

THE FREQUENCY AND DISTRIBUTION OF BETTER BUSINESS BUREAU COMPLAINTS: AN ANALYSIS BASED ON EXCHANGE TRANSACTIONS

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ABSTRACT

With the cooperation of a local BBB office, the BBB complaint histories and sales volume records of companies in two key industries, new home builders and franchised auto dealers, were analyzed over a five-year period (1998-2002). Results demonstrated that in the new home construction industry one BBB complaint was generated for every 148 homes built, while the frequency in the auto dealers industry was significantly lower with just one BBB complaint for every 2,131 new and used cars sold. In both industries the distribution of BBB complaints was highly skewed with a few “bad apple” companies generating the bulk of the complaints. Most companies in both industries generated few, if any, BBB complaints. Larger companies in both industries generated significantly more BBB complaints than smaller companies. But when the rate of BBB complaints (number of BBB complaints divided by company size) was considered, a mixed view emerged regarding the relationship with firm size. In the auto dealers industry, larger dealers had significantly higher BBB complaint rates than smaller dealers. However, the complaint rate of larger home builders was not significantly greater than the complaint rate for smaller builders.

INTRODUCTION

Last year, consumers bought more than 1 million new homes in the U.S., a near record. Average sale price: \$250,000. But a CR investigation has found that increasingly, buyers are discovering that their new dream home has serious defects and that they have more consumer protections for a fickle \$20 toaster than for a flawed investment-of-a-lifetime.

(“Housewrecked,” 2004, p. 26)

Americans spend more than \$650 billion a year on new cars—and they probably spend way too

much. Chances are you’ve been there, sitting across from a smiling car salesman, sweating out the negotiations, determined to get a bargain, but convinced you won’t. You’re probably right. Dateline NBC went undercover to reveal some tricks of the trade, how, with a little sleight of hand and deception, dealerships are sweetening your deal in their favor—taking you for thousands of dollars.

(“Car Sales: Tricks of the Trade,” 2003)

Unfortunately, as these excerpts from recent news stories vividly illustrate, consumers are still often victimized by unscrupulous companies. Particularly for higher priced items such as homes and autos, dissatisfied consumers will typically contact these companies to seek a fair resolution for their complaints. However, despite their repeated attempts, sometimes complaining consumers are still unhappy with companies’ responses. As a last resort, they may turn for assistance to third-party complaint agencies, such as the Better Business Bureau (BBB). For instance, in 2003 over 737,000 complaints were filed with local BBB offices, a 23.5% increase over the prior year (“BBB Services Nationwide Surged in 2003,” 2004).

Given the prominent role that the BBB plays in resolving consumer complaints, it is not surprising that academic researchers have critically analyzed consumers’ use of the BBB during the past several decades. A wide variety of issues have been addressed in this research area including (1) the frequency of usage of the BBB by dissatisfied consumers (e.g., Andreasen 1988; Day and Landon 1977; TARP 1979), (2) demographic characteristics of consumers who use the BBB (e.g., Best and Andreasen 1977; Cornwell, Bligh, and Babakus 1991; Liefeld, Edgecombe, and Wolfe 1975; Robinson, Valencia, and Berl 1982; TARP 1986), (3) variables that determine consumers’ intentions to seek help from the BBB (Singh 1989; Singh and Wilkes 1996), (4) complaining consumers’ perceptions of appropriate complaint resolutions

(Fisher, Garrett, Arnold, and Ferris 1999), (5) potential improvements in the BBB's operating procedures to encourage greater consumer usage (Cornwell, Bligh, and Babakus 1991; Fisher, Garrett, and Arnold 1977; Owens and Hausknecht 1999), and (6) industry structural characteristics that may impact third-party complaining behavior (e.g., Andreasen 1985; Oster 1980; Singh 1991).

Using this prior research as a foundation, this paper will address two important research issues that should further contribute to our understanding of the pivotal role that the BBB plays in resolving complaints between consumers and companies. First, this study will investigate how often exchange transactions between consumers and companies eventually lead to BBB complaints. All prior research concerning the frequency of BBB complaints has based frequency measurement in terms of how often dissatisfied consumers reported that they sought assistance from the BBB. This approach to frequency measurement based on consumer dissatisfaction has several weaknesses that will be discussed in more detail later in this paper. In contrast, evaluating the frequency of BBB complaints in terms of exchange transactions provides a more uniform and consistent reference point with which to compare the relative performance of different industries. For example, this approach will allow us to determine if an exchange transaction of buying a new car is more likely or less likely to lead eventually to a BBB complaint than an exchange transaction involving building a new house. This measurement approach is also in accordance with the marketing discipline's long tradition of focusing on exchange transactions as one of the fundamental core concepts of marketing (Kotler 1972; Sheth, Gardner and Garrett 1988).

The second objective of this paper is to determine the distribution of BBB complaints across companies within particular industries. While the number of complaints filed with the BBB continues to grow, prior research has never attempted to identify exactly which companies within an industry are the culprits in these escalated complaint situations. At one extreme, some marketing executives may argue that, despite their best efforts, it is impossible to satisfy some customers. If this

perspective is correct, BBB complaints should be fairly broadly distributed with most companies within an industry having a few complaints. However, some business critics may argue that there are some notorious "bad apple" companies in any industry who, because of their outrageous disregard for customer satisfaction, account for the majority of BBB complaints within that particular industry. From this view, an analysis would show a highly skewed distribution with just a few companies accounting for the bulk of BBB complaints. This paper will seek to provide an answer to this question by analyzing the distribution of BBB complaints across companies to determine if a few "bad apples" are indeed responsible for a large proportion of complaints in an industry.

In addition, this study breaks new ground in terms of the methods used to answer these two important research questions. First, this research identifies and analyzes all companies competing in a local market, not just those that had been the targets of BBB complaints as prior research has used (Oster 1980). This provides for a much richer picture of not only which firms are the targets of BBB complaints, but also which firms do not generate BBB activity. Second, using data obtained from proprietary market research organizations, this study directly evaluates the comparative size of these companies (in terms of number of units sold) to determine how firm size may impact the frequency and distribution of BBB complaints. Firm size has been mentioned in the past as a potentially important explanatory variable regarding BBB complaints (Oster 1980), but this is the first study to use actual sales data to measure directly company size. Very importantly, this study will be able to determine if larger companies are more or less likely to be the target of BBB complaints than smaller companies in the same industry.

OVERVIEW

In the next section, the role of the Better Business Bureau in the consumer complaining behavior process will be discussed in more detail. Following that, the specific research questions and hypotheses addressed in this study will be presented, along with the methodology used in this project.

Finally, the results are presented and discussed.

THE BETTER BUSINESS BUREAU AND CONSUMER COMPLAINING BEHAVIOR

One of the first issues that struck the interest of researchers in the customer satisfaction arena was determining the full array of actions consumers may take when they are dissatisfied with their purchases (e.g., Hirschman 1970; Best and Andreasen 1977; Day and Landon 1977). Drawing upon this earlier work, Singh (1988) verified three distinct responses that dissatisfied consumers may pursue—voice responses (e.g., seek redress from seller), private responses (e.g., word-of-mouth communication), and third party responses. In Singh's typology, third party responses were defined as actions consumers may take to involve agencies and organizations that are not direct parties to the complaint dispute, such as the Better Business Bureau.

Focusing specifically on these third party responses, research has consistently shown that dissatisfied consumers use third parties very infrequently to deal with their purchase problems (Andreasen 1988; Reiboldt 2003). For instance, research by TARP (1979) revealed that fewer than 10% of dissatisfied consumers sought assistance from any type of third party complaint agency. However, while the usage of third party agencies may be relatively limited, these complaint situations tend to be very highly charged, often because the purchase price of the product or service in question is quite high (Oster 1980). In addition, these third party complaint situations typically arise only after dissatisfied consumers have made repeated attempts to resolve their complaints through the manufacturer or retail store. In their analysis of consumers who used a local BBB for assistance, Fisher et al. (1999) found that consumers, on average, had contacted their dry cleaning companies 5.7 times, their auto dealers 6.7 times, and their home construction companies 18.1 times before they contacted the BBB. Thus, after these repeated efforts, consumers are often very agitated when they finally seek BBB assistance.

While definitive data are not available, there is some evidence that the BBB is one of the most popular third-party options that dissatisfied

consumers choose (Best and Andreasen 1977). With over 120 local offices in the United States and Canada, the BBB is a readily accessible third-party complaint agency that can address a broad range of consumer-company disputes. While the BBB has no legal power to impose a resolution on companies, it does encourage managers of these allegedly offensive companies to reach a mutually agreeable resolution with dissatisfied consumers. However, because the BBB is funded largely by member companies' dues, some critics have argued that the BBB is biased in favor of companies rather than consumers in these disputes (Munns 1978). Despite this criticism, the use of the BBB by dissatisfied consumers continues to grow rapidly with 500,591 complaints processed in 2001, 626,081 complaints in 2002, and 773,042 complaints in 2003 ("BBB Services Nationwide Surged in 2003," 2004).

Over the years a number of research studies have analyzed the BBB, particularly issues related to consumers' use of the BBB as a complaint resolution option. Some of these studies have profiled the demographic characteristics of consumers who use the BBB (Best and Andreasen 1977; Cornwell, Bligh, and Babakus 1991; Liefeld, Edgcombe, and Wolfe 1975; Robinson, Valencia, and Berl 1982; TARP 1986). These studies have generally found that consumers who complain to the BBB tend to be well educated, affluent, and have managerial or professional occupations. Cornwell, Bligh, and Babakus (1991) noted, however, in their research that Mexican-American consumers' use of the BBB may be substantially different from other demographic groups. For instance, while unsatisfactory service was the leading BBB complaint issue for consumers nationwide, they found that relatively few of the BBB complaints filed by Mexican-American consumers focused on this issue. Instead, Mexican-American consumers' BBB complaints focused most often on delivery delays and damage to goods.

Other studies have focused on explaining the variables that may determine a consumer's intention to seek assistance from third-party complaint agencies (e.g., Singh 1989; Singh and Wilkes 1996). Singh (1989) reported that consumers' expectations of success of third party complaining, attitudes toward complaining, and prior experience with third

party complaining determine to a large extent their intentions to seek third party assistance.

Focusing on behavioral outcomes, Fisher et al. (1999) discovered that dissatisfied consumers who complain to the BBB engage in significantly higher negative word-of-mouth communication and lower repeat purchase intentions compared to satisfied consumers. Also, they found significant gaps between what these dissatisfied consumers perceived to be a fair resolution for their complaints and what companies offered.

In addition, some studies have begun to investigate consumers' perceptions of the effectiveness of the BBB and possible changes to improve BBB procedures (Cornwell, Bligh, and Babakus 1991; Fisher, Garrett, and Arnold 1977; Owens and Hausknecht 1999). For instance, Owens and Hausknecht (1999) found that a simpler complaint process encouraged a higher proportion of dissatisfied consumers to complete the necessary paperwork to file a formal BBB complaint. Fisher, Garrett, and Arnold (1997) found that consumers value highly the company information provided by the BBB to consumers who are evaluating potential companies from whom to buy products. In fact, they found that consumers value this BBB information more highly than the opinions of their friends regarding a particular company.

Finally, researchers have also explored the impact that industry structural characteristics, such as loose monopolies, may have on complaining consumers' use of third-party agencies (Andreasen 1985; Oster 1980; Singh 1991). Oster (1980) reported that BBB complaint activity is highest for products that are purchased infrequently, higher priced, have volatile price levels, and have low income elasticities. She also found that bigger firms with larger local advertising levels tend to generate fewer BBB complaints. Singh (1991) hypothesized that the use of third-party complaint actions would be highest in industries, such as medical care, that display loose monopoly characteristics and lowest in highly competitive industries, such as grocery retailing. However, his results did not show any significant variation of third-party complaint usage across the three industry sectors in his study (grocery retailing, auto repair, and medical care).

In sum, this prior research regarding the BBB has shed considerable light on consumers' use of the BBB as a third-party complaint agency. However, as discussed next, there are several conceptual and methodological limitations of this previous research that should be acknowledged and addressed.

The first limitation in this previous research is the predominant focus on consumers' use of the BBB as an appropriate complaint mechanism. Comparatively little research has specifically concentrated on company or industry characteristics in this research arena (Andreasen 1985; Oster 1980; Singh 1991). This is noteworthy because recent research has stressed that complaint situations involve two parties, consumers and companies, and more emphasis should be placed on the pivotal role that companies play in these disputes (Garrett and Meyers 1996; McAlister and Erffmeyer 2003). By focusing primarily on variables related to dissatisfied consumers who use the BBB, and paying scant attention to the companies who are the targets of these complaints, our view of these contentious complaint situations is decidedly one-sided. Specifically, we have very little empirically-based information concerning exactly which companies in an industry generate BBB complaints.

The second limitation is the overwhelming reliance on evaluating frequency of BBB usage based on the existence of consumer dissatisfaction. That is, previous research has typically evaluated the frequency of BBB usage in terms of "When consumers are dissatisfied, how often do they seek assistance from the BBB?" (e.g., Best and Andreasen 1977; Kolodinsky 1993, 1995; Moyer 1984; Singh 1991; TARP 1986). This measurement approach is perhaps understandable given the strong consumerism tradition from which most previous BBB research has evolved. As a result, however, we are not currently able to answer the equally important question of "How often do exchange transactions eventually result in BBB complaints?" With rare exception (Oster 1980), exchange transactions have been ignored as a potentially very informative baseline for measuring the frequency of BBB usage, especially to compare performance across industries.

The third limitation relates to the socially desirable response bias that may potentially affect

consumers' answers to inquiries regarding the actions they took when they were dissatisfied. Market researchers have long understood that respondents will often provide answers that they believe are socially desirable (Sudman and Bradburn 1974). Although this issue has not been directly tested, it is likely that many respondents believe it is socially desirable to be a vigilant consumer who will assertively pursue complaints through third party agencies. In fact, recognizing this inherent problem, Singh (1989) used a creative "future incident" approach to minimize this socially desirable response risk. Therefore, previous studies that have relied on self-reports from consumers on the frequency of third party complaint usage may be tainted due to this socially desirable response bias.

As explained in the next section, this study will answer several research hypotheses that will add to our knowledge of the frequency and distribution of BBB complaints across companies. At the same time, the methodology used in this study to address these research hypotheses incorporates several advancements that eliminate many of the weaknesses that have limited previous research regarding the BBB.

RESEARCH HYPOTHESES

This study addresses four major hypotheses regarding the frequency and distribution of BBB complaints. As will be described in more detail in the methods section, these hypotheses are tested using data regarding BBB complaints in two industries, franchised auto dealers and new home builders.

The first hypothesis relates to the frequency of BBB complaints across industries. As already discussed, prior research has primarily focused on determining the frequency with which dissatisfied consumers seek help from the BBB. Instead, this study uses exchange transactions as the baseline to determine how often exchange transactions eventually lead to BBB complaints. More specifically, this first hypothesis focuses on the comparative frequency of BBB complaints between the auto dealers industry and the new home builders industry.

H1: As measured in terms of exchange transactions, the frequency of BBB complaints will be significantly higher in the new home builders industry than in the franchised auto dealers industry.

The rationale for this first hypothesis is based on the following four variables which draw primarily upon earlier work regarding the impact of industry structure on third party complaining behavior (Andreasen 1985; Hirschman 1970; Kolodinsky 1995; Oster 1980; Singh 1989, 1991):

a) Purchase frequency: Oster (1980) reported that BBB complaint frequency was higher for products that are purchased infrequently. Similarly, Singh (1991) asserted that loose monopolies with their long repurchase cycles would have higher BBB frequencies. In general, most consumers purchase new homes much less frequently than they buy new or used autos. Therefore, we should expect to see BBB complaints occurring more frequently in the new home building industry than in the auto dealers industry.

b) Pre-purchase evaluation and inspection: When consumers are unable to evaluate and inspect products before purchasing, this is likely to lead to more dissatisfaction and subsequent BBB complaining. This is similar to Singh's (1991) notion of restricted information being a characteristic of loose monopolies. Because consumers typically sign a contract to build a new house before construction even begins, they have less opportunity to evaluate and inspect their purchase than do auto buyers who may test drive the product before purchase. This should then result in BBB complaints occurring more frequently in the home building industry compared to the auto dealers industry.

c) Price: Several studies have noted that consumers are more likely to complain, including using third party agencies, as the price of the product increases (Kolodinsky 1993; Oster 1980; TARP 1986). While autos and homes are both high priced items, the purchase

of a new home is usually considerably more expensive than the purchase of an auto. This relatively higher price should lead to more frequent BBB complaints in the home construction industry than in the auto dealers industry.

d) Formalized complaint systems: Industries vary in terms of the degree of formalized complaint systems that are available for dissatisfied consumers to use to express their displeasure. Oster (1980) argued that firms with higher amounts of fixed capital would have a greater interest in promoting consumer satisfaction and thereby protecting their investments. She specifically highlighted that auto manufacturers regulate and inspect their dealers to ensure that they meet rigorous customer satisfaction guidelines. Therefore, industries with formalized complaint systems are more likely to resolve consumers' complaints before they escalate to the level of BBB involvement. Because the home construction industry has a less formalized structure than the auto dealers industry, the frequency of BBB complaints should be higher in the home builders industry than in the auto dealers industry.

The second hypothesis pertains specifically to the distribution of BBB complaints across companies within an industry. No previous research has investigated if BBB complaints are spread fairly evenly across most companies or concentrated mainly with just a few companies in an industry. With all of the attention and emphasis on customer satisfaction during the past few decades, an argument can be made that managers at all companies surely understand and indeed embrace the notion of addressing consumer complaints in a proactive manner. If this view is correct, BBB complaints would be fairly evenly distributed across most companies in a particular industry.

However, there appears to be a basic perception, even among the most hardened business critics, that most companies do try to satisfy their customers and only a few "bad apple" companies engage in offensive behavior that upsets consumers.

Emblematic of this perception is the closing comment made by Stone Phillips, host of Dateline NBC, in the network's recent hour-long special about deceptive automobile dealers' sales tactics: "Not all car dealers engage in the practices you saw here tonight" ("Car Sales: Tricks of the Trade," 2003). Similar perspectives are held by members of highly criticized industries, such as home building. In a recent story regarding increased consumer complaints about defects in new houses, an executive with the National Association of Home Builders stated, "We don't see that there is a systematic or endemic problem" ("Housewrecked," 2004, p. 27). Personal discussions with BBB managers also support this view. They stated that their experience clearly showed that a few "bad apple" companies tend to generate the bulk of the BBB complaints in any industry. Therefore, the following hypothesis will be tested:

H2: The distribution of BBB complaints across companies in both the auto dealers and home builders industries will be highly skewed with just a few companies generating the majority of complaints.

Assuming that the second hypothesis is supported, the third hypothesis focuses on which companies within an industry will fall into this "bad apples" category. Oster (1980) found that large firms receive relatively few BBB complaints. She argued that these larger firms, with their higher fixed capital bases, would have more incentive to resolve consumers' complaints before they escalated to the level of BBB involvement. However, there is a major methodological weakness in Oster's study which tempers this finding. Oster only analyzed companies that had received at least one BBB complaint during an 18-month period with a participating local BBB office. Those companies that had received zero BBB complaints in that local BBB office's market during that time period were not included in this analysis.

This is noteworthy because more recently Fornell (1995, p. G208) has reported that "the empirical association between a firm's market share and the (mean) satisfaction of its customers is not positive." In other words, as firms grow larger in

size their customer satisfaction levels tend to decline, rather they increase as argued by Oster (1980). Fornell suggested that this occurs because larger firms are less able to provide personalized service for their customers. In addition, he reasoned that larger firms may be more focused on competing with lower prices which may restrict their customer service budgets. Therefore, the third hypothesis states:

H3: The occurrence of BBB complaints is positively correlated with firm size. Larger companies in both the auto dealers and home builders industries will generate more complaints than smaller companies in these industries.

However, managers at larger firms may obviously argue that their companies are more likely to generate more BBB complaints simply due to the greater number of exchange transactions that they have with customers. In essence then, this third hypothesis does not take into consideration the relative size of companies to determine if the rate of BBB complaints is significantly higher in larger companies. Therefore, further analysis will evaluate the rate of BBB complaints (as expressed in terms of the number of BBB complaints received by a company divided by its unit sales volume) and its predicted positive association with firm size:

H4: The rate of BBB complaints is positively correlated with firm size. Larger companies in both the auto dealers and home builders industries will have significantly higher complaint rates than smaller companies in these industries.

RESEARCH METHODS

To address the research hypotheses presented in this study, two specific items of data were required—(1) the identity of all companies competing in the auto dealers industry and new home building industry within a specified market area, and (2) the number of BBB complaints for each of these companies. Executives with a local BBB office that serves a Midwestern state offered

their cooperation and support for this research project. Therefore, information was readily obtained regarding how many BBB complaints were filed against any particular company during a certain time period.

Identifying all of the companies that are competing in the auto dealers and new home building industries in this local BBB office's market was rather problematic. Local BBB offices only have files on companies that are either the target of consumer complaints or the subject of numerous consumer inquiries for company information. Therefore, efforts were instead made to find proprietary research organizations that collect data for all companies in these two industries within this BBB office's territory. This extensive search identified an auto dealer research organization that collects this data for all franchised auto dealers in the same Midwestern state served by the BBB office. A research organization was also found that collects home builder data for an eleven-county area that contains 41% of the housing units (based on the 2000 U.S. Census housing unit count) in this Midwestern state. Company information, including sales performance data, covering a five-year period (1998-2002) for franchised auto dealers and home builders was then purchased from these two research organizations.

One of the major methodological strengths of this study was the inclusion of all companies competing within these specific local market areas served by the BBB office. As noted earlier, Oster (1980) only included those companies that had received at least one BBB complaint. This present study is the first known research effort to gather information for all companies competing in a market, whether or not they had been the targets of BBB complaints.

The following guidelines were established to determine if companies listed in these two proprietary databases (auto dealers and home builders) should be included for analysis in this study. First, auto dealers were included only if they were a franchised new car dealer (i.e., licensed by a major auto manufacturer). Dealers that only sold used cars were not included. For home builders, only builders that focused exclusively on new home construction were included. Companies in both

industries were included only if they had been in business during that entire five-year period (1998-2002) and under the same ownership. Using these qualification criteria, 274 auto dealers and 194 new home builders were included in this analysis.

The total number of complaints filed with the BBB for each company in these two industries during these five years was recorded. In addition, sales performance data, measured as total units sold, was recorded for each company from the proprietary research databases. For auto dealers, this was in terms of number of new and used cars sold; for home builders, this was measured in terms of number of new homes built.

This was also a major methodological advancement over previous research in this general area. Previous research (Oster 1980) relied on indirect measures of firm size, specifically number of employees. The measure of firm size used in this present study (number of units sold) is arguably a preferable measure that better reflects the true nature of exchange transactions.

In the following section, the results of this analysis of the frequency and distribution of BBB complaints in the auto dealers and home builders industries are presented.

RESULTS

Table 1 provides an overview of the number of BBB complaints and sales performance for the 274 auto dealers and 194 home builders for the five years from 1998-2002. In the auto dealer industry, there were 1,044 complaints filed with the BBB, which reflects an average of 3.81 complaints per dealer over this five-year period. With the large volume of sales in this industry (2,224,677 new and used cars sold), the BBB complaint rate was only 1 BBB complaint for every 2,131 cars sold. In the home builders industry there were 94 BBB complaints filed during these five years. This equated to only 0.48 complaints per builder. However, with the relatively lower sales volume of 13,931 new homes built during these five years, this yields a complaint rate of 1 BBB complaint for every 148 new homes built.

To test the first hypothesis regarding the relative frequency of BBB complaints in these two

industries, a Z test for the differences between two proportions was calculated. The resulting Z value of 9.0 is significant at the .005 level. Therefore, as predicted, this result indicates that the frequency of BBB complaints in the home builders industry is significantly higher than in the auto dealers industry.

The distributions of these BBB complaints across companies are shown for the home builders in Table 2 and the auto dealers in Table 3. The second hypothesis regarding the skewness in the distribution of these complaints across companies was evaluated as explained next.

Home Builders (Table 2). The skewness statistic for this complaint distribution was 6.0, reflecting a high degree of positive skewness. These data reveal that 163 builders (84.0%) did not generate any BBB complaints during this five-year period. In contrast, 6 builders generated 7 or more complaints, with 17 complaints recorded for just one home builder. These 6 builders (3.1% of total builders) generated 58.5% of all of the complaints filed with the BBB during this period.

Auto Dealers (Table 3). The skewness statistic for this complaint distribution was 4.8, again reflecting a high degree of positive skewness. As these data show, 38% of these dealers did not have any BBB complaints against them during the entire five-year period. At the other extreme, 9 dealers had 30 or more BBB complaints during this same time period, with the highest total being 73 complaints for one dealer. These 9 dealers (3.3% of total dealers) generated 36.9% of all of the complaints filed with the BBB during this period.

Based on these results, the second hypothesis is accepted. As predicted, the distributions of BBB complaints across companies in both the home builders and auto dealers industries are highly skewed. That is, in both of these industries just a very few "bad apple" companies are responsible for a large proportion of all of the BBB complaints filed by dissatisfied consumers. In contrast, many of the companies in both of these industries have very few, if any, BBB complaints filed against them, even over a fairly long time period of five years.

Given this finding that the distribution of BBB complaints is highly skewed, analysis then shifted to

Table 1
BBB Complaints for Auto Dealers and Home Builders: Five-Year Period (1998-2002)

	Auto Dealers	Home Builders
Number of companies analyzed	274	194
Total units sold	2,224,677 new and used cars	13,931 new homes
Average units per company	8,119.2 cars per dealer	71.8 homes per builder
Range of units sold by company	Minimum = 964 cars Maximum = 103,488 cars	Minimum = 9 homes Maximum = 1,558 homes
Total BBB complaints	1,044 complaints	94 complaints
Average complaints per company	3.81 complaints per dealer	0.48 complaints per builder
BBB complaint rate	1 BBB complaint for every 2,131 new and used cars sold	1 BBB complaint for every 148 new homes built

Table 2
Distribution of BBB Complaints Across Home Builders

Number of BBB Complaints (1998-2002)	Number of Home Builders	Percent of Builders	Cumulative Percent of Total Home Builders	Number of Complaints	Percent of Complaints	Cumulative Percent of Total Complaints
0	163	84.0	84.0	0	0.0	0.0
1	15	7.7	91.8	15	16.0	16.0
2	6	3.1	94.8	12	12.8	28.8
3	4	2.1	96.9	12	12.8	41.6
7	3	1.5	98.5	21	22.3	63.9
8	1	.5	99.0	8	8.5	72.4
9	1	.5	99.5	9	9.6	82.0
17	1	.5	100.0	17	18.1	100.0*
Total	194	100.0		94	100.0	

(* rounded to 100%)

evaluate the third hypothesis regarding the predicted positive correlation between firm size and number of BBB complaints. Pearson correlations were calculated between units sold and number of BBB complaints for companies in the home builders industry and the auto dealers industry. In the home builders industry, the correlation coefficient was .813 which is significant at the .01 level. In the auto dealers industry, the correlation coefficient was .816, again significant at the .01 level. Therefore, these significant positive correlations between firm size and number of BBB complaints confirm the third

hypothesis. In both industries, the numbers of BBB complaints generated are significantly greater in larger companies than in smaller companies.

Finally, to test the fourth hypothesis, Pearson correlations were calculated to measure the association between complaint rate (number of complaints received by a company divided by the company's sales volume) and firm size. The Pearson correlation for the home builders industry was .043, which is not significant at the .01 level. In contrast, in the auto dealers industry the resulting correlation was .160, which is significant at the .01

Table 3
Distribution of BBB Complaints Across Auto Dealers

Number of BBB Complaints (1998-2002)	Number of Auto Dealers	Percent of Dealers	Cumulative Percent of Total Auto Dealers	Number of Complaints	Percent of Complaints	Cumulative Percent of Total Complaints
0	104	38.0	38.0	0	0.0	0.0
1	48	17.5	55.5	48	4.6	4.6
2	33	12.0	67.5	66	6.3	10.9
3	15	5.5	73.0	45	4.3	15.2
4	15	5.5	78.5	60	5.7	20.9
5	12	4.4	82.8	60	5.7	26.6
6	9	3.3	86.1	54	5.2	31.8
7	8	2.9	89.1	56	5.4	37.2
8	4	1.5	90.5	32	3.1	40.3
9	2	.7	91.2	18	1.7	42.0
10	3	1.1	92.3	30	2.9	44.9
11	4	1.5	93.8	44	4.2	49.1
14	1	.4	94.2	14	1.3	50.4
15	1	.4	94.5	15	1.4	51.8
16	1	.4	94.9	16	1.5	53.3
17	1	.4	95.3	17	1.6	54.9
19	1	.4	95.6	19	1.8	56.7
21	1	.4	96.0	21	2.0	58.7
22	1	.4	96.4	22	2.1	60.8
23	1	.4	96.7	23	2.2	63.0
30	4	1.5	98.2	120	11.5	74.5
33	1	.4	98.5	33	3.2	77.7
44	1	.4	98.9	44	4.2	81.9
56	1	.4	99.3	56	5.4	87.3
58	1	.4	99.6	58	5.6	92.9
73	1	.4	100.0	73	7.0	100.0*
Total	274	100.0		1,044	100.0	

(* rounded to 100%)

level. Therefore, the results for the fourth hypothesis are mixed. The results from the auto dealers industry do support the prediction that larger companies have significantly higher complaint rates than their smaller competitors. However, the results from the home builders industry do not support this hypothesis. In this industry, larger companies do not generate BBB complaints at a significantly higher rate than their smaller competitors.

The limitations of this study are described next, followed by a discussion of the implication of these

results.

LIMITATIONS

The results of this study are obviously limited by the inclusion of companies from just two industries, home builders and auto dealers. To strengthen the robustness of these results, similar analysis should be conducted in other industries that generate significant levels of BBB complaints. Two particularly good candidates may be the

Table 4
Detailed Analysis of Home Builders with Highest Number of BBB Complaints

Company	Number of BBB Complaints	Total Number of Homes Built	Size Rank in Industry (1 = largest)	Complaint Rate (1 BBB complaint for every XXX homes built)	BBB Rating
Builder A	17	1,558	1	92	Satisfactory
Builder B	9	352	7	39	Satisfactory
Builder C	8	1,078	2	135	Satisfactory
Builder D	7	1,034	3	148	Satisfactory
Builder E	7	398	4	57	Satisfactory
Builder F	7	72	19	10	Satisfactory
Industry average	0.48	71.8		148	
163 builders with zero BBB complaints	0.0	39.0 (average)			

Table 5
Detailed Analysis of Auto Dealers with Highest Number of BBB Complaints

Company	Number of BBB Complaints	Total Number of Cars Sold	Size Rank in Industry (1 = largest)	Complaint Rate (1 BBB complaint for every XXX cars sold)	BBB Rating
Dealer G	73	63,024	4	863	Satisfactory
Dealer H	58	103,060	2	1777	Satisfactory
Dealer I	56	74,539	3	1331	Satisfactory
Dealer J	44	36,420	9	828	Satisfactory
Dealer K	33	39,748	8	1205	Satisfactory
Dealer L	30	12,757	37	425	Satisfactory
Dealer M	30	103,488	1	3450	Satisfactory
Dealer N	30	44,760	6	1492	Satisfactory
Dealer O	30	10,885	46	363	Satisfactory
Industry average	3.81	8,119.2		2131	
104 dealers with zero BBB complaints	0.0	3,167.4 (average)			

telecommunications industry and Internet services industry, both of which have generated large numbers of BBB complaints in recent years.

A second limitation of this present study was the focus on companies in just one local market and the records of just one local BBB office. While there is no apparent reason to believe that this particular local market is substantially different or unique from other local markets around the United States, caution must still be exercised in generalizing these results to other markets.

A third limitation is the fact that the

geographical coverage areas for the two industries analyzed in this study are not identical. The data for the auto dealers industry encompassed the entire state that is served by the cooperating local BBB office. However, due to restrictions of the research organization from which the sales unit data were purchased, the data for the new home builders industry only covered 41% of this state's area. Even though there is no apparent reason to believe that the results would be different if data for all home builders for the entire state were included, caution must still be used in interpreting the results from this

study.

DISCUSSION

By focusing on exchange transactions, this study offers new insight regarding the frequency and distribution of BBB complaints. This section will discuss the potential importance of these findings for consumer satisfaction theory development, industry regulation, and BBB practices.

Consumer Satisfaction Theory Development

Prior research regarding the frequency of BBB complaints had consistently measured how often dissatisfied consumers sought help from the BBB. While this approach indicated that third party complaint agencies, such as the BBB, were infrequently used by dissatisfied consumers, it did not provide any insight regarding the frequency of BBB complaints in terms of exchange transactions. In particular, prior research could not provide comparative analysis across different industries regarding the frequency of BBB complaints.

This present study now provides some answers in this area of the frequency of BBB complaints when measured against the total number of exchange transactions that occur within industries. As predicted, the results in this study showed that the frequency of BBB complaints is much higher in the new home builders industry than in the franchised auto dealers industry. In other words, consumers are much more likely to end up seeking help from the BBB for their unresolved problems when they build a new house than when they buy a new or used car from a franchised auto dealer.

In terms of theory development, these frequency findings in the home builders and auto dealers industries offer some intriguing possibilities for future research. As discussed earlier, some prior research has used Hirschman's loose monopolies (1970) concept as a potentially useful theoretical framework for explaining differences in consumer complaining activity across industries (Andreasen 1985; Kolodinsky 1995; Oster 1980; Singh 1989, 1991). Drawing from this previous work, this study offered four variables (purchase frequency, pre-purchase evaluation and inspection, price, and

formalized complaint systems) as possible explanatory factors for the differential frequency of BBB complaints between the home builders and auto dealers industries. Clearly, more research is needed on additional industries to determine if these four variables are sufficient for predicting the frequency of BBB complaints.

The findings in this study also raise interesting theoretical issues regarding the relationship between customer satisfaction and market share. As explained earlier, Fornell (1995) indicated that customer satisfaction ratings tend to decline as firms grow in size. The findings in this study provide only mixed support for this purported link between company size and customer satisfaction performance. When the BBB complaint rate (number of BBB complaints divided by company sales volume) is considered, the results from the auto dealers industry were in accordance with Fornell's perspective. Larger auto dealers tended to generate higher BBB complaint rates than their smaller competitors. However, this relationship did not hold true in the home builders industry where no significant relationship between firm size and BBB complaint rate was found.

Therefore, looking beyond a simple analysis of company size, more research is needed to determine why some companies generate more BBB complaints than other competitors in the same industry. In particular, the findings in this study seem to run counter to the "service-profit chain" which asserts that companies with poor customer service records will suffer under the debilitating effects of customer churn and negative word-of-mouth communication (e.g., Heskett, Jones, Loveman, Sasser, and Schlesinger 1994). To explore this further, Tables 4 and 5 overview the six home builders and nine auto dealers in this study that generated the highest numbers of BBB complaints in their industries. For example, Dealer G in the auto industry generated the highest number of BBB complaints ($n = 73$) and had a considerably higher than average complaint rate of one complaint per every 863 autos sold. However, Dealer G still attained the fourth highest sales volume in the industry. Perhaps companies such as Dealer G are experiencing success in their industries using a strategic model that is not based solely on the tenets

of the "service-profit chain." One of the intriguing areas of future research is exploration of the pricing and promotional strategies employed by companies in these industries. These "bad apple" companies may be pursuing a strategic model with a strong dose of aggressive low pricing and heavy advertising that compensates for any ill effects generated by their relatively poor customer service records in their industries.

In addition, these findings raise interesting issues regarding the effects of negative word-of-mouth communication by dissatisfied consumers. Prior research has found that dissatisfied consumers who complain to the BBB tell many other people about their bad experiences with these companies (Fisher et al. 1999). In theory, this negative word-of-mouth communication should cause significant harm to these offensive companies (Bone 1995; Halstead 2002). If this is true, how is it that many of these "bad apple" companies have been able to grow in size even in the face of the negative word-of-mouth communication generated by their dissatisfied consumers who complain to the BBB? Perhaps earlier research (Fisher et al. 1999), which has relied primarily on self-reports from consumers, has overstated the actual amount of negative word-of-mouth communication. Or perhaps this negative word-of-mouth communication may not have the impact on potential consumers in the market that has been earlier believed.

Industry Regulation

As predicted, the bulk of BBB complaints in both the home builders and auto dealers industries are concentrated with relatively few "bad apple" companies. Most companies in both of these industries are apparently able to resolve any dissatisfaction with their customers before these disputes escalate to the point of BBB involvement. Therefore, when critics allege that certain industries are doing a poor job of satisfying their customers, these findings suggest that the fault may indeed reside with just a few "bad apples" who are giving the whole industry a bad name.

In terms of industry regulation, any regulatory efforts to "clean up" poor customer service practices in an industry may be misguided if they are applied

uniformly to all companies in that industry. Instead, these results indicate that any regulatory programs would be better applied if they are targeted directly at the "bad apples" in the industry that, as shown in Tables 4 and 5, generate large numbers of consumer complaints and have significantly higher than average complaint rates. This may be of particular concern to trade association groups that function largely to advance the interests and common welfare of companies in their industry. These trade association groups may need to enforce stronger sanctions on those "bad apples" in their industry to encourage or force them to improve their substandard customer service practices. If not, the unacceptable practices of these few "bad apples" may cause consumers to believe that all companies in that industry are guilty of providing poor customer service.

BBB Practices

These findings also have potential significance for the operating policies and practices of BBB offices. In addition to serving as a complaint agency for dissatisfied consumers, the BBB also functions to provide helpful information regarding company performance to consumers who are in the market to do business with local firms. Given the results in this study, perhaps more efforts should be made by the BBB to inform consumers of their relative risk of having contentious exchange transactions that eventually lead to BBB complaints in certain industries, such as the new home construction industry. BBB offices may consider strengthening their consumer education programs so that more emphasis is placed on explaining to consumers the relative likelihood that transactions in various industries may eventually result in BBB complaints.

Additionally, the BBB should warn consumers to avoid doing business with specific "bad apple" firms that generate inordinately high numbers of BBB complaints in their particular industry. However, the current reporting practices used by most local BBB offices run counter to this ideal goal. Company ratings at most local BBB offices are based on a company's responsiveness to consumers' complaints after the BBB contacts the company. As long as a company responds to BBB

complaints and tries to reach resolutions with complaining consumers, the BBB will typically grant a satisfactory rating to that company. As shown in Tables 4 and 5, all of the highest complaint producing companies in both industries received satisfactory ratings from this local BBB office. If the BBB hopes to maintain its credibility as an effective third party consumer information agency, it should reconsider its ratings system and apply unsatisfactory ratings on those "bad apple" companies that demonstrate a consistent pattern of not acting in their customers' best interests.

CONCLUSION

This is the first study in the customer satisfaction area to analyze the frequency of BBB complaints in terms of exchange transactions and evaluate the distribution of BBB complaints across companies. This study has demonstrated that the frequency of BBB complaints can vary dramatically between industries. Consumers who built new homes were much more likely to seek assistance from the BBB than were consumers who bought cars from a franchised auto dealer. This study also revealed that a minority of companies in both the new home builders industry and the franchised auto dealers industry generated the majority of the BBB complaints in their industries. Most of the companies in both of these industries had few, if any, BBB complaints, even over a five-year period. Additional research, however, is needed to understand more fully why "bad apple" companies tend to generate inordinately high levels of BBB complaints.

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