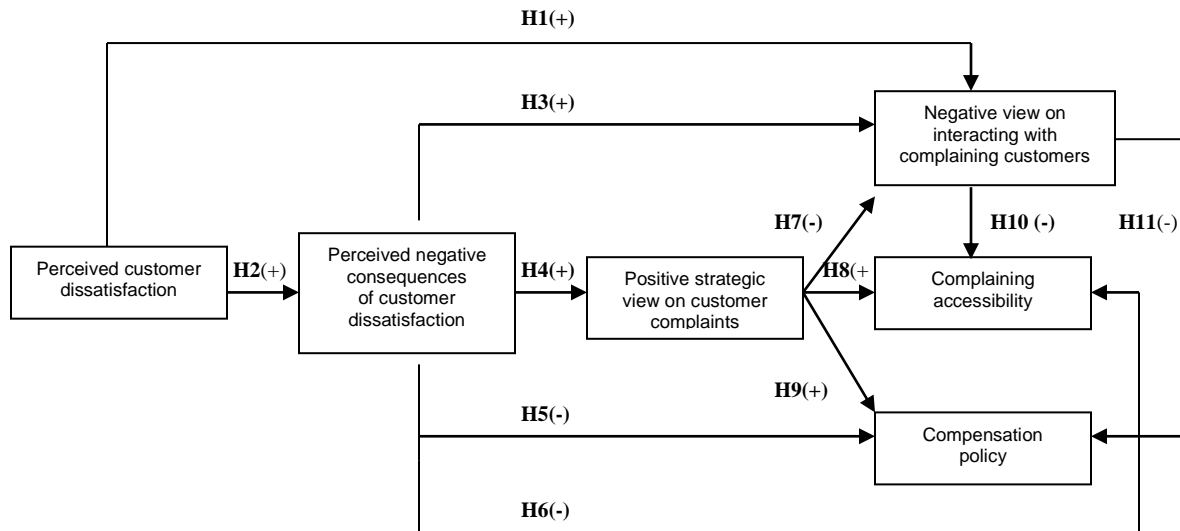
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combining the two views in one conceptual model it is stressed that an integration of the

two basic views on CM is essential.

**FIGURE 1**

**A Framework for Understanding How Retailers Handle CM**



This framework proposes possible links among the following constructs: perceived customer dissatisfaction; perceived negative consequences of customer satisfaction; positive strategic view on customer complaints; negative view on interacting with complaining customers; complaining accessibility; and compensation policy. The proposed constructs and hypothesized links are discussed as follows.

**RESEARCH HYPOTHESES**

**The Role of Perceived Customer Dissatisfaction**

Retail employees may feel offended and/or distressed when confronted with a dissatisfied customer. Employees who often are confronted with dissatisfied customers may find them detrimental to the (operational) working environment and may regard them as

a psychological strain (Bell, Menguc and Stefani, 2004). Therefore research hypothesis one states:

**H1:** Perceived customer dissatisfaction will lead to an increase in perceived negative view on employee interaction with complaining customers.

In research hypothesis one, a negative view on interacting with complaining customers is conceptualized as the retailer’s perception of the extent interaction with dissatisfied customers is demanding, difficult and/or psychologically exhausting.

Previous research indicates that (dis)satisfaction has impact on ROI (Anderson, Fornell and Lehmann, 1994), market-share (Homburg and Rudolph, 2001), and reputation (Singh, 1990). Therefore it can be assumed that retailers may regard customer dissatisfaction as having negative conse-

quences for their market share and reputation and research hypothesis two states:

**H2:** Perceived customer dissatisfaction will lead to an increase in perceived negative consequences of customer dissatisfaction.

Research hypothesis two suggests that customer dissatisfaction may lead to perceived negative consequences (e.g., loss of market share, poor reputation, and the like). These negative consequences may also impact how retailers regard dissatisfied customers. If dissatisfied customers are expected to cause trouble for the company this may result in retailers developing a negative view on interacting with complaining customers. Hence, research hypothesis three is as follows.

**H3:** Perceived negative consequences of customer dissatisfaction will lead to a more negative view on employee interactions with complaining customers.

If retailers perceive large negative consequences of customer dissatisfaction, this may cause them to believe that, in general, the information provided by complaining customers should be taken seriously and may also lead them to specify complaint-handling procedures (Kendall and Russ 1975). This is mainly because of the salience the retailers feel about the concept. The salient negative view may be felt to be important enough to try and have set procedures to deal such customers. When a retailer feels that their customers are satisfied, there is no perceived need to have any strategy or procedures as they are likely a waste of time because they will not be used.

We propose the concept of a positive strategic view on CM to account for such retailer actions. The strategic level differs from the operational level in the sense that the strategic level deals with the overall structure of the CM system, whereas the operational

level deals with how complaining customers actually are perceived and dealt with on a daily basis. It is hypothesized that:

**H4:** Perceived negative consequences of customer dissatisfaction will lead to a more positive strategic view on customer complaints.

If retailers relate negative consequences to dissatisfied customers they may regard such customers as costs (i.e., negative implications for market share, etc.) instead of possible gains (dissatisfied customers may provide valuable information to retailers on how to improve their business). Such retailers may be less inclined to compensate dissatisfied customers and may also be less inclined to improve complaining accessibility for such customers. Therefore the following are hypothesized:

**H5:** Perceived negative consequences of customer dissatisfaction will lead firms to be less inclined to compensate dissatisfied customers.

**H6:** Perceived negative consequences of customer dissatisfaction will lead firms to be less inclined to provide complaining accessibility to dissatisfied customers.

### **The Role of a Strategic View on Customer Complaints**

In general, one might expect that companies that attach strategic importance to CM are more likely to develop a positive view toward complaining customers, are more likely to make it accessible for customers to complain, and are more likely to provide compensation to complaining customers (Kendall and Russ 1975). This leads us to suggest the following research hypotheses.

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**H7:** Positive strategic views of customer complaint will lead to a decrease in negative views of interacting with complaining customers.

**H8:** Positive strategic views of customer complaints will lead to an increase in complaining accessibility.

**H9:** Positive strategic views of customer complaints will lead to an increase in compensation policy.

### **The Role of Negative View on Interacting with Complaining Customers**

The operational part of CM covers the process by which complaints are handled. Previous studies (e.g., Hart et al., 1990; Johnston, 2001, 1995; Barlow and Moller, 1996; Boshoff, 1997) highlight several factors, which are important for the successful implementation of CM including complaining accessibility and compensation policy. However, such results may not be obtained if complaining customers are regarded as difficult and as psychological strains (i.e., a negative view on interacting with complaining customers). Therefore, the following are hypothesized:

**H10:** A negative view of interacting with complaining customers will lead to a decrease in complaining accessibility.

**H11:** A negative view of interacting with complaining customers will lead to a decrease in compensation policy.

## **METHODOLOGY**

### **The Sample**

A total of 829 retailers in Sweden and Denmark were contacted and agreed to participate in the study. The retailers represented four types of stores: grocery

shops, furniture stores, electronic stores, and car-dealers. The stores chosen vary across several main aspects often used to characterize the retail-customer interface (Hansen and Solgaard, 2004): (a) durability of products (with grocery shops representing non-durables and the remaining three categories representing durables); (b) price of products (with grocery shops representing relatively low prices, electronic and furniture stores representing medium to high prices and car-dealers representing very high prices); and (c) product complexity (with grocery shops and furniture stores representing low to medium complexity and electronic stores and car-dealers representing medium to high complexity).

Systematic random sampling was utilized in order to draw a near-balanced proportion of stores. The respondents, who were first contacted by phone, were promised complete confidentiality and were instructed on how to access the web to complete the questionnaire. All respondents were screened to make sure that the person answering the questionnaire was responsible for handling complaints within the particular retail outlet.

### **Measurements**

Multiple item five-point Likert scales (1=disagree totally; 5=agree totally) were developed for all the theoretical constructs used in this study. The items used to measure the constructs in the survey are shown in Table 1. It was critical that the theoretical concepts used in this study (i.e., perceived customer dissatisfaction, perceived negative consequences of customer dissatisfaction, positive strategic view on customer complaints, complaining accessibility, negative view on interacting with complaining customers, and compensation policy) and their operationalization was in agreement. It was also of great importance that these operationalizations were perceived by the respondents as deliberate.

The following procedures were used in order to ensure this (Bagozzi, 1994): (1) Based on an extensive literature review (e.g., Johnston, 2001; Lam and Dale, 1999; Gilly and Hansen, 1992; Terentis, Sander, Madden, Stone and Cox, 2002) a preliminary first draft was prepared; (2) the draft was subsequently assessed by five researchers competent in CM. Three non-experts also assessed the draft. This step resulted in a number of adjustments; (3) Following these adjustments, the questions were shown to two more experts and three non-experts. This step resulted in minor corrections only; and (4) Finally, a small pre-test (n=4) was carried out on a few local retailers. This test did not result in further adjustments of the measurements used.

## RESULTS

A total of 260 retailers completely filled out the survey: 128 Danish and 132 Swedish retailers for an effective 31 percent response rate. Specifically, 25.4% (n=66) was drawn from grocery shops, 24.6% (n=64) were furniture stores, 26.5% (n=69) were electronic stores, and the remaining 23.5% (n=61) were car-dealers. Of these stores 75 (29%) did under one million Euros in business per year; 40 (15%) did between one and two million Euros per year; and 145 (56%) did over two million Euros of business in the past year. Company size ranged from 97 (37%) companies having five or less employees; 75 (29%) retailers employed six to 15 people and the remaining 88 (34%) retailers employed more than 15 people. Checks against unit non-response bias were carried out by comparing respondent characteristics (number of employees and sales per year) to those of the original set of respondents who agreed to participate in the survey (Bosnjak and Tuten, 2001). These analyses revealed no noticeable differences between the two groups.

## Descriptive Statistics

Table 1 displays the means of all measurement items across the four store types and the two countries included in this study. The statistical differences among means are reported and several inter-store differences can be found. Some illustrative examples include that complaining accessibility is higher in Danish furniture stores than in other kinds of Danish stores, whereas complaining accessibility is lower in Swedish furniture stores than in other Swedish stores. Danish furniture stores also tended to have a higher share of customers that have been dissatisfied with the company's information, or have been dissatisfied for other reasons. No such effect is found among Swedish stores. In both Denmark and Sweden, car-dealers tend to have a more positive strategic view of complaint management than do other stores. While these scores do not imply anything about the possible existence of significant relations among constructs, they do, however, suggest that complaint management may differ across store type and country.

For the purpose of addressing research hypotheses 1-11, the conceptual model in Figure One was translated into a LISREL model consisting of a measurement part (confirmatory factor analysis) and a structural equation part (simultaneous linear regression). The relationships between the variables were established by maximum likelihood estimation. The framework was tested using a 2-stage analysis (refer to Anderson and Gerbing, 1988). First, the measurement model is developed by conducting confirmatory factor analysis on the multi-item scales. Next, the measurement model and the structural equation paths are estimated simultaneously to test the proposed model (overall model). By applying this 2-stage method we want to ensure that the measures of the constructs are reliable and valid before attempting to draw conclusions about relations between constructs.

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**TABLE 1**  
Means of Measurement Items across Countries and Retailers

Country	Denmark					Sweden				
	Furni- tures A	Grocery stores B	Elec- tronic C	Car- dealers D	Mean com- parison <sup>a</sup>	Furni- tures A	Grocery stores B	Elec- tronic C	Car- dealers D	Mean com- parison <sup>a</sup>
<b>PERCEIVED CUSTOMER DISSATISFACTION</b>										
<i>Share of customers that have been</i>										
X1 Satisfied with the company's products/services*	2.00	1.52	1.48	2.00	Ns.	2.03	2.03	1.75	2.10	Ns.
X2 Dissatisfied with the comp's information and/or advice	1.85	1.16	1.24	1.47	A>B,C	2.00	1.77	1.86	1.81	Ns.
X3 Dissatisfied with the company for other reasons	1.65	1.39	1.21	1.50	A>C	1.60	1.94	1.56	1.55	Ns.
<b>PERC NEG CONSEQUENCES OF CUST DISSATISFACTION</b>										
X4 We lose market share	2.85	3.32	3.39	3.80	A<D	2.60	2.71	3.03	2.87	Ns.
X5 We need to allocate resources to complaint management	2.76	2.06	2.45	2.67	A>B	2.37	2.03	2.36	2.90	B<D
X6 We will get a bad reputation	3.44	2.97	3.42	3.97	B<D	3.10	3.26	3.06	3.45	Ns.
<b>POSITIVE STRATEGIC VIEW OF COMPLAINT MNGMNT</b>										
X7 Info from complaint handling contributes to our strategic development	2.06	1.26	1.94	2.10	B<A,C,D	2.27	2.46	2.22	3.16	A,C<D
X8 Co. complaint mngmt is based on written policies, specifying procedures etc. for company's complaint management	1.50	1.03	1.24	1.83	B,C<D	1.87	1.57	1.86	2.58	A,B,C<D
<b>NEG VIEW OF INTERACTING w COMPLAINING CUSTOMERS</b>										
X9 Complaining customers are difficult customers	1.97	1.87	1.70	1.97	Ns.	2.00	1.60	1.94	1.94	Ns.
X10 Interacting with complaining customers is a financial cost	2.12	1.65	1.97	2.43	B<D	2.37	1.46	2.14	2.42	A,C,D>B
X11 Complaining customers are detrimental to the working environ.	1.82	1.55	1.76	1.60	Ns.	1.87	1.54	1.81	1.87	Ns.
X12 Complaining customers are a psychological strain	2.18	1.97	2.27	1.87	Ns.	1.87	1.57	1.97	1.87	Ns.
<b>COMPLAINING ACCESSIBILITY</b>										
X13 Offers of participation in lotteries	3.47	2.00	2.79	2.43	A>B	2.83	4.06	3.92	4.23	A<D
X14 Hanging of physical complaint mail boxes	3.79	2.10	2.73	2.60	A>B,D	2.83	4.23	3.97	4.61	A<B,C,D
X15 Advertising /information about filing of complaints in brochures etc.	3.35	2.10	2.33	2.73	A>B	2.73	3.71	3.50	4.00	A<D
X16 Free call # for filing complaints	3.85	2.10	2.70	2.67	A>B,C,D	3.17	4.17	3.72	4.39	A<D
<b>COMPENSATION POLICY</b>										
X17 The customer receives a gift or the like for the inconvenience	2.85	4.74	3.03	3.97	B>A,C	3.00	3.29	3.50	2.68	Ns.
X18 We compensate the customer for the inconvenience of having to transport her/himself	2.35	3.77	3.09	3.43	A>B,D	3.67	3.14	2.86	3.26	A>C
X19 We compensate the customer for the psychological strain involved in complaining	2.44	3.77	3.21	4.03	A>B,D	3.27	3.49	3.00	2.42	B>D
X20 We 'overcompensate' the customer to bring attention to the fact that we appreciate that the customer voices dissatisfaction	2.74	3.65	3.12	3.83	Ns.	2.77	3.69	2.78	3.19	B>A,C

\* Inverted item; <sup>a</sup>Mean comparisons are conducted by Fisher's Least Significant Difference ( $\alpha = 0.05$ )

## Measurement Model

The results of the measurement model, including the standardized factor loadings,

SE, *t*-values, construct reliabilities, and proportion of extracted variance are displayed in Table 2.

**TABLE 2**  
**Confirmatory Factor Analysis Results**

Construct/indicator	Standardized factor loading <sup>a</sup>	SE	<i>t</i> -value	Construct reliability <sup>b</sup>	Extracted variance <sup>c</sup>
ξ1 Perceived customer dissatisfaction				0.82	0.60
X1	0.71				
X2	0.77	0.09	10.46		
X3	0.84	0.09	10.58		
η1 Perceived negative consequences of customer dissatisfaction				0.80	0.58
X4	0.85				
X5	0.56	0.07	8.57		
X6	0.83	0.09	10.85		
η2 Positive strategic view on customer complaints				0.75	0.60
X7	0.63				
X8	0.90	0.30	4.00		
η3 Negative view on interacting with complaining customers				0.75	0.43
X9	0.54				
X10	0.62	0.19	6.83		
X11	0.74	0.19	7.36		
X12	0.71	0.20	7.26		
η4 Complaining access				0.93	0.78
X13	0.89				
X14	0.90	0.03	33.14		
X15	0.88	0.04	24.38		
X16	0.86	0.03	29.30		
η5 Compensation policy				0.84	0.58
X17	0.72				
X18	0.61	0.07	9.22		
X19	0.91	0.10	12.68		
X20	0.78	0.08	11.69		

**a** The first item for each construct was set to 1.

**b** Calculated as  $\frac{\sum(\text{Std. Loadings})^2}{\sum(\text{Std. Loadings})^2 + \sum\xi_i}$

**c** Calculated as  $\frac{\sum\text{Std. Loadings}^2}{\sum\text{Std. Loadings}^2 + \sum\xi_i}$

All factor loadings were significant ( $p < 0.01$ ), which demonstrates that the questions for each latent variable reflect a single underlying construct; indicating that convergent validity is obtained. The reliabil-

ities and variance extracted for each variable indicate that the model was reliable and valid. All composite reliabilities exceed 0.70 and all variance-extracted estimates were above 0.40 and most were above 0.50. The reliabilities

and variance were computed using indicator standardized loadings and measurement errors (Hair, Tatham and Black, 1998; Shim, Eastlick, Lotz and Warrington, 2001).

The measurement model fits well to the data. The values of the goodness of fit index (GFI=0.90) and the comparative fit index (CFI=0.95) equal or are above the recommended threshold of 0.90 for a satisfactory goodness of fit (Bentler, 1992). Also, the point estimates of RMSEA shows a

value of 0.06, which is below the recommended level of 0.08. Thus, we can conclude that the unidimensionality criterion is satisfied (Frambach, Prabhu and Verhallen, 2003). Discriminant validity of the applied constructs was tested applying the approach proposed by Fornell and Larcker (1981). In Table 3 the diagonals represent for each construct the variance extracted as reported in Table 2.

**TABLE 3**  
**Discriminant Validity of Constructs**

Construct	1	2	3	4	5	6
1. Perceived customer dissatisfaction	.60					
2. Perceived negative consequences of customer dissatisfaction	<.01	.58				
3. Positive strategic view on customer complaints	.05	.04	.60			
4. Negative view on interacting with complaining customers	.07	.11	.07	.43		
5. Complaining accessibility	<.01	.02	.03	<.01	.78	
6. Compensation policy	.06	<.01	.07	.02	.02	.58

*Notes:* Diagonals represent average amount of extracted variance for each construct.  
Non-diagonals represent the shared variance between constructs  
(calculated as the squares of correlations between constructs).

The other entries represent the squares of correlations among constructs. An examination of the matrix displayed in Table 3 shows that the non-diagonal entries do not exceed the diagonals of the specific constructs and thus no single violation of the conditions for discriminant validity can be detected. These considerations indicate that the constructs do exist and that they are tapped by the measures used.

### Overall model fit

The chi square statistic was 327.7 (df.=159, p<0.001). The p-value is below 0.05 indicating that the model fails to fit in an

absolute sense. However, since the  $\chi^2$ -test is very powerful when n is large, even a good fitting model (i.e., a model with just small discrepancies between observed and predicted covariances) could be rejected. Thus, several writers (e.g., Hair et al., 1998) recommend that the chi-square should be complemented with other goodness-of-fit measures. The value of the goodness of fit index (GFI) showed 0.89 indicating an acceptable model fit. The value of the comparative fit index (CFI) was 0.94, the Tucker-Lewis (1973) index amounts to 0.93, and the Bentler and Bonett (1980) normed fit index (NFI) showed a value 0.91. All these values exceed, or are virtually at, the suggested 0.9 threshold,

which indicates that the improvement of fit over the null model is substantial (Dröge, 1989). The point estimate of RMSEA was 0.06 (<0.08). Thus, sufficient support is provided for the overall model.

### Hypothesis Testing (H1-H11)

The standardized beta-coefficients from the estimated structural model are reported in Table 4.

**TABLE 4**  
**Structural Model Estimation Results**

Path from/to	Standardized coefficient	t-value	Test result
Perceived customer dissatisfaction → negative view on interacting with complaining customers (H1)	0.22	2.83 <sup>a</sup>	Accepted
Perceived customer dissatisfaction → perceived negative consequences of customer dissatisfaction (H2)	0.08	1.08	Rejected
Perceived negative consequences of customer dissatisfaction → negative view on interacting with complaining customers (H3)	0.29	3.48 <sup>a</sup>	Accepted
Perceived negative consequences of customer dissatisfaction → positive strategic view on customer complaints (H4)	0.24	2.97 <sup>a</sup>	Accepted
Perceived negative consequences of customer dissatisfaction → compensation policy (H5)	-0.05	-0.58	Rejected
Perceived negative consequences of customer dissatisfaction → complaining accessibility (H6)	-0.15	-1.98 <sup>b</sup>	Accepted
Positive strategic view on customer complaints → negative view on interacting with complaining customers (H7)	-0.13	-1.52	Rejected
Positive strategic view on customer complaints → complaining accessibility (H8)	0.19	2.30 <sup>b</sup>	Accepted
Positive strategic view on customer complaints → compensation policy (H9)	0.01	0.15	Rejected
Negative view on interacting with complaining customers → complaining accessibility (H10)	0.05	0.62	Rejected
Negative view on interacting with complaining customers → compensation policy (H11)	-0.15	-2.08 <sup>b</sup>	Accepted

<sup>a</sup>: Significant on 1% level

<sup>b</sup>: Significant on 5% level

**Perceived Dissatisfaction of Customers**

It was proposed that the more a retailer perceived their customers to be dissatisfied, the more negative would be the view on interacting with complaining customers (H1). This proposition is confirmed (standardized coefficient,  $\beta=0.22$ ,  $p<0.01$ ). H2 is not supported in the study, as perceived customer dissatisfaction did not significantly affect perceived negative consequences of customer dissatisfaction ( $\beta=0.08$ , n.s.). That is, there was no direct link between believing customers were dissatisfied and believing that those dissatisfied customers would harm the retailer’s performance.

**Perceived Negative Consequences of Dissatisfied Customers**

From H3 we expected that those who perceived negative consequences of customer dissatisfaction would have a more negative view of interacting with complaining customers. This expectation is supported ( $\beta=0.29$ ,  $p<0.01$ ). H4 is also supported, as perceived negative consequences of customer dissatisfaction was also positively related to having a strategic view on customer complaints ( $\beta=0.24$ ,  $p<0.01$ ). H5 did not receive support, as perceived negative consequences

of customer dissatisfaction was not related to compensation policy ( $\beta= -0.05$ , n.s.). H6 is confirmed with perceived negative consequences of customer dissatisfaction negatively related to complaining accessibility ( $\beta= -0.15$ ,  $p<0.05$ ).

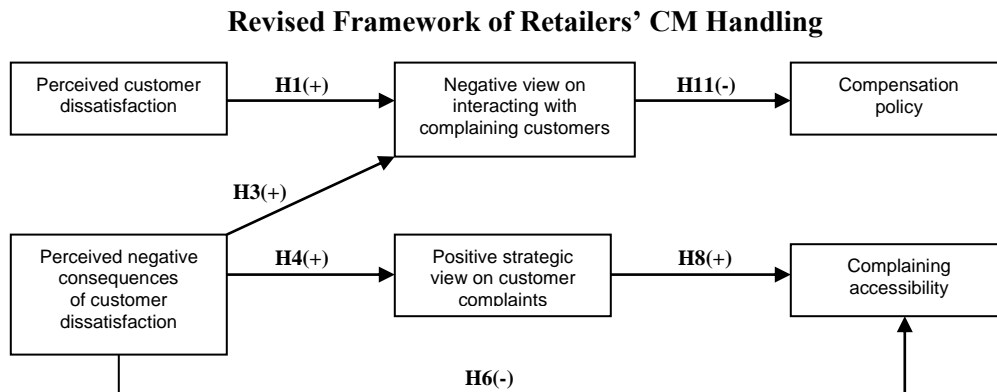
**Positive Strategic View of Complaint Management**

H7 predicted that a positive strategic view on customer complaints would lead to a decrease in negative view on interacting with complaining customers. This prediction was not confirmed in the study ( $\beta= -0.13$ , n.s.). H8 was supported, as a positive strategic view on customer complaints did positively affect complaining accessibility ( $\beta=0.19$ ,  $p<0.05$ ). A positive strategic view on customer complaints did not positively affect compensation policy ( $\beta=0.01$ , n.s.) and thus H9 is not confirmed.

**Negative View on Interacting with Complaining Customers**

H10 was not supported in the study, as a negative view on interacting with complaining customers did not negatively affect complaining accessibility ( $\beta=0.05$ , n.s.).

**FIGURE 2**



From H11 we expected that negative view on interacting with complaining customers would negatively affect compensation policy. This expectation was supported ( $\beta = -0.15$ ,  $p < 0.05$ ). The new model with the found links in the system is shown in **Figure Two**.

### Testing for Moderator Effects

Another important question was whether the relations between constructs vary across retailer characteristics. To investigate this moderating effect, country, size of retailer (measured as number of employees), and retail category were analysed. For the moderating variable 'size' the sample was split into two subgroups (<10 employees,  $n=131$ ;  $\geq 10$  employees,  $n=129$ ). To test if the measurement models were the same across groups, twelve separate two-group model-analyses were conducted. Six models were unconstrained and six models were estimated with the constraint that the loadings for the indicator variables on their respective latent variables are the same across subsamples. The conducted  $\chi^2$ -tests did not show significant differences between the unconstrained and the constrained models.

Thus, the individual paths could then be separately examined across subsamples. For the purpose of testing the equality of the structural paths, constrained and unconstrained models were estimated using the multi-group procedure suggested by Jöreskog and Sörbom (1993), and recently used by Verhoef and Langerak (2001). Following this procedure individual paths are separately examined across subsamples. Using a chi-square difference test we tested whether the estimated unstandardized path coefficients are equal. **Table 5** displays the results of the unconstrained models.

The results show that perceived negative consequences of customer dissatisfaction has a significant negative effect on complaining accessibility for Danish retailers (unstandardized coefficient,  $b = -0.47$ ,

$p < 0.05$ ), but not for Swedish retailers. While for Swedish retailers, the strategic view on customer complaints ( $b = -0.16$ ,  $p < 0.05$ ) had a significant negative effect on the negative view on interacting with complaining customers. No such effect was detected for the Danish retailers. Additionally, the strategic view on customer complaints was found to positively affect complaining accessibility ( $b = 0.72$ ,  $p < 0.05$ ) for Danish retailers, but not for Swedish retailers.

An effect of perceived negative consequences of customer dissatisfaction on the positive strategic view on customer complaints was detected for larger retailers ( $b = 0.50$ ,  $p < 0.01$ ) but not for smaller retailers. The findings also revealed that the paths between perceived negative consequences of customer dissatisfaction and the negative view on interacting with complaining customers are different for grocery ( $b = 0.27$ ,  $p < 0.01$ ) and other stores.

The findings also show that perceived negative consequences of customer dissatisfaction is positively related to a positive strategic view on customer complaints for other stores (furniture and electronic stores, and car-dealers) ( $b = 0.26$ ,  $p < 0.01$ ) but not for grocery stores. For grocery stores, electronic stores, and car dealers (when taken as a whole), perceived negative consequences of customer dissatisfaction had a significant negative effect on complaining accessibility ( $b = -0.31$ ,  $p < 0.05$ ). No such effect was detected for the furniture stores.

A negative view on interacting with complaining customers was found to negatively affect complaining accessibility for other stores (grocery and furniture stores and car-dealers) ( $b = -0.52$ ,  $p < 0.05$ ), but not for electronic stores (coefficient non-significant). Additionally, the findings revealed that the paths between perceived negative consequences of customer dissatisfaction and complaining accessibility are different for car-dealers ( $b = -1.20$ ,  $p < 0.01$ ) and other stores (coefficient non-significant).





**TABLE 5**  
**Multi-Group Analyses: Results for Unconstrained Models**

Relation	Country		No. of employees		Grocery stores	Other stores	Furniture stores	Other stores	Electronic stores	Other stores	Car-dealers	Other stores
	Denmark	Sweden	<10	≥10								
Perceived customer dissatisfaction → negative view on interacting with complaining customers (H1)	0.12	0.26 <sup>b</sup>	0.14	0.17 <sup>b</sup>	0.27 <sup>b</sup>	0.17 <sup>b</sup>	0.17	0.12	0.26	0.17 a	0.01	0.20 a
Perceived customer dissatisfaction → perceived negative consequences of customer dissatisfaction (H2)	0.21	0.16	0.29	0.03	0.17	0.20	0.07	0.14	0.42	0.09	0.19	0.08
Perceived negative consequences of customer dissatisfaction → negative view on interacting with complaining customers (H3)	0.14 <sup>b</sup>	0.10	0.12 <sup>a</sup>	0.18 <sup>b</sup>	<b>0.27 a</b>	<b>0.10</b>	0.15 b	0.14 a	0.06	0.18 a	0.10	0.15 a
Perceived negative consequences of customer dissatisfaction → strategic view on customer complaints (H4)	0.26 a	0.13	<b>0.12</b>	<b>0.50<sup>a</sup></b>	<b>0.01</b>	<b>0.26<sup>a</sup></b>	0.25	0.19 b	0.13	0.22 b	0.35	0.19 b
Perceived neg consequences of customer dissatisfaction → compensation policy (H5)	0.12	0.25 b	0.15	0.02	-0.06	-0.02	-0.01	-0.10	-0.21	-0.15	-0.04	-0.14
Perceived neg consequences of customer dissatisf→ complaining accessibility (H6)	<b>-0.47<sup>b</sup></b>	<b>-0.11</b>	-0.31 <sup>b</sup>	-0.31	-0.40	-0.22	<b>-0.08</b>	<b>-0.31 b</b>	-0.03	-0.49 a	<b>-1.20 a</b>	<b>-0.09</b>
Positive strategic view on customer complaints → negative view on interacting with complaining customers (H7)	<b>0.05</b>	<b>0.16<sup>b</sup></b>	0.04	0.04	-0.06	-0.08	0.14	0.06	-0.09	-0.08	-0.08	0.03
Positive strategic view on customer complaints → complaining accessibility (H8)	<b>0.72<sup>b</sup></b>	<b>0.03</b>	0.45	0.44 <sup>b</sup>	0.35	0.18	0.46	0.54 a	0.25	0.39	0.50	0.31
Positive strategic view on customer complaints → compensation policy (H9)	0.22	0.25	0.60	0.22	0.01	0.05	0.48	0.05	0.19	0.22	0.56 b	-0.16
Negative view on interacting w complaining customers → complaining accessibility (H10)	0.47	0.62	0.48	0.60	0.51	0.06	0.37	0.41	0.21	0.20	0.39	0.18
Neg view on interacting with complaining customers→ compensation policy (H11)	-0.39	-0.57 <sup>b</sup>	-0.44	-0.40	-0.47	-0.46	-1.03	-0.24	<b>0.05</b>	<b>-0.52 b</b>	-0.06	-0.44



## DISCUSSION AND CONCLUSIONS

This article investigated the handling of CM among Nordic (Danish and Swedish) retailers by proposing and testing a conceptual framework and associated research hypotheses. Although the majority (six out of eleven) of the hypothesized relations were supported, the results also indicate the complexity associated with seeking to understand the CM among today's retailers. CM was approached from both a strategic and operational view with the operational view further encompassing the sub-components complaining accessibility, retailer-customer interaction, and compensation policy.

In conclusion, we wish to reiterate the importance of complaint management to the profitability of the firm (Reichheld 1996), as effective complaint management allows retailers to satisfy and retain customers (Hart, Heskett and Sasser, 1990). The results reveal that retailers who attach large negative consequences to consumer dissatisfaction will be more likely than other retailers to develop a positive strategic view on customer complaints. This also suggests that retailers to some extent may be forced (by the anticipated negative consequences) to regard complaining customers as having strategic importance and thereby also stress that CM may be developed on a reactive basis. At the same time, however, an increase in perceived negative consequences of customer dissatisfaction also leads to a more negative view on interacting with complaining customers.

It is therefore important that retail managers holding a positive CM view share this view with retail employees and urge them to realize that complaining customers should be regarded as an asset to the company. Making this statement even more significant is that perceived customer dissatisfaction may result in a negative view on interacting with customers. As expected, a positive strategic view on customer complaints leads to improved complaining accessibility. This improvement is, however, vulnerable if

customer dissatisfaction at the same time is perceived as leading to negative consequences, as this can lead retailers to reduce their complaining accessibility.

In investigating CM among retailers, our results suggest that a number of moderating factors, including size of retailer (measured by number of employees), country (in our analysis Denmark vs. Sweden), and type of store (in our analysis grocery stores, furniture stores, electronic stores vs. car-dealers), should be taken into account. For example, if perceived negative consequences are attached to customer dissatisfaction, Danish retailers are likely to react by making it less accessible for their customers to complain. No such effect was detected for Swedish retailers. Also, large – but not small - retailers are likely to react to perceived negative consequences of customer dissatisfaction by developing a more positive strategic view on customer complaints. As another example, grocery stores, furniture store and car-dealers showed a propensity to react to a negative view on interacting with complaining customers by reducing complaining accessibility, whereas no significant effect was found for electronic stores.

## LIMITATIONS AND FUTURE RESEARCH

This research concentrated on analyzing four retail categories situated in two countries. This could mean that the results may suffer from a lack of generalizability when other retail categories/countries are considered. A larger cross-section of retail categories and/or countries ought to be studied to improve the generalizability of the results. As with much research, this study provides a snapshot of CM among retailers rather than a longitudinal study. Thus, when considering the findings obtained in this study one should be aware that the CM concept is still evolving and that CM research – as is the case with much other consumer research - needs to be continuously repeated and

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modified. Some of the limitations to this research became apparent only after the data was collected and analyzed. With regard to the operationalization of complaining accessibility in our model, we did not ask about the timeliness of or speed to which complaints are handled. Timeliness has been found to be a significant factor in customer satisfaction with a firm's response to service failures in previous research (e.g., TARP Worldwide Inc., Service Industry data, 2007). This perhaps fits well into the accessibility component or it could be a separate construct.

The measure of perceived dissatisfaction does not have an intensity measure to it. It is up to the retailer to interpret what 'dissatisfied' means and how to measure it. Depending upon how retailers measure satisfaction/dissatisfaction, their percentages could vary quite a bit, so some bias may be introduced to the current measure. Also our measure of positive strategic view of complaint management is likely weak due to using only two indicators. Another measure such as the extent to which management uses complaints from customers as input to their executive decisions might be added to future studies using this construct (Kendall and Russ 1975).

As discussed, our results point to a number of aspects, which may improve our understanding of retailers' CM. However, when it all comes to an end, retailers must figure out how to achieve profitability. Which operating model is most conducive to short-term and long-term profitability? How should retail managers approach CM given current market conditions? Future research may wish to investigate how to balance the various aspects of the CM approach with a cost-effective operating system.

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