

# Public versus private complaint behaviour and customer defection in Malaysia: Appraising the role of moderating factors

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## Abstract

*This research examines the relationship between public complaint (i.e. complaining to the organization) and private complaint (complaining to family members and friends without a word to the organization) on customer defection. The research also investigates the moderating effect of ethnicity, income and switching cost in this relationship. A survey of 218 randomly selected customers of banks in Malaysia was conducted. Hierarchical Multiple Regression Method was used for data analysis. The results show that both public and private complaints are significantly associated with defection, albeit private complaint had a stronger impact. Ethnicity and switching cost do not moderate the observed relationships. Income has a significant moderating effect in the relationship between private complaint and defection. Low income earners are more likely to defect without complaining to the bank than high income earners. Key implications of the findings are discussed.*

**Keywords:** Private complaint, public complaint, customer defection, retail bank customers, Malaysia.

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## Introduction

Marketing literature has for long argued that retention of customers is an important issue because losing a customer can be very costly. The results of customer defection include loss of free positive Word-of-Mouth, loss of market share, higher costs of attracting new customers, decrease in revenue, and decrease in employee retention (Colgate and Hedge 2001; Colgate and Norris 2001; Ndubisi, Malhotra, and Chan 2008; Reichheld and Sasser 1990). Marketing scholars have also argued that the cost of gaining a new customer could be as high as five to six times the cost of retaining an existing one (Blodgett, Wakefield, and Barnes 1995; Desatnick 1988; Fundin and Bergman 2003; Rosenberg and Czepiel 1983). It has also been demonstrated that a 5% decrease in customer defections could translate into 25-85% increase in profits (Reichheld and Sasser 1990), depending on the service industry (Lee & Cunningham 2001).

In the past three decades, researchers have examined differences between consumer complaining and non complaining behavior in terms of individual differences such as demographics (Bearden and Oliver 1985; Singh 1990b), personality factors, e.g. assertiveness, consumer alienation (Bearden and Mason 1984; Singh 1990b), attitude toward complaining (Bearden and Oliver 1985; Singh 1990), and situational factors, e.g. cost-benefit evaluations, consumer experience, probability of successful redress, attributions of blame (Folkes 1984; Bearden and Oliver 1985; Folkes, Koletsky, and Graham 1987; Singh 1990; Stephens and Gwinner 1998). In recent years, researchers have conducted studies on consumer complaint behavior mostly looking at the different types of complaint actions of customers (e.g. Broadbridge and Marshall 1995; Blodgett, Wakefield, Barnes. 1995; Eccles and Durand 1998; Fisher, Garrett, Arnold, and Ferris 1999; Nyer 2000; Liu and McClure 2001; Kim, Kim, Im, and Shin 2003; and Heung and Lam 2003; Bennett 1997).

However, a review of the extant literature indicates a dearth of research effort in understanding the impact of different complaint behaviors, namely public versus private complaint, on customer defection or reten-

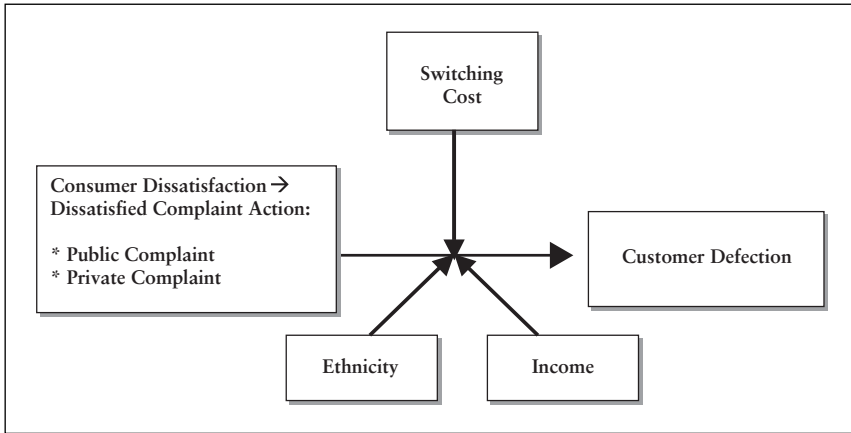
tion (see Bearden and Oliver 1985 for exception). Customer retention is driven by customer satisfaction (Roland & Zahorik 1993) and dissatisfaction is a key reason why customers defect. All companies experience some degree of customer dissatisfaction (Fisher, Garrett, Arnold, and Ferris 1999), but not all of them get a chance to resolve the problem. Our first objective is to examine, between public and private complaints, which is a better predictor of customer defection? This is a critical issue as research examining consumer dissatisfaction has revealed that up to two thirds of consumers do not report their dissatisfaction (Warland, Herrmann, and Willits 1975; Day and Landon 1976; Andreason 1985; Stephens and Gwinner 1998). These customers either resign themselves to taking no action and willing to live with poor service or they may quietly engage in private complaint behavior by either quietly switching providers or engaging in negative word-of-mouth communication or both (Singh 1988). If customers are unwilling to engage in public complaint with respect to their dissatisfying experiences, the organization is denied a chance to make amends and improve on service quality. Organizations are to encourage customer complaints because complaints provide the firm opportunities to appease and retain dissatisfied customers (Fornell and Wernerfelt 1987). Such understanding will help practitioners in developing effective strategies to check customer defection and to improve customer retention.

Our second objective is to examine the moderating influence of three variables in the relationship between public vs. private complaint behavior and customer defection, namely, switching cost, income, and ethnicity. *First*, we argue that when switching costs are high, both private and public complaints will have little or no impact on customer defection. Rusbult et al. (1988) reason that the likelihood that a customer will engage in defection depends on the degree of prior satisfaction with the relationship, the magnitude of the person's investment in the relationship and an evaluation of the alternatives one has. The more investment customers make in a business relationship, the more difficult they find it to discontinue the ser-

vice or product, especially if they are not sure how a new relationship will turn out. Such investment by customers and trustworthiness of the organizations can act together or severally to raise switching cost for customers. *Second*, income is another variable that can potentially moderate the association of private and public complaints on defection. It is not uncommon for high net worth bank customers in Malaysia to get quality audience from services providers regarding their grievances than lower income customers. Such quality audience can be a motivation for the former to engage in public complaint (complaint to the organization) while lack of attention to the latter can lead to private complaints (to family and friends). *Third*, since most of the customer complaint behavior studies have been conducted from the West (Keng, Richmond, and Han 1995), extant literature is almost silent on the role of culture in moderating the influence of complaint dimensions (i.e. public versus private complaint) on customer defection. The Chinese business culture is marked by strong personal connection (*guanxi*), interpersonal harmony (*renji hexie*), and holistic thinking (*zhengti guannian*), which co-integrate and synergize themselves holistically to smoothen business relationships and business processes (Pek and Ndu 2006). It is therefore important to examine how ethnicity (Chinese versus non-Chinese) affects the relationship between private and public complaints and defection.

We first discuss the research framework that examines the relationship of public versus private complaints on customer defection and the moderating roles played by switching cost, income, and ethnicity. Hypotheses based on theoretical considerations are developed subsequently. The schema of the research model is shown as Figure 1.

Figure 1. Research Framework



### Consumer Dissatisfaction

In order to better understand the word “dissatisfaction”, it will help to consider the term “satisfaction”. Satisfaction is determined to a large extent by the disconfirmation or confirmation of consumer expectations (Bearden & Oliver 1985; Cornwell, Bligh, and Babakus 1991). According to Hsieh (1996), the disconfirmation model has been widely accepted, and many researchers have tried 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, customer experience satisfaction; in contrast, if product disconfirms expectation by falling short of expectation, dissatisfaction arouses (East 1997; Stewart 1998). Michel (2001) defines dissatisfaction among the service industry as the disconfirmation of service expectation caused by the service 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

and Doris (1994) explain that consumers form pre-purchase expectations and post-purchase evaluations and that dissatisfaction is generated when evaluations do not meet expectations. Broadbridge and Marshall (1995) provide similar definition by trying to relate satisfaction with the quality of product. They state that consumer dissatisfaction is the result of the discrepancy between expected and realized performance, with an attribute. Dissatisfaction is thought to culminate to different complaint behaviors or responses.

### Dissatisfied Complaint Action

Customer complaint behavior is also known as customer complaint responses (Singh & Widing 1991). Crie (2003:61) defines consumer complaint behavior as 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 argues that complaint behavior 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. Broadbridge and Marshall (1995) explain that consumer complaint behavior 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-behavioral responses.

Singh and Widing (1991) propose a definition that consumer complaint behavior includes all potential behavioral responses that a consumer may utilize to deal with his/her dissatisfaction. Singh (1990a) identifies consumer complaint behavior as the consumer dissatisfaction response style. Thus, complaint is actually the response following the consumer dissatisfaction. These responses/actions include *voice*, that is, response directed towards salesperson, retailer, service provider; *private*, that is, negative word-of-mouth communication to friends and family and exit from exchange relationship or switching patronage; and *third party*, that is, complain to formal agencies not involved in the exchange relationship,

e.g. complaining to a consumer agency. Some scholars have categorized complaint action into two groups: action versus no action. For example, Mason and Himes (1973) categorize the response styles into action group and no action group, while, Warland, Herrmann, and Willits (1975) categorize the consumer complaint behavior into upset action and upset no action. They argued that consumers might not complain, even though they are dissatisfied; they regard them as the upset but no action group. Otherwise, they are in upset action category. Consistent with Singh (1990), we argue that complaining to the service provider directly or indirectly through third party constitutes public complaint contrary to private complaint. This is in line with the two-level hierarchical classification (public or private action) first proposed by Day and Landon in 1976, with the intentions to distinguish the consumer complaint response (Singh 1990b; Cornwell, Bligh, and Babakus 1991).

*Public complaint* refers to the direct complaint actions to the seller or a third party (e.g. consumer agency or government), which include seeking redress directly from retailer or manufacturer, and taking legal action (Bearden 1983; Bearden & Oliver 1985; Cornwell, Bligh, and Babakus 1991). The public actions that could be taken by consumer include verbal complain to retailer/manufacturer, writing comment card or complaint letters, writing to newspaper or complaining to consumer council (Heung & Lam 2003). *Private complaint* indicates that complaint is private through negative Word-of-Mouth communications to family and friends or the decision not to repurchase the product or service again or boycott store (Bearden 1983; Cornwell, Bligh, and Babakus 1991; Broadbridge & Marshall 1995) without a word to the organization or service provider. Private actions generally do not get the direct attention of the seller and thus could have a serious impact on sales and profitability (Heung & Lam 2003). Bearden and Oliver (1985:228) point out that “private complaint has no effect on the firm’s responses, but may reinforce negative attitudes through the process of consensual validation whereby individuals seek confirmation of their feelings by selectively exposing themselves to agreeable others”.

### Customer Defection

Customer defection is also referred to as customer exit or switching behavior. In Colgate and Hedge (2001), the terms switching, defection and exit were used interchangeably. Defection can be defined as customers forsaking one product or service for another (Garland 2002). The customer decides not to purchase a product or service again. Crie (2003) defines defection as an active and destructive response to dissatisfaction, exhibited by a break of the relationship with the object (brand, product, retailer, supplier, etc.). According to Colgate and Hedge (2001), defection is the customer's decision to stop purchasing a particular service or patronising the service firm completely, which is a gradual dissolution of relationships due to problem(s) encountered over time. They explain that defection is a complex process following customers faced with a/multiple problem(s). Stewart (1998) in a study of customer defection in the banking industry defined defection as the ending of the relationship between customer and bank. He further explains that the relationship is marked by a customer running down the account to a negligible balance, and having no future transaction or formally closing the account.

### Theory and Hypotheses

Dissatisfaction is identified as the independent factor that is necessary to trigger consumer complaint (Singh & Widing, 1991; East, 1997; Volkov, Harker, and Harker 2002; Heung & Lam, 2003). However, not all consumers who are dissatisfied will take a public complaint action. Consumers who are dissatisfied may not take any complaint actions, and those consumers who do take complaint actions probably are not the only consumers who are unhappy (Warland, Herrmann, and Willits 1975). Consumers might take various types of complaint actions such as complaining verbally either directly or indirectly to the organization, writing complaint directly to the organization or through third parties (e.g. consumer council or mass media).

Some previous research has treated defection as a style of complaint, and relatively limited study has been done on defection as a single varia-



ble. Crie (2003) argues that defection could be a substitute for and complement to a complaint. He explains that as a substitute, customer might choose not to complain but leave the company, or (as a complement) complain and leave after that. The complementary theory acknowledges that consumers who complain about their dissatisfaction may either choose to exit or continue patronage behavior (Arnould, 2004; Sheth *et al.*, 1999). Colgate and Hedge (2001) proposed a framework that showed the relationship between complaint and no complaint with exit (defection) behavior in a setting of the retail banking industry. This framework suggests an important future research direction – the relationship between complaint and defection, in which defection is a dependent variable, as the focus of their research was on the problems that lead to exit among customers, rather than the important relationship between complaint and exit per se.

This paper adopts the complementary theory. While most defection in Malaysia may be complementary to a complaint, it may seem like a substitute to the organization or outsiders because typically most Malaysians complain privately to family and friends since direct complaint to the organization may be looked at as confrontational. As a cultural trait, Malaysians are less forthright in expressing views and opinions, and giving negative feedback can be awkward and difficult as indirectness is the more acceptable norm than directness in day-to-day behavior (Abdullah 1996). According to politeness theory (Brown and Levinson 1987), positive face concerns the need for approval and self-esteem and negative face concerns the desire to be unimpeded in one's actions. Maintaining one's face therefore requires the maintenance of everyone else's face. This actually makes it more difficult for service providers in Malaysia to know why customers are unhappy. As the choice of complaint style might differ across cultures, it is expected that due to the confrontational image direct or public complaint may have (and most Malaysians are uncomfortable to lose face through confrontation), one would expect private complaint to be a better predictor of defection than public complaint, and defection to be higher among private complainants compared to public complainants.

It is also sensible to believe that Malaysian customers might be more willing to engage in private complaint than public complaint because a customer who chooses public complaint will have to confront the service provider directly, which may not be deemed normative. Thus, we hypothesize as follows:

**H1: There is a significant relationship between private complaint and customer defection.**

**H2: There is a significant relationship between public complaint and customer defection.**

**H3: The impact of private complaint on customer defection will be stronger than that of public complaint.**

### **Switching Costs**

One of the significant influences on customer defection or loyalty is switching cost. Switching cost is the cost of switching between different brands of products or services (Chen & Hitt 2002). Hawkins, Best, and Coney (2004) define switching cost as the costs of finding, evaluating, and adopting another solution; it is cost that has to be considered by the consumer judging the decision to stay or to defect from a relationship with current supplier. Burnham, Frels, and Mahajan (2003) citing Porter (1980) suggest that switching costs are “one-time” costs (p. 10), as opposed to the ongoing costs associated with using a product or provider once a repeat purchase relationship is established. They explain further that switching costs are the one-time costs that customers associate with the process of switching from one provider to another. While switching costs must be associated with the switching process, they need not be incurred immediately upon switching. Chen and Hitt (2002) point out that switching cost could be explicit and implicit. According to the authors, explicit switching cost include transaction costs (costs that occur to start a new relationship with a provider and/or costs necessary to terminate an existing relationship), learning costs (the

effort required by the customer to reach the same level of comfort with a new product as they had for an old product) and artificial costs (costs created by deliberate actions of company), whereas implicit costs are associated with decision biases (e.g., the “Status Quo Bias”) and risk aversion. For Lee, Lee, and Feick (2001), switching costs are costs that the consumer incurs by changing providers that they would not incur if they stayed with their current provider. They argue that the costs of switching depend on the levels of the information search cost, perceived risk, substitutability of the service provider and geographical proximity to the service provider.

Consumers will judge the switching costs before any defection decision is made. Dissatisfied consumers might be reluctant to change to new supplier due to high switching costs (Lee, Lee, and Feick 2001). Hawkins, Best, and Coney (2004) found that customers remained with a company because they perceived that the switching costs were too high. Conditioned by the high switching costs, decrease in satisfaction will not cause switching until some threshold of dissatisfaction is reached (Arnould 2004). Thus, switching costs create dependence of the customer on the supplier (Sengupta 1997), which Chen and Hitt (2002) referred to as “lock-in”. At the same time, switching costs are perceived low when product complexity and provider heterogeneity in the marketplace are also perceived low (Burnham, Frels, and Mahajan 2003). A less complex product/service is less likely to involve a large number of learned skills that must be relearned in order to switch providers (Wernerfelt 1985). Similarly, when service providers are perceived low on heterogeneity, it enhances the extent to which knowledge concerning one provider is applicable to another provider. Malaysian banks are highly regulated by the Central Bank and are known for their highly standardized services. Besides, close proximity of these banks, uniform offerings, similarity of interest charges, among others, contribute to the low switching costs and makes it easier for customers to change banks or have multiple bank accounts. Thus, we hypothesize as follows:

**H4a: Switching cost will have no significant moderation effect in the relationship between private complaint and defection.**

**H4b: Switching cost will have no significant moderation effect in the relationship between public complaint and defection.**

### **Income**

In the study of consumer complaint behavior, researchers found consistent impact of demographic variables on consumer complaint. Demographic variables, such as income, education level and age were found to have consistent impact on consumer complaint. Consumers who choose to complain were found relatively younger, earn higher income and more educated (Warland, Herrmann, and Willits 1975; Singh 1989, 1990), although, the discriminatory power was modest (Crie 2003). Higher income consumers tend to have more resources in terms of information and self-confidence to deal with marketplace problems and tend to perceive less risk and embarrassment in complaining. According to politeness theory (Brown and Levinson 1987), the degree to which an individual is polite in a given situation is determined by the relative power and social distance between the parties. Higher income is generally characterized by a smaller power and social distance between customer and service provider, which is negatively related with the degree of politeness (i.e. higher complaint behavior). However, the role of income on consumer complaint is not quite well understood and prior results have been mixed. For example, Gronhaug and Zaltman (1981) show income to have a weak explanatory power. The conflicting findings of Crie (2003) and earlier studies by Singh (1989) and Warland, Herrmann, and Willits (1975), suggests the need for further research to help address such discrepancy. Thus, considering the moderation effect of income in the private and public complaint-defection relationship will help to advance our understanding of the interaction between income level, complaint and defection. The next hypotheses are:

**H5a: Income will have significant moderation effect in the relationship between private complaint and defection.**

**H5b: Income will have significant moderation effect in the relationship between public complaint and defection.**

**Ethnicity**

Another demographic variable that should be considered alongside income is ethnicity. It is a common knowledge in Malaysia that income distribution is inequitable. The Chinese, due to their greater involvement in business have greater buying power than the Malays and Indians. The high income bracket in Malaysia is occupied mostly by the Chinese, thus, it is important to look at the Chinese versus non-Chinese racial groupings as a moderator of complaint-defection relationship. This is a contrasting characteristic of the races in Malaysia that makes it important to study ethnicity. Another important reason to look at race is the similarity of the different races in Malaysia, such as “face saving”. Based on politeness theory (Brown and Levinson 1987), since people defend their face when threatened, maintaining one’s face requires the maintenance of everyone else’s face. While income may differentiate the ethnic groups in Malaysia, face saving is a common feature, and could have important implications on their complaint styles too, as some confrontational complaint styles can cause loss of face.

Fontaine and Richardson’s (2005) research results show that 18 percent of the fifty-seven cultural-values among Malaysians (Malay, Chinese and Indian) are significantly different. Each ethnic group of this multicultural society has different cultural background and upbringing. Therefore, each group comprises distinctive characteristics and attributes, such as different eating habits, dressing, languages, communication and conflict resolution styles, and religions (Fontaine and Richardson 2005). The Chinese have managed to develop a uniform and unique business culture only identifiable with her own race (Pek and Ndu 2006). The Chinese business culture is a blend of moral values of Confucianism and other beliefs, comprising elements which relate to long term business relationship, including strong personal connection (*guanxi*) (see Hutchings 2002; Ng 1998/99),

interpersonal harmony (renji hexie) (Pek and Ndu 2006), and holistic thinking (zhengti guannian) (Dellios 1996; Graham and Lam 2003).

Although these values were often linked to the Chinese, a recent study (Pek and Ndu, 2006) found that there was no significant difference between Chinese and non-Chinese in Malaysia on these values and their application in negotiations. The authors explain that the strong cultures of collectivism and long-term orientation in Malaysia might have played a part in the findings. Both Chinese and non-Chinese in Malaysia are highly collectivistic, with a score of 104 (Hofstede 1991). According to Singelis and Sharkey (1995), consumers from collectivist societies are particularly sensitive to how others view them. Hence, they have been found to be more prone to embarrassment than people from individualist societies. Strongly related to embarrassment is the concept of “saving face,” which is particularly strong in countries with strong Confucian traditions (Hofstede and Bond 1988). The implication of this is that most Malaysians are not likely to complain publicly about their dissatisfaction as this may be viewed as confrontational and can lead to loss of face, instead they will quietly defect. Abdullah (1996) claimed that Malaysians are less forthright in expressing views and opinions and giving negative feedback can be awkward and difficult as indirectness is the more acceptable norm than directness in day-to-day behavior. As such, the impact of private complaint on defection will be stronger than that of public complaint, but such effects may not differ based on ethnicity or race. The following hypotheses are developed following from the discussion above.

**H6a: Ethnicity will have no significant moderation effect in the relationship between private complaint and defection.**

**H6b: Ethnicity will have no significant moderation effect in the relationship between public complaint and defection**

### **Research Methodology**

This research builds on the work of Day and Landon (1976) and Day (1977), which categorized consumer complaint actions into two levels-

public and private complaint actions. A four-part questionnaire was used in the study. Part one and part two respectively contains items that measured dissatisfied complaint action and defection, adapted from Volkov, Harker, and Harker (2002) and Liu and McClure (2001). The complaint actions in part one were categorized into public and private complaint based on the categorization suggested by Day and Landon (1976). Switching cost was measured in part three with items adapted from Lee and Cunningham (2001), while respondents' demographic profile was constructed based on Singh and Pandya (1991) and Keng, Richmond, and Han (1995) in part four. Parts one and two items were measured on a five-point Likert Scale ranging from 1 (very unlikely) to 5 (very likely). Part three items were measured on a five-point Likert Scale ranging from 1 (strongly disagree) to 5 (strongly agree). The list of the questionnaire items are appended at the end of the paper.

The data were collected from randomly selected customers of retail banks in Malaysia. The questionnaire was self-administrated to respondents. In keeping with the policy of voluntary participation in the survey, the banks were first invited to participate in the survey. It was explained that a participating bank will authorize the researchers to interview its customers, and also to encourage customers to complete the forms which were handed out by the enumerators in the banks' premises or placed on a designated counter. The form clearly stated that customer's participation was voluntary. The questionnaire was written in English and was translated back-to-back to Malay and Chinese Languages, by language specialists at a local university to enable consumers who do not understand English well to answer the questionnaire. The questionnaire was re-checked to ensure that the translation copy was correct. To achieve translation equivalence different people were used in the translation and back translation into English, as suggested by Douglas and Craig (1984). The original and back-translated versions were reviewed by a panel of marketing researchers and bank customers, and changed until the panel agreed that the Malay and Chinese versions accurately mirrored the English one and thus

assuring conceptual equivalence (Malhotra, Agarwal, and Peterson 1996). The survey yielded a net sample of 218 randomly selected customers of banks in Malaysia.

## **Results and Discussion**

The Cronbach Alpha test was done to assess the internal consistency reliabilities of the scales. The Cronbach Alpha value for seven items in public complaint is .78, the Cronbach Alpha value for three items in private complaint is .70, for the four items in defection, the value is .70, and switching cost which has seven items show alpha estimate of .74, indicating that the measures are reliable. The questionnaire items are shown in the appendix. The means of the constructs are all above the middle range of the scale. The mean of public complaint is 3.10 and standard deviation is .70. For private complaint, mean is higher at 3.64 and standard deviation is .78. The difference in means (supported by significant t-test results) implied that customers are more likely to complain privately than publicly. The mean and standard deviation of defection are 3.53 and .72 respectively, and switching cost 3.08 and .67. These results are tabulated in Table 1 below.



Table 1. Descriptive Statistic of Variables

Variables	No. of Items	Mean	Std. Deviation	Cronbach Alpha
Private Complaint	3	3.64	.78	0.70
Public Complaint	7	3.10	.70	0.78
Defection	4	3.53	.72	0.70
Switching Cost	7	3.08	.67	0.74

### Direct Effects

Table 2 shows the results of the hierarchical regression analysis used to assess the relationship between the dissatisfied complaint actions (public and private complaint) and customer defection (see Step 1), as well as the moderation effects of switching cost, income and ethnicity (in Step 3). The results in step 1 show that private and public complaints contribute significantly ( $F = 42.10$ ;  $p\text{-value} = .000$ ) and roughly 30 percent of the variation in defection. As shown in step 3, the combined predictive power of the independent and moderating variables is approximately 34 percent.

Table 2. Direct and Moderating Effects (Hierarchical Regression)

Variables	Step 1		Step 2		Step 3	
	Beta	Sig.	Beta	Sig.	Beta	Sig.
Private Complaint	.407	.000	.413	.000	.542	.106
Public Complaint	.242	.000	.257	.000	.136	.673
Switching Cost (SC)			-.069	.268	-.149	.698
Ethnicity (ET)			.010	.870	-.096	.796
Income (IN)			-.005	.934	.814	.005
Private Complaint * SC					.626	.174
Public Complaint * SC					-.540	.256
Private Complaint * ET					-.188	.549
Public Complaint * ET					.285	.338
Private Complaint * IN					-.615	.023
Public Complaint * IN					-.232	.424
R <sup>2</sup>	.282		.287		.339	
R <sup>2</sup> Change	.282		.005		.052	
Significant F Change	.000		.702		.016	

Notes: 0 = high income; 1 = low-mid income  
0 = non-Chinese; 1 = Chinese

Details of the result in step 1 show that both public complaint ( $\beta = .242$ ; p-value = .000) and private complaint ( $\beta = .407$ ; p-value = .000) are signi-

ificantly associated with defection at 1 percent significance level. The results show that albeit there is strong association of public and private complaints with defection ( $p < .001$ ), private complaint is a stronger predictor of defection than public complaint (inferring from the standardized beta coefficients). Therefore hypotheses 1, 2, and 3 are accepted. This finding implies that Malaysian customers are more likely to defect following the path of private complaint than publicly complain before defection.

### **Moderation Effects**

Hierarchical regression model was employed to determine the moderating effects of switching cost, income, and ethnicity in the relationship of public and private complaint with customer defection. Dummy variables were created for the demographic variables (ethnicity and income) before including them in the regression model. For ease of understanding, the five original income levels were recoded into two groups namely, low-middle income level and high-income level; ethnicity was regrouped into Chinese and non-Chinese. One dummy variable was created for each of the two demographics ( $k-1$ ), where  $k$  is the number of the recoded income levels and ethnicity (which is 2 in this case). For income, the coded variable (1) is the high-income group, while the uncoded variable (0) is the low-mid income group; and for ethnicity, (1) is Chinese and (0) is non-Chinese. The results in step 3 of Table 2 show that switching costs do not moderate the relationship between both complaint styles and customer defection. The impact of both public and private complaint ( $p$ -value = .136) and ( $p$ -value = .058) respectively on defection does not depend on switching cost. Hypotheses 4a and 4b are accepted.

Income level significantly moderates the relationship between private complaint and defection ( $p$ -value = .023), but does not moderate the association of public complaint with defection ( $p$ -value = .424). Public complaint and defection relationship does not depend on the respondents' income level. Hence hypothesis 5b is not accepted. For private complaint, its relationship with defection is moderated by income, leading to the

acceptance of Hypothesis 5a. Lower income earners are more likely to defect without complaining to the bank than the high income group. This outcome is logical since they may not get the level of attention the high income earners may get from the banks. The banks are well known for the high quality attention they give to high net worth customers (usually high income earners). The results further show that ethnicity does not significantly moderate the relationship between public complaint ( $p$ -value = .338), private complaint ( $p$ -value = .549) and defection. Irrespective of whether the respondents are Chinese or non-Chinese, private complaint better explains defection than public complaint. Both Chinese and non-Chinese in Malaysia are likely to engage in private complaint than public complaint before defection. We therefore accept hypotheses 6a and 6b.

### **Implications and Conclusions**

The implications of the findings on marketing theory are discussed next. There is an indication of a positive linear relationship between customer complaint and defection. Complaint (public and private) explained 30 percent of the variation in defection. According to Rowland, Arkkelin, and Crisler (1991), much of the social science research report average variance that may be as low as 15%. In this study, the value is fairly high (twice the social science average). The Beta coefficient for public complaint is .242 and private complaint is .407. These results show that the influence of private complaint on defection is much higher than public complaint. In other words, the likelihood of customers complaining privately rather than publicly before defecting is higher. This outcome corroborates the finding of Ndubisi (2003), which remarked that dissatisfied customers may not complain to the service provider, instead they may blame the company and switch to the competitor. As for the moderating effects of switching cost, ethnicity and income, the results show that switching cost and ethnicity do not moderate the private complaint-defection relationship or the public complaint-defection relationship, as hypothesized. However, income does moderate private complaint-defection rela-

tionship. Those that are less likely to complain to the bank before leaving are the lower income customers. Thus, income is an important factor for explaining private complaint – defection relationship.

Managerial and policy implications of the findings of this study are explained looking at the banking scenario in Malaysia. The banks are tightly regulated by the central bank of Malaysia; they offer similar kind of services; uniform fees and interest charges; and they are often located in very close proximity to one another. Thus, there is hardly much room to differentiate their offerings based on price (which is regulated) and service (as they often offer “look-alike” services). Also in Malaysia, the banks operate uniform working hours, which create additional difficulties in differentiating on the basis of customer convenience, or longer service hours. In fact a customer can walk out on a service provider and within a radius of 50 meters locate another (without much inconvenience) which can provide exactly what the former bank used to provide at the same cost.

This unique banking environment in Malaysia has its pros and cons. On the down side, the industry is almost commoditized. Innovation is a rare occurrence; when it does occur, it is easily duplicated as it soon becomes an industry standard, which must be adhered to by all banks under the supervision of the central bank. On the upside, it has created greater competition among the industry players, who are in continuous search for ways to breakaway from the pack and stay ahead of the curve. As mentioned, most bank customers in Malaysia have very little to lose by changing banks. Even salary accounts can be easily changed without employers questioning such decisions. Consequently, it is not uncommon for customers to defect at the least provocation or service failure. Many, switch without complaining to the bank (public complaint), instead they resort to private complaint to family and friends. This is evident from the preponderance of private complaint over public complaint in predicting defection. Generally, those who complain directly to the bank seek redress of the service shortfall. Due to the wide options available to Malaysian banking customers, some may consider it a waste of time lodging complaints

to the banks about service failure, especially when other banks are attempting to woo them with all manner of perks and benefits proposal.

Another reason why Malaysian customers complain privately than publicly before defection is culture. As suggested in the literature, generally Malaysians consider direct complain as confrontational. Such confrontation is likely to be avoided as it can make the other party to lose face. Face saving and politeness is a very important reality in the Malaysian society; able to define the strength of a business or social relationship. Since most Malaysians are quite reluctant to cause others to lose face, they would rather tell family and friends about their dissatisfaction and abandon the service than tell the service provider directly. This is not good for the organization, which is then denied the opportunity to rectify and learn from that mistake. Many firms make use of customer feedback to create new services or improve on existing ones; when such feedback is absent the organization loses an important and objective source of information for improvements. It is important therefore, that banks create an impression among customers that complaints are welcome and not at all considered as confrontation. Creating a positive image of direct complaint to the bank will encourage more customers to do so when there is need. Watkins and Liu (1996) demonstrated that positive consumer perceptions of supplier responses to complaints resulted in greater satisfaction and increased repurchase intentions and behaviors. At the same time, banks should also impress upon customers that complaining privately (to family and friends) denies them an opportunity to learn from their mistakes, as well as create a negative word-of-mouth communications against the bank. Management may even show them how damaging to business, negative word-of mouth can be through news letters, seminars, and other customer enlightenment initiatives. Within the organization itself, management should not only encourage complaints through dedicated complaint machineries and mechanisms, they should also reward staff that has been successful in engaging customers on their grievances, successfully solving the problems and retaining those customers eventually.

Another key lesson for management from this study is that it should not wait for complaints to drive quality improvements. The revelation that private complaint has stronger influence on defection than public complaint shows that most customers may not complain to the bank, yet they are not satisfied and are defecting. If management therefore (advertently or inadvertently) interprets no complaint as high level of satisfaction or waits for complaints to drive quality improvements (instead of acting pre-emptively), it would have lost many customers before it realizes that customers are unhappy. Since private complaint is a form of negative word-of-mouth communication, it will not only have an unfavourable impact on the customer's perception of the bank, but also on that of their family and friends. In the long run, if unchecked, private complaint (or "silent complaint") might threaten the very existence of the firm by quietly eroding its market share and profitability. Therefore, managers should not take zero complaint as an indication of customer satisfaction and retention.

Income levels of customers have a significant implication on the role of private complaint on defection. The study suggests that lower income customers, more so than the higher income customers, are more likely to defect quietly. This is plausibly because they are less likely to get quality audience to their grievances from the banks compared to their high net worth counterparts. Because banks do not want to lose the business of their high net worth customers, they generally tend to listen to them with careful attention (more than they do to lower income customers), as such they are often less likely to defect without trying to get the attention of the bank to their problem. Lower income customers are more prone to defect without the slightest knowledge of the bank. When management considers the size of lower income customers in Malaysia (and other developing nations), it is clear that the organization that experiences this private defection is losing a lot. Banks have the tendency to pay closer attention to the needs of their wealthier customers, as they bring in more business to the firm. While it is understandable that banks take care of profitable customers, and the Pareto theory recognizes that these are commonly a

small percentage of all customers, they should not ignore the voices of the less affluent majority who also happen to be the silent majority. Although, the latter may not be as profitable as the high income customers, their positive word of mouth communication can spread fast, attract more customers for the firm, and increase market share. Compared to the high net worth customers, they are more likely to carry a firm's good or bad testimonials to more people.

Banking service providers in Malaysia and (by extension), those in other nations where there is major government control and strong influence by the central bank, should develop effective strategies for competing in an industry with very low switching costs. Low switching costs means customers can easily change banks. Yet high rates of customer turnover increases cost of doing business (Fundin and Bergman 2003; Rosenberg and Czepiel 1983) and reduces profits (Reichheld and Sasser 1990). As such, management should turn attention to other possible ways of differentiation, such as speed, service, and other relational marketing strategies. Banks can differentiate on the basis of service quality dimensions including tangibility, reliability, assurance, responsiveness, and empathy (Parasuraman, Zeithaml, and Berry 1988; Malhotra, Ulgado, Agarwal, Shainesh, and Wu 2005). By building close and mutually beneficial relationship with customers, the organization can increase loyalty even in a low switching cost business environment. Indeed banks can even create high switching cost through quality customer relationship. Although services and fees of these banks may be similar, and physical location may be proximate, which makes it even more difficult to differentiate on those bases, dynamic banks can still lift switching bar for its services by establishing itself in the customers' minds as a bank customers can trust in all circumstances, a bank that is committed to delivering unparalleled value to customers, that understands customers needs and genuinely empathizes with them, and provides timely and reliable communication, as well as speedy and accurate service.

Ethnicity, as the study shows does not moderate the association of private and public complaint on defection. Most Malaysians, irrespective of



their race, will follow the private complaint path to defection. Whether, they are Chinese, Malay or Indian, the story is the same. Management should therefore acknowledge this “race-neutral” result and develop uniform strategy to encourage customers to complain directly to the organization rather than spreading negative WOM communication among family and friends.

In conclusion, it is germane to reiterate some of the important issues raised in the paper. The paper focuses on the Malaysian consumers’ post purchase behavior, and unveils an important relationship between complaint behavior and defection. It carefully links two forms of complaint styles that are observable among Malaysian consumers (namely private and public complaints) to defection. Private complaint means complaining to family and friends about the dissatisfaction or the decision not to repurchase the product or service again without bringing it to the attention of the bank, while public complaint is complaining to the organization or any other third party that would likely bring the problem to the firm’s attention. The study further examines the moderating effects of switching costs, income level and ethnicity in the (private and public) complaints-defection relationship. To summarize, the outcomes of the research are as follows: both private and public complaints can explain defection; the impact of private complaint on defection is stronger than that of public complaint; switching cost and ethnicity has no moderating effect in the association of private complaint and public complaint with defection. Income does significantly moderate the relationship between private complaint and defection but not the public complaint-defection relationship. The impact of private complaint on defection is significantly higher for low income customers than for the high income group. This outcome is plausibly because of the quality audience the later commonly gets from banking services providers, regarding their grievances.

Organizations should encourage customers to complain directly to them, in order to get a chance to correct service shortfalls and to improve on services overall. Although it may be a challenge to get the average Malaysian cus-

customer to complain directly to the bank, due to some societal values that look at complaint as an altercation, nevertheless, organizations should strive to get customers to complain directly to them by showing that they welcome complaints with an open mind. Managers therefore should strive to eliminate or at least minimize private complaints and instead try to publicize the organization's positive view on direct complaint (to the bank). This must be taken seriously in view of the low switching cost inherent in the industry which makes it easier for customers to defect.

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## Appendix

### Complaint Items

1 Very Unlikely	2 Unlikely	3 Somewhat	4 Likely	5 Very likely
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#### Public Complaint

1. I will discuss the problem with manager or other employee of the bank.
2. I will ask the bank to take care of the problem (e.g. to fix, replace item or to do better in the future).
3. I will inform the bank about the problem so that they will able to do better in the future.
4. I will write a letter to the local newspaper or mass media about my bad experience.
5. I will report the problem to a consumer agency.
6. I will complain to the government agency or politician.
7. I will take legal action against the bank.

#### Private Complaint

8. I will speak to my friends about my bad experience.
9. I will convince my friends not to do business with the bank.
10. I will tell my relatives never to use the service again.

#### Defection

11. I will decide never to use the service again.
12. I will patronize another bank next time.
13. I will not continue to use the services of the same bank.
14. If I need this service again, I will still choose this bank.

### Switching Cost Items

1 Strongly Disagree	2 Disagree	3 Somewhat	4 Agree	5 Strongly Agree
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1. If I were to change my bank, it would be extremely costly to search for information about good bank.
2. If I change my bank, there is a risk of spending my money unwisely by choosing the wrong bank.
3. If I change my bank, there is a risk of receiving bad services.
4. If I change my bank, there is a risk of being disappointed by the bank.
5. The services that are currently provided by my bank cannot be easily replaced by other banks.
6. Most banks provide the same quality and the same type of services.
7. There are many capable banks I can choose one from.

