

**THE IMPACT OF CONSUMER COMPLAINT
BEHAVIOUR ON CUSTOMER DEFECTION**

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**DISSERTATION SUBMITTED IN PARTIAL
FULFILMENT OF THE REQUIREMENTS
FOR THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION**

**SCHOOL OF BUSINESS AND ECONOMY
UNIVERSITY MALAYSIA SABAH**

2004

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DECLARATION

The materials in this thesis are original except for quotations, excerpts, summaries and references, which have been duly acknowledged. This research, I would not be able to complete this research without his guidance.

TAM YIN LING @ ADELINE TAM

I also would like to thank my family, especially my mother for supporting and encouraging in completing my study of Master's Administration. Lastly, I also would like to thank all my friends who are supporting me throughout the study.

PS2002-002(K)-390

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ACKNOWLEDGEMENT

I would like to express my deepest gratitude to Dr. Nelson Oly Ndusidi for his invaluable guidance, comments and time throughout this research. I would not be able to complete this research without his guidance.

I also would like to thank my family, especially my mother for her understanding, supporting and encouraging in completing my study of Master of Business Administration. Lastly, I also would like to thank all my friends who are supporting me throughout the study.

CHAPTER 1 INTRODUCTION	1
1.1 Overview	1
1.2 Research Objectives	2
1.3 Research Methodology	4
1.4 Scope of Study	5
1.5 Significance of Study	5
1.6 Organisation of Study	5
CHAPTER 2 LITERATURE REVIEW	7
2.1 Overview	7
2.2 Definition of Concepts	7
2.2.1 Dissatisfaction	7
2.2.2 Consumer complaint behaviour	10
2.2.3 Defection	15
2.2.4 Switching Costs	17

TABLE OF CONTENTS

	Page
TITLE	i
DECLARATION	iii
ACKNOWLEDGEMENTS	iv
TABLE OF CONTENTS	v
LIST OF TABLES	ix
LIST OF FIGURES	xi
ABSTRACT	xii
ABSTRAK	xiii
 CHAPTER 1 INTRODUCTION	 1
1.1 Overview	1
1.2 Research Problem	2
1.3 Research Objectives	4
1.4 Scope of Study	5
1.5 Significance of Study	5
1.6 Organisation of Study	5
 CHAPTER 2 LITERATURE REVIEW	 7
2.1 Overview	7
2.2 Definition of Concepts	7
2.2.1 Dissatisfaction	7
2.2.2 Consumer complaint behaviour	10
2.2.3 Defection	16
2.2.4 Switching Costs	17

2.3	Previous Studies on the Relationship between Dissatisfaction,	94
4.2	Consumer Complaint Behaviour and Defection	19
2.4	Summary	24
CHAPTER 3 RESEARCH FRAMEWORK AND METHODOLOGY		25
3.1	Overview	25
3.2	Research Framework	25
3.3	Definition of Variables	26
3.3.1	Dissatisfied complaint action	26
3.3.1.1	<i>Public complaint</i>	27
3.3.1.2	<i>Private complaint</i>	27
3.3.2	Customer defection	27
3.3.3	Demography	28
3.3.4	Switching costs	28
3.4	Hypotheses	28
3.5	Type and Nature of Study	30
3.6	Unit of Analysis	30
3.7	Instrument	30
3.8	Population of Sample	33
3.9	Data Collection Method	34
3.10	Data Analysis	34
3.11	Summary	36
CHAPTER 4 RESEARCH FINDINGS		37
4.1	Overview	37
4.2	Respondents Profile	37
4.3	Reliability of Measures	41
4.4	Recoded Categorical Data	42

4.5	Descriptive Statistic of Variables	44
4.6	Test of Differences	45
4.6.1	Test of differences of demography variables on public complaint	45
4.6.2	Test of differences of demography variables on private complaint	47
4.6.3	Test of differences of demography variables on defection	49
4.6.4	Test of differences of demography variables on switching cost	51
4.6.5	Oneway Anova test	53
4.7	Testing of Hypotheses	54
4.7.1	Hypothesis testing using multiple regression	54
4.7.2	Moderating effect testing using hierarchical regression	57
4.8	Summary	64
CHAPTER 5	DISCUSSION AND CONCLUSION	65
5.1	Overview	65
5.2	Discussion	65
5.2.1	Discussion on the descriptive statistic of variables	66
5.2.2	Discussion on the results of test of difference	67
5.2.3	Discussion on the results of hypothesis testing	68
5.3	Implications of Study	71
5.3.1	Implications to managers	71
5.3.2	Implications to researchers	73
5.4	Limitations of Study	73
5.5	Suggestions for Future Research	74
5.6	Conclusion	76
REFERENCE		77
APPENDIX A		A1
APPENDIX B		B1

APPENDIX C	LIST OF TABLES	C1
APPENDIX D		D1
APPENDIX E		E1
APPENDIX F		F1

Table 3.2: Statistical Methods for Hypothesis Testing	35
Table 4.1: Response Rate of Respondents	37
Table 4.2: Profile of The Respondents	38
Table 4.3: Types of Services Used	39
Table 4.4: Name of Bank	39
Table 4.5: Frequency Of Personal Bank Services in a Month	40
Table 4.6: Reliability Test of Variables	41
Table 4.7: Variables After Screening	41
Table 4.8: Pearson's Correlation Coefficient	41
Table 4.9: Descriptive Statistics of Variables	43
Table 4.10: Descriptive Statistics of Variables – Private Company	45
Table 4.11: Means and Standard Deviation – Public Company	47
Table 4.12: Means and Standard Deviation – Private Company	47
Table 4.13: Independent Sample Test for Private Company	48
Table 4.14: Means and Standard Deviation – Detection	48
Table 4.15: Independent Sample Test for Detection	50
Table 4.16: Means and Standard Deviation – Swelling Cost	51
Table 4.17: Independent Sample Test for Swelling Cost	52
Table 4.18: Summary of Results of Independent T-Test	53
Table 4.19: Cronbach's Alpha – Regret	55
Table 4.20: Post-Hoc Tests: Pairwise	56
Table 4.21: Regression With Moderating Effect	56
Table 4.22: Regression With Moderating Effect – Regret	58
Table 4.23: Regression With Moderating Effect – Age	59

LIST OF TABLES

Table 3.1	Literature for Constructing the Questionnaires	31
Table 3.2	Summary of Questionnaires	32
Table 3.3	Statistical Methods for Hypothesis Testing	35
Table 4.1	Response Rate of Respondents	37
Table 4.2	Profile of The Respondents	38
Table 4.3	Types of Services Used	39
Table 4.4	Name of Bank	39
Table 4.5	Frequencies Of Patronize Bank Services in a Month	40
Table 4.6	Reliability Test of Variables	41
Table 4.7	Variables After Recoding	43
Table 4.8	Recoded Weekly Patronage	43
Table 4.9	Descriptive Statistic of Variables	45
Table 4.10	Means and Standard Deviation – Public Complaint	46
Table 4.11	Independent Sample Test for Public Complaint	47
Table 4.12	Means and Standard Deviation – Private Complaint	47
Table 4.13	Independent Sample Test for Private Complaint	48
Table 4.14	Means and Standard Deviation – Defection	49
Table 4.15	Independent Sample Test for Defection	50
Table 4.16	Means and Standard Deviation – Switching Cost	51
Table 4.17	Independent Sample Test for Switching Cost	52
Table 4.18	Summarised Result of Independent T-Test	53
Table 4.19	Oneway Anova – Races	53
Table 4.20	Post Hoc Tests, Duncan	54
Table 4.21	Regression With No Moderating Effect	56
Table 4.22	Regression With Moderating Effect – Sex	58
Table 4.23	Regression With Moderating Effect – Age	59

Table 4.24 Regression With Moderating Effect – Marital Status	59
Table 4.25 Regression With Moderating Effect – Education	60
Table 4.26 Regression With Moderating Effect – Income	61
Table 4.27 Regression With Moderating Effect – Switching Cost	62
Table 4.28 Summary of Research Findings	63



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LIST OF FIGURES

Figure 2.1 Post Evaluation Response: Dissatisfaction	13
Figure 2.2 Retail Banking Studies Supporting Keaveney (1995)	22
Figure 3.1 Research Framework	25



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ABSTRACT

THE IMPACT OF CONSUMER COMPLAINT BEHAVIOUR ON CUSTOMER DEFECTION

This research is done in the area of post purchase behaviour in the marketing field. This research was carried out in Kota Kinabalu, Sabah, Malaysia by collecting the primary data from bank customers. This research tries to determine if there is a relationship between customer complaint and defection if the customers were dissatisfied. The model is adapted from Day (1977) and Colgate and Hedge (2001), and modified to suit the setting of this study. Results of this research showed that the dissatisfied consumer complaint action was positively correlated with defection. Dissatisfied consumer complaint could explain 28.2% of variance in defection. Nevertheless, most demography variables (gender, age, marital status and education) were not moderating the relationship except income, which moderate the relationship between private complaint and defection. The switching cost also did not moderate the relationship between dissatisfied consumer complaint and defection. This study has implications to the bank manager that they must try to encourage the customers to complaint directly to them. This research also gives future researchers a new dimension of research.

ABSTRAK

IMPAK GELAGAT ADUAN PENGGUNA PADA PELANGGAN DEFECTION

Kajian ini dilakukan dalam lingkungan gelagat lepas pembelian dalam bidang pemasaran. Kajian ini telah dijalankan di Kota Kinabalu, Sabah, Malaysia dengan memungut data primari daripada pelanggan bank. Kajian ini cuba untuk memastikan jikalau terdapat satu hubungan antara aduan pelanggan dan **defection** jika pelanggan tidak berpuashati. Model ini diambil daripada Day (1977) dan Colgate and Hedge (2001), serta diubahsuai untuk menyesuaikan kepada bidang kajian ini. Keputusan kajian ini menunjukkan bahawa tindakan aduan tidak puashati pelanggan adalah berkolerasi secara positif dengan **defection**. Aduan tidak puas hati pengguna boleh menjelaskan 28.2% daripada varian dalam **defection**. Namun demikian, kebanyakan data demografi (jantina, umur, taraf perkahwinan dan pendidikan) tidak dapat mempengaruhi hubungan ini kecuali pendapatan yang boleh mempengaruhi hubungan antara aduan persendirian dan berhenti. Kos mengubah juga tidak mempengaruhi hubungan antara tindakan aduan tidak puas hati pelanggan dengan **defection**. Kajian ini ada implikasi kepada pengurus bank agak mereka mesti cuba untuk menggalakkan pelanggan untuk adu secara terus kepada mereka. Kajian ini juga memberi pengkaji akan datang satu dimensi kajian baru.

CHAPTER 1

INTRODUCTION

1.1 Overview

Consumer behaviour is an interesting topic in marketing field. Consumer behaviour has been explored to gain more understanding on consumer preference and needs. In Malaysia, characterised by the diversity of ethnicity and culture, the study of consumer behaviour is even more important to marketers, in order for them to correctly address consumer preference and needs. Besides that, the understanding of consumer behaviour will assist the company to retain its customers.

Retention of customers is an important issue, particularly in a service-oriented industry because losing a customer can be very costly. The results of customer defection include decrease in revenue, higher costs in attracting new customers, loss of free advertising through positive Word-of-Mouth and decrease employee retention (Colgate & Norris, 2001). It is especially identical as researchers found that the cost to gain a new customer could be as high as five times to retain an existing one (Fundin & Bergman, 2003; Desatnick (1988) in Boldgett *et al.*, 1995). Reichheld and Sasser (1990) demonstrated that a 5% decrease in customer defections could translate into 25-85% increase in profits, depending on the service industry (Lee and Cunningham, 2001). Colgate and Hedge (2001) pointed out that losing customers could have a negative effect on a bank's market share too. Thus, company should try to retain the consumer as the key to survive and for the long-term growth of the company.

Customer retention is driven by customer satisfaction (Roland & Zahorik, 1993). So, ensuring customer satisfaction is a non-debatable way to retain customer. Nevertheless, all companies experience some degree of consumer

dissatisfaction (Fisher *et al.*, 1999). Since dissatisfaction would lead to consumer defection, the understanding of consumer behaviour following the dissatisfaction is a crucial issue to study.

1.2 Research Problem

An important success factor in retaining customer is to generate customer satisfaction. Roland and Zahorik (1993) proved that customer satisfaction linked sequentially to individual loyalty and aggregate retention rate. They also pointed out that improving customer satisfaction is not necessarily an expenditure of funds, but a change in the ways the firm does business. In other words, improving the weaker part of the services provided to customer will further improve customer satisfaction with very low cost.

Anyway, satisfying customers is a difficult task as the needs and expectation of every customer differs. In the services based industry such as banking and finance industry, which depends on excellent customer service to succeed, satisfying customer become even more critical. Thus, a company could not assume that they do not have any dissatisfied customers. Amount of dissatisfied customers may be high but unnoticed. Eccles and Durand (1998) pointed out that most companies would have at least one in ten customers who are not satisfied with the service received.

Consumer dissatisfaction after sales must be addressed to provide good customer service and encourage repeat sales, as well as store loyalty (Broadbridge & Marshall, 1995). Thus, it is important to know how consumer will behave after feeling dissatisfaction on the product or service received. All types of consumer responses to express the dissatisfaction after a purchase are regard as consumer complaint.

In Malaysia, complaint has been negatively perceived and consumers are discouraged to complain. Companies always neglect the importance of complaint and do not provide channel for consumers to express dissatisfaction. Some companies do provide such channel but it is not fully utilised by consumers. Thus, instead of complaining directly to the product or service provider, the consumers will choose to complain indirectly to third parties. Therefore, the company might not be aware of the dissatisfaction among the consumer due to lack of direct complaint. The ignorance of consumer complaint may lead to serious problems. Complaints, in huge amount, could result in loss of market share of a company (Broadbridge & Marshall, 1995).

Company should not have negative perception on consumer complaint because consumer complaint reflects customer dissatisfaction. Johnston (2001) explained that complaints are a natural result of any service activity since human mistakes are unavoidable. Complaint should be positively regarded as a kind of feedback from customers that generate information to improve the effectiveness of customer service (Bennett, 1997). Complaint also can be used for quality assurance decisions (TARP¹, 1997). Besides that, the importance of studying consumer complaining behaviour is the potential impact on other key marketing phenomena, such as brand, store loyalty and repurchase intentions (Broadbridge & Marshall, 1995).

In view of the importance of complaint, consumer complaint behaviour is gaining more and more attention since the year 1970's. Learning on how consumers behave in case of dissatisfaction is an important area in the study of consumer post purchase behaviour. Researchers also acknowledged that consumer complaint behaviour would influence the consumers' decision to exit (Colgate & Hedge, 2001).

¹ TARP is the Technical Assistance Research Program, which has done numerous researches from the 1970s in almost every industry and 20 countries (Goodman, 1999).

In the past three decades, many researchers had study on consumer complaint behaviour, such as Liu and McClure (2001); Kim *et al.* (2003); Heung and Lam (2003); Nyer (2000); Fisher *et al.* (1999); Eccles and Durand (1998); Bennett (1997); Broadbridge and Marshall (1995); Boldgett *et al.* (1995); Singh and Pandya (1991); Singh and Widing (1991); Singh (1991); Singh (1990b); Bearden and Oliver (1985); Bearden (1983); and Warland *et al.* (1975).

Nevertheless, most of the studies were conducted in United States, and relatively little emphasis in an Asian context (Keng *et al.*, 1995). Thus, study on the consumer complaint behaviour in Asia, particularly Malaysia, will give further insight into the understanding of consumer post purchase behaviour. This paper hopes to provide empirical evidence on the relationship between consumer complaint and defection in the banking and finance industry in Kota Kinabalu, Sabah, Malaysia. This research investigated:

- i. **To what extent the dissatisfied consumer complaint will influences the customer defection;**
- ii. **To what extent do moderating variables moderate the relationships between dissatisfied consumer complaint behaviour and defection.**

1.3 Research Objectives

The importance of understanding the consumer complaint behaviour in Kota Kinabalu, Sabah leads to the objectives of this study. The objectives are as follow:

- i. To understand how consumer react to dissatisfaction vis-à-vis their complaint behaviour.
- ii. To assess the effect of complaint on customer defection.
- iii. To examine the moderating effects of the demography (such as sex, age, marital status, education and income) and situation variable on the relationship between dissatisfied consumer complaint and defection.

1.4 Scope of Study

This study attempted to determine the style of consumer complaint behaviour and its relationship with consumer defection among customers of banking and financing industry in Kota Kinabalu, Sabah. Thus, primary data were collected from banking customers. The respondents of study randomly selected from the banking customer in Kota Kinabalu area and also from convenience sampling. The banks chosen for doing the random selection in this study included overseas bank in Malaysia and domestic bank. The chosen banks are Hong Kong & Shanghai Bank Berhad (overseas bank) and Malayan Banking Berhad (local bank). Respondents from other banks also collected through convenience sampling.

1.5 Significance of Study

This study was to further the understanding in the area of consumer post purchase behaviour in marketing management. In addition, the study was able to contribute to customer management by identifying the relationship between dissatisfied complaint action and defection among bank customers. This study also aimed at giving recommendation to managers in handling consumer dissatisfaction, complaint as well as defection.

1.6 Organisation of Study

This study paper is organised by chapters. **Chapter 1** presented the introduction of this study, which will give the reader an overview of the study. **Chapter 2** reviewed the literatures in this area to gain a better understanding of the concepts in this study, as well as the important conclusions and results drawn by previous researchers. While **Chapter 3** indicated the research framework and methodology used in the research. This chapter laid the foundation of this dissertation and it provided a firm direction where, what and how this study should be carried out. The finding and detail analysis of this study were presented in **Chapter 4**, while **Chapter**

5 discussed the findings, limitations, implications and concluding remarks. Besides that, this chapter also included some suggestions for future research in this area.

LITERATURE REVIEW

Overview

This chapter will provide the theoretical review in the area of organizational commitment including and selection. The definitions, antecedents and consequences of the study variables in this chapter are also explained in the chapter.

Definition of Commitment

Organizational commitment is a psychological state that reflects an employee's identification with, involvement in, and loyalty to the organization. It is a multi-dimensional construct that includes cognitive, affective, and behavioral components.



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2.1.1 Commitment

Commitment is a psychological state that reflects an employee's identification with, involvement in, and loyalty to the organization. It is a multi-dimensional construct that includes cognitive, affective, and behavioral components. According to Allen and Meyer (1993), commitment is a multi-dimensional construct that includes cognitive, affective, and behavioral components. It is a psychological state that reflects an employee's identification with, involvement in, and loyalty to the organization. It is a multi-dimensional construct that includes cognitive, affective, and behavioral components.

According to Allen and Meyer (1993), the three-dimensional model of commitment includes cognitive, affective, and behavioral components. It is a psychological state that reflects an employee's identification with, involvement in, and loyalty to the organization. It is a multi-dimensional construct that includes cognitive, affective, and behavioral components. According to Allen and Meyer (1993), the three-dimensional model of commitment includes cognitive, affective, and behavioral components. It is a psychological state that reflects an employee's identification with, involvement in, and loyalty to the organization. It is a multi-dimensional construct that includes cognitive, affective, and behavioral components.

CHAPTER 2

LITERATURE REVIEW

2.1 Overview

This chapter outlines the literatures review in the area of satisfaction, consumer complaint behaviour and defection. The definitions of concepts and the discussion of the relationship of these concepts are also included in this chapter.

2.2 Definition of Concepts

Important concepts in this study, such as dissatisfaction, consumer complaint behaviour, defection and important variables that influence consumer complaint behaviour are defined in the following paragraphs.

2.2.1 Dissatisfaction

In order to better understand the word “dissatisfaction”, the definition of satisfaction is being reviewed. Satisfaction is determined to a significant extent by the disconfirmation or confirmation of consumer expectations (Bearden & Oliver, 1985; Cornwell *et al.*, 1991). Day (1977) pointed out that most researchers have viewed satisfaction as a continuum related to the confirmation or disconfirmation of expectation of product performance.

According to Hsieh (1996), the disconfirmation model has been widely accepted with many researchers try to define satisfaction further using this model. The disconfirmation model focuses on the condition where the product disconfirms expectation. If the product disconfirms expectation by exceeding it, consumer experience satisfaction; In contrast, if product disconfirms expectation by falling short of expectation, dissatisfaction

arouses (East, 1997; Stewart, 1998a). Keng *et al.* (1995) defined that dissatisfaction is occurs if product performance, expressed in terms of attributes or outcome evaluation, is below anticipated levels. In line with the disconfirmation model, Michel (2001) defined dissatisfaction among the servicing industry as the disconfirmation of service expectations caused by the services failure. The expectations are determined by factors such as advertising, prior experience, personal needs, Word-of-Mouth and the image of the service provider (Michel, 2001), while service failure is the problem that a customer has with a service (Colgate & Norris, 2001).

Peyrot (1994) explained that consumers form pre-purchase expectations regarding a product and will form evaluation of this product in the post purchase stage, consumer will generate dissatisfaction if product do not meet the expectation. Broadbridge and Marshall (1995) provided similar definition by trying to related satisfaction with the quality of product. They stated that consumer dissatisfaction is the result of the discrepancy between expected and realized performance, with an attribute.

Roland and Zahorik (1993) pointed out that satisfaction is generally defined to depend on a comparative judgment against some standard, which depends upon disconfirmation of expectations. Thus, dissatisfaction may be due to inherently poor service, or perhaps to the continuation of a once-acceptable level of service that no longer meets customer expectations, due to competitive marketing of improved standards or changing customer tastes. (Roland & Zahorik, 1993)

Other researchers try to expand the definition of dissatisfaction by adding conditions. Singh and Pandya (1991) explained that consumer dissatisfaction is the combine consequence from two conditions, the discrepancy between expectations and performance, and the importance of

this discrepancy to consumer. In other words, the level of dissatisfaction is co-determined by the importance of the discrepancy to consumer.

The confirmation model of customer satisfaction is basically contrast with the disconfirmation model. East (1997:195) pointed out that early definition of “satisfaction” is interpreted in the confirmation model of consumer satisfaction as meeting consumer expectation. He comments that confirmation model relates satisfaction with habitual usage, “consumer contentment and discontent are not normally overtly expressed and only become manifest when people are questioned, or when other factors raise the salience of a product’s performance”. This confirmation model implies that dissatisfaction may be ignored because of habituation. The inadequacy of this model to explain satisfaction further has lead to the development of other theories.

Another important definition was proposed by Oliver (1997:13) that, “satisfaction is the consumer’s fulfilment response. It is a judgement that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfilment”. This definition implies that satisfaction is related with a pleasurable experience of consumer and is the consequence of the fulfilment process, whereas dissatisfaction is the unpleasant experience in the process. The unpleasant experience is one of the significant reasons consumers decide to venture into complaint responses.

Equity theory also could be used to explain satisfaction by interpreting the exchange process. Consumer, who expects a certain level of distributive justice or fairness in exchanges, will compare their own input (cost) and output (benefits of product or service) with the input and output of other social actor (e.g. other consumers or seller) (Oliver 1997). Satisfaction

is the consequence of the perception of fairness, while unfairness will leads to dissatisfaction (Homburg *et al.*, 2002).

As researchers try to define dissatisfaction as the contrast of satisfaction, Friman and Edvardsson (2003) proposed that dissatisfaction is not the opposite of satisfaction. They are applying Herzberg Two-Factor (Motivator-Hygiene) Theory of job satisfaction to explain their view. In the Herzberg Two Factor Theory, the dissatisfiers (e.g. company policy) that caused job dissatisfaction are different from satisfiers (e.g. responsibility) that bring job satisfaction. Thus, the absent of dissatisfiers will cause dissatisfaction whereas the absence of satisfiers does not (Tuten & August, 1998).

The various models and theories proposed by previous researchers show that satisfaction and dissatisfaction have been a popular area of research focus and will continue to capture attention of researchers in the future.

2.2.2 Consumer complaint behaviour

Consumer complaint behaviour is also known as “consumer complaint responses” (Singh & Widing, 1991). Crie (2003:61) defined that consumer complaint behaviour is a process that “constitutes a subset of all possible responses to perceived dissatisfaction around a purchase episode, during consumption or during possession of the goods or services”. He argued that consumer complaint behaviour is not an instant response, but a process, which does not directly depend on its initiating factors but on evaluation of the situation by the consumer and of its evolution over time.

Broadbirdge and Marshall (1995) explained that consumer complaint behaviour is a distinct process, which begins when the consumer has evaluated a consumption experience (resulting in dissatisfaction) and ends

when the consumer had completed all behavioural and non-behavioural responses.

Singh and Widing (1991) proposed a definition that consumer complaint behaviour included all potential behavioural responses that a consumer may utilise to deal with his/her dissatisfaction. Singh (1990b) identified consumer complaint behaviour as the consumer dissatisfaction response style. Thus, complaint is actually the response following the consumer dissatisfaction. These responses/actions include among others, switching patronage, telling friends and family and complaining to a consumer agency.

Other definitions suggested by researchers included below:

Fornell and Wernerfeit (1987) consider that the complaint is “an attempt of the customer to change an unsatisfactory situation” (in Crie, 2003).

Jacoby and Jaccard (1981) defined complaint behaviour as an action taken by the consumer that involves in communicating something negative regarding a product or service, either towards the company or towards a third entity.

Day *et al.* (1981) explained that consumer complaint behaviour is the “consequence of a given act of consumption, following which the consumer is confronted with an experience generating a high dissatisfaction, of sufficient impact so that it is, neither likened psychologically, nor quickly forgotten” (in Crie, 2003).

Mason and Himes (1973), who are among the earliest researchers, defined consumer complaint behaviour as any dissatisfaction with an appliance purchased and for which a consumer seeks relief from an outlet in the channel of distribution. As define, complaint is triggered by dissatisfaction

in the post purchase phase and complaint responses are to seek redress to distress from negative feeling.

Anyway, many researchers argued that some consumers may not complaint even though dissatisfied (Warland *et al.*, 1975; Singh, 1991; Liu & McClure, 2001; Heung & Lam, 2003; Broadbridge & Marshall, 1995; Volkov *et al.*, 2002; Chiu *et al.*, 1987; Kolodinsky, 1995; Bearden & Oliver, 1985; Bearden, 1983). Therefore, Volkov *et al.* (2002:320) defined consumer complaint behaviour as “the set of all behavioural and non-behavioural responses portrayed by consumers, which involve the communication of negative perceptions relating to a consumption episode and triggered by dissatisfaction with that episode”. Behavioural responses involving all actions intended to express dissatisfaction, while non-behavioural responses happens when the problem is forgotten and no action is taken (Liu & McClure, 2001).

In order to better categorize the consumer complaint action, previous researchers had suggest a few typologies in categorizing the consumer complaint action based on the response styles. Mason and Himes (1973) categorized the response styles into action group and no action group. The consumers who complaint to member/s of distribution (e.g. retailer or seller) with intention to seek relief are classified as action group. While others, are classified as no action group.

Another study done by Warland *et al.* (1975) categorized the consumer complaint behaviour into upset action and upset no action. Consumers might not complain, even though they are dissatisfied, he concluded them as the upset but no action group. Otherwise, they are in upset action category. This classification still remains relevant and basic to the study of consumer complaint behaviour till today, even though subsequent researchers have used different labels for these styles, such as