



COMPLAINT HANDLING

Current Position and Guidelines

CUSTOMER SERVICE BENCHMARKING AUSTRALIA

White Paper:

Understanding Complaint Handling as a tool for
customer service development

October 2007

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Current Position and Guidelines

EXECUTIVE SUMMARY

Poor service can be costly and the cost of complaints in Australia today is substantial. Research has shown that it can cost three or four times as much to acquire a new customer as it does to make a sale to an existing one (CSIA website). Despite the importance of managing complaints effectively, there is very little consensus at industry level on how complaints should be defined, measured, and managed accordingly. Many companies fail to have a complaint process in place, creating an environment where complaints are hidden away, rather than measured.

Largely, this is due to the fact that there is no clear definition of what a complaint is. Many companies display significant confusion about the cost of delivering customer service. These companies are 'expense focused', rather than viewing the company holistically. Complaints are seen as bad for business and not accountable – yet encouraging complaints help identify any service issues, possibly even those that can reap financial benefits.

The best measure of a successful complaint management process is: are the customers completely satisfied with the **complaint process** itself and have they been satisfied enough with the

complaint process that ultimately, they are retained as happy customers. That is, will they continue to remain with the organisation and will they recommend the organisation to others, regardless of whether the complaint outcome is favourable or not?

Complaints that are not handled effectively can result in substantial damage to a company and its reputation, particularly if the complaint then makes its way to a third party or Ombudsman. In such cases, the customer is demonstrating retaliation against the organisation's own complaint management process. It is interesting to note that even the Ombudsmen do not necessarily agree on what is being measured – is the caller making an enquiry or is it a complaint?

The majority of past research has focused on the complaint outcome as the key indicator of customer satisfaction. In this paper, the complaint process forms an alternate set of outcome measures that can positively and independently affect outcome. Favourable customer satisfaction perceptions have a positive effect on customer repurchase intentions (often customers are willing to spend more), generating profitable word of mouth referrals, and ultimately sending out a powerful image of an organisation that believes its customers are important.

OMBUDSMAN OPERATING IN AUSTRALIA

In Australia, the Ombudsmen deal with complaints between customers and their respective member organisations. Interestingly, nationally, there is still a need to develop a consensual definition of the concept of Complaint Management, in terms of outlining the best practice recording, measuring, and publishing of complaint data. The Ombudsman movement began in Australia in 1971 in Western Australia. Today there are over 50 ombudsmen, many of which are high profile industry sponsored Ombudsmen such as the national Telecommunications Industry Ombudsman, Banking and Finance Ombudsman, Private Health Insurance Ombudsman and the state run Electricity and Water Ombudsmen. For examples of Australian Ombudsman, please refer to the back of this report. All Ombudsmen list the number of complaints in their reporting, and many also list the number of cases and the number of enquiries they receive. Some cases are defined as enquiries and some are complaints for one Ombudsman, while another Ombudsman may define cases as the number of complaints going to conciliation. This definition inconsistency is confusing for future data analysis and cross industry comparison of complaint management.

DEFINITION OF COMPLAINT AND CURRENT BENCHMARK STANDARDS

A complaint is "an expression of dissatisfaction for the purpose of venting emotions or achieving intrapsychic goals, interpersonal goals or both" (Kowalski 1996, p. 180). Customers are inherently rational – they will make a complaint based on the economic cost of taking action against the particular organisation and its policy, product, practice or level of customer service. However, there is also a group of customers who choose to complain based on emotional reasons – retaliation is warranted due to the fact a perceived injustice has been done. Ignoring this set of emotions leads to an incomplete understanding of how the complaint process should be managed and subsequently measured.

The customer that does not complain and does not come back is the one that hurts a business most of all. A customer consulting website (www.customerfocusconsult.com) states:

- 96% of customers who are dissatisfied with service don't complain. They think companies don't care and no action will occur as a result of their complaints. An uncaring treatment is the most commonly cited reason.
- 90% of those customers will not repurchase. The average life time value of customers is 10 times their initial purchase.

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**For every complaint
received:**

24 customers don't
complain

22 customers don't
come back

198+ people are told

- Each one of these customers will tell a minimum of 9 to as many as 20 other people about his or her experience

As an example, for every one complaint a company receives:

- 24 customers don't complain
- 22 customers don't come back, taking with them their remaining life time value
- 198 people - or many more - are told about the experience

Interestingly though, the companies that actively pursue customer feedback and see each complaint as a gift rather than a nuisance actually enjoy greater profitability. They **make it easy for customers** to let them know what they think and what they experience with their products or services. Only 14% of customers leave for product related reasons, 68% leave because of poor treatment when complaining or asking questions. The more successful companies are seen to recognise that trust and listening are the foundations for profitable customer interactions. That is, as a result of better interactions, happier customers and more business are guaranteed. Customers are satisfied and any organisational problems are identified and dealt with. Furthermore, a customer's perception of explanation adequacy and any perception of injustice is aided by improved employee training procedures. Managers can incorporate information regarding necessary communication criteria into staff training and possibly into future hiring of people into roles that require social interaction.

According to a recent Roy Morgan poll (July 2007), the Commonwealth Bank has shown the most improvement in the past 12 months in terms of its customer satisfaction levels. While the bank still has the lowest levels overall, the improvements the bank has made is expected to boost the performance of its retail bank division, which accounts for 39% of group profit, thereby improving the bank's share price. This shows that a revamp in the bank's culture and service levels (in terms of improving customer feedback and complaint resolution) ultimately helps the share price and generation of new business. In today's "complaint climate", the unhappy customers are your greatest source of learning and if you make it easy for them to complain, customers will provide the organisation will valuable information. The customer that does not complain and does not come back is the

one that costs the organisation the most.

Successful complaint handling is vital, regardless of the level of the complaint involved. It is no doubt easier to be more accommodating to a complainant whose complaint involves a small sum of money, yet the ramifications for being too defensive where larger sums of money are involved looms as being a major customer satisfaction disaster for the organisation. It is imperative that complaint handling procedures be an integral part of any organisation's strategic plan - this will reflect the extent to which an organisation will go to ensure total customer satisfaction and its commitment to fairness and confidentiality. A consumer must have trust in the complaint management process and ultimately, the ethical conduct of companies that they deal with.



Currently, the Australian Communications Industry Forum (ACIF) has set a complaint handling code which is not compulsory but seeks to establish a comprehensive industry wide

(Communications) set of guidelines and rules for complaint handling. These include:

- Complaints (written) must be acknowledged within 5 working days, either verbally or in writing
- The timeframe for finalising all complaints must be 30 calendar days
- If a complaint goes over 30 days, the customer must be provided with regular updates
- To ensure customers are not discouraged from making a complaint, a toll free number should be considered
- Customers must be advised of the outcome of their complaint
- Customers should be advised of external options available to them.

*Source – ACIF Industry Code,
February 2004*

KEY METRIC: CUSTOMER SATISFACTION

Key Performance Indicators for companies today are increasingly based on non-financial data. The main one is customer satisfaction. Qantas group general manager of planning and performance, Kevin Fletcher, says that “if you can’t get that one right, you’re ultimately not in business.” (CFO Magazine, August 2007, p.34). Non-financial metrics such as customer satisfaction are a function of service quality and the complaint management process (the number of complaints, the response rate to customer complaints, the retention of key customers and the hours of customer service training) and this measure is crucial to understanding what drives the bottom line of the organisation and what drives the customer to provide positive feedback about the organisation to others.

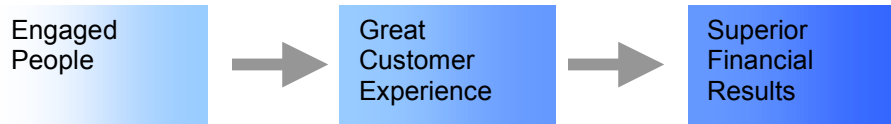
CASE STUDY: ST GEORGE BANK

Research has shown that since St George Bank has been using non-financial metrics alongside financial measures, this has been a positive development for staff, customers, and shareholders. The type of metric used will vary from industry to industry, yet the process of using these non-financial metrics to then relate them to the company’s bottom line is a common problem. Ultimately, the nature of using

post customer satisfaction analyses will enable an organisation to understand performance and look at what drives revenue. For example, customers may complain they cannot speak with the same staff member on the same day or within the same week and this may in turn advise company management of the type of staff that are needed – temporary or permanent – in order to maximise returns. After CEO Gail Kelly

arrived at St George, the attitude of staff and the experience of customers were identified as “crucial differentiators” and many post customer satisfaction analyses were carried out to see how those measures affected the financial performance of the bank.

St George benchmarks itself against a number of key indicators – customer satisfaction being one of them. All the major banks now are trying to make a point about service so how does St George differentiate itself?



When dealing with complaints, St George aims for:

- Consistency of delivery
- Lack of bureaucracy
- Ability to make extra effort
- Innovation
- Ability to apologise to the customer

St George has found that excellence in complaint handling has a role in stemming customer defection and building loyalty. Customer satisfaction

alone will not build loyalty; it is about how likely customers are to recommend the organisation to others. St George actually follows up to see if their customers have done it – have they recommended St George to people and have these people come to St George? This measure can be tracked. Losing customers due to inadequate complaint handling can be controlled and in turn, these customers can actually become “advocates” for the organisation.

The power of word of mouth recommendations have been confirmed by a new survey by the Nielsen Company (AFR, 8th October 2007, p. 57). The online survey covered 26, 486 people in 47 markets in Europe, Asia Pacific region, the Americas, and the Middle East, and found that 78% of people said that they trusted other people’s recommendations ahead of any information gained from marketing campaigns. Ads in newspapers ranked as the second most trusted source of information, nominated by 63% of respondents. Consumer’s opinions from online blogs ranked third with 61%, followed by brand websites with 60%. The power of word of mouth cannot be underestimated.

“build, maintain and manage customer relationships by solving problems and resolving complaints quickly, having information, answering questions, usually 24 hours a day, seven days a week, 365 days a year” (Feinberg 2007, p. 131). It is a well known fact that a satisfied customer is more likely to repurchase, purchase more, and promote positive word of mouth. Interestingly, if their complaint is solved, he/she is more likely to make a purchase than one who is simply satisfied. Herein lays the value of complaints and the importance of resolving them efficiently and to the customer’s satisfaction.

Many companies have reached the conclusion that customer access after the sale adds value to the transaction (Feinberg et. al, 2000). Customer contact centres allow a company to

Customer satisfaction KPIs that can be communicated via word of mouth:

- What is great service?
- How can we provide it?
- How do we get better?
- How do we promote it?

CURRENT PERFORMANCE FROM THE OMBUDSMAN'S IN KEY INDUSTRIES

Many organisations today focus on achieving an outcome from the complaint process in a timely manner, rather than the process involved. Seemingly trivial problems may be able to be dealt with in less than 5 working days and once a satisfactory result has been achieved then the matter is deemed to be closed. Often a "one size fits all" approach to complaint management is detrimental to the overall success of the complaint process. The actual drivers of the complaint may not have been fully dealt with (despite its trivial nature) and despite satisfying time pressures, the quality service reputation of the organisation may have suffered and this has gone unnoticed.

Overall, many organisations use a variety of measures to track the success of the complaint process. The key measures are:

- Time taken to assess the complaint and provide a response
- Time taken to resolve the complaint
- Relative success of the method used to respond to the complaint – phone, mail, email
- Will the customer remain with the organisation?

Industry to industry measures vary slightly and some industries are more advanced than others in the area of complaint management. The utilities industry, for example, has developed tools to assess their customers' capacity to pay and this information is used to form payment plans. Complaints regarding inability to pay bills are dealt with using information specific to the customer and the success of this process is measured by the customer's ability to sustain smaller repayments for a certain period of time. The customer is concerned about making bill payments and expects that assistance will be given if the customer takes the time to

approach the organisation and work together to find a solution.

The key to being able to measure a complaint effectively is deciding on the definition of a complaint as this defines what is to be measured. There is currently little conformity as to what a complaint is and this again becomes more difficult when comparing complaint handling processes across industries. For example, the essential services industry (such as electricity) may see more diverse complaints – e.g., level 1 – level 5 than the local government industry, yet best practice for both industries is the same – how satisfied was the customer and did the company improve its business? It is often the nature of the industry itself that drives complaint behaviour – the sensitive nature of health may see hundreds of complaints per month when compared with complaints concerning Australia Post for example.

As a result of this non-conformity, the ability to measure and compare complaints accordingly across and often within industries is very difficult. The Ombudsmen contained within this report and spoken to specifically (TIO, EWOV and FICS) suggest a few key points for best practice complaint handling based on their own experience. These are:

- Correct registering of a complaint when it is first lodged by the customer
- Standard and consistent definition of what a complaint actually is
- Language used to explain organisational services as well as the nature of the complaint process should be simple and free from jargon
- Employees should have a vested interest in the complaints process
- Complaints should be resolved within reasonable timeframes – although

- these time frames are subject to individual organisational protocol
- The complaint process should be transparent
- Ignoring complaints will only hurt the organisation more in the long run
- It should be easy for the customer to complain and customer should be made aware of the process available to them.

Telecommunications

- The growth in complaints within the Telecommunications industry is increasing at a rate of about 10% per year.
- The Telecommunications and Industry Ombudsman (TIO) handled a total of 107,601 contacts in 2005/06 – a 10.0% increase on 2004/05's total of 97,798.
- Total contacts included 20,008 out-of-jurisdiction enquiries and 87,593 complaints.
- The number of complaints investigated in 2005/06 was 87,593 - 11.0% greater than last 2004/05's (78,915).
- A single complaint may contain more than one complaint issue. In 2005/06, and the TIO recorded 127,479 complaint issues, up from 100,825 2004/05.
 - 41.0% of complaint issues were about landline services, 40.9% were about mobile services and 18.1% were about internet services.
 - 91.1% of complaints were resolved at Level 1, up from 90.2% last year.
- 45.2% of complaints were resolved partially or substantially in favour of the complainant, while 11.1% of complaints were resolved partially or substantially in favour of the member.

The increase in complaints within the Telecommunications industry does not look like it is subsiding. This may be due to the large growth of independent telecommunication "resellers" now operating in the marketplace, perhaps outside the Australian Standard. In September this year (2007), angry customers began complaining on Whirlpool online broadband forums of delays of up to 10 weeks to have telephone and internet services connected (The AGE, Tuesday September 4, 2007). Customers also expressed frustration with delays when ringing the company's call centres. The online forum posed a way for frustrated customers to voice their concerns. The experience and quality of the internet service was crucial, rather than the cost.

In addition, Internet Company Dodo had several thousand complaints made about it to the Telecommunications Industry Ombudsman (TIO). These complaints then found their way into the public arena via the media. According to The Australian newspaper in August 2007, Dodo attracted more than 4700 complaints in the first quarter of this year and it has attracted more complaints than any other ISP in the past 18 months. Telstra was the second-highest offending ISP in the first quarter of this year, with 3342 complaints, and Optus came in third with 1569.

Almost half of Dodo's complaints were about its customer service and complaint handling procedures. "We encountered huge problems in

recruitment in Australia with our call centres, and the honest truth of it is we struggled with our call centre for a long time," Dodo chief executive Larry Kestelman was quoted as saying.

Kestelman said customers had to endure service difficulties for almost six months, while the contact centre was "restructured".

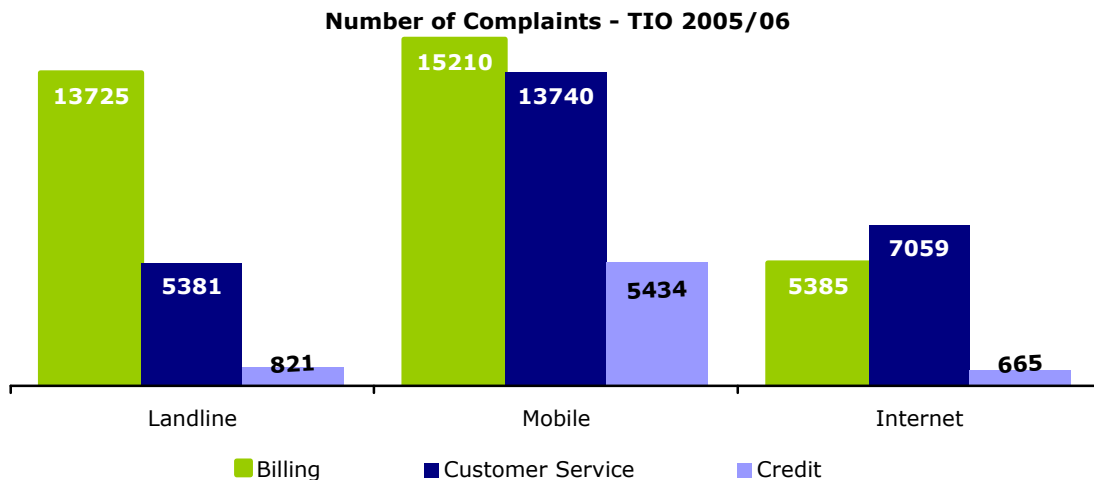
The TIO uses a four-tier complaints classification system - Levels 1 through to 4 to classify complaints. If a complaint cannot be resolved at Level 1, either because the TIO determines that the proposed outcome is not fair or reasonable, or because the TIO has not sighted enough evidence to determine whether the proposed outcome is fair or

focus. They are serious and require TIO analysis, targeted questioning and findings in relation to ACIF code breaches. A complaint may be escalated to Level 4 if the member has failed to respond to a Level 3 complaint within the required timeframes. This is known as an administrative Level 4. Or it may be escalated if the TIO determines that the outcome of a Level 3 complaint is not fair or reasonable, or the TIO has not sighted enough evidence from the member to determine that it is fair or reasonable.

reasonable, a complaint is raised to Level 2. In 2005/06, 7.3% of all complaints to the TIO were raised to Level 2, a figure slightly below that of last year (7.7%).

Generally, complaints to the TIO are resolved without a formal investigation. The TIO handled a total of 107,601 contacts in 2005/06 – a 10.0% increase on last year's total of 97,798. The number of complaints investigated was 11% greater in 2005/06 and the number of complaint issues also increased by 26%. 41% of complaints were about landline services, 41% were about mobile services and 18% were about internet services.

Level 3 complaints retain their formal, investigative and evidence gathering,



Annual Landline Service Issues - %

	2002/03	2003/04	2004/05	2005/06
Billing	39	35.9	30.4	26.2
Contracts	1.6	1.6	3.1	5.4
Credit Control	11.6	15.3	13.0	10.0
Customer Service	14.5	12.2	17.2	25.1
Customer Transfer	8.8	8.4	10.1	9.7
Directories	2.3	2.2	2.1	1.7
Disability Services	0.1	0.1	0.0	0.0
Disconnection	1.9	1.4	2.0	1.8
Faults	8.1	10.2	8.4	8.0
Land Access	1.5	1.3	1.1	0.9
Pay Phones	0.1	0.1	0.1	0.1
Phone Cards	0.4	1.1	1.0	0.7
Porting	0.2	0.2	0.2	0.3
Privacy	2.7	2.5	4.8	5.2
Provision of service	7.3	7.5	6.4	5.0

Source: TIO website 2007

Annual Internet Service Issues - %				
	2002/03	2003/04	2004/05	2005/06
Billing	38.5	31.1	26.5	23.3
Contracts	8.6	7.6	9.8	15.4
Credit control	2.7	3.9	3.3	2.9
Customer service	20.1	18.3	22.4	30.6
Customer transfer	-	0.2	0.8	0.9
Disconnection	3.1	3.2	3.0	2.1
Faults	20.4	21.9	17.9	14.4
Privacy	0.7	0.9	0.4	0.5
Provision	6.0	12.9	15.9	9.8

Source: TIO website 2007

Annual Mobile Service Issues - %				
	2002/03	2003/04	2004/05	2005/06
Billing	28.6%	22.2%	25.1%	29.2%
Contracts	24.8%	26.6%	21.1%	16.2%
Credit Control	14.2%	16.6%	14.2%	10.4%
Customer Service	15.5%	12.6%	16.5%	26.4%
Directories	0.2%	0.1%	0.1%	0.1%
Disability Services	0.0%	0.0%	0.0%	0.0%
Disconnection	1.3%	1.5%	1.0%	0.8%
Faults	12.2%	17.2%	18.3%	14.2%
Land Access	0.0%	0.0%	0.0%	0.0%
Porting	1.1%	1.4%	1.8%	1.2%
Privacy	1.5%	1.2%	1.3%	1.1%
Provision	0.6%	0.2%	0.6%	0.3%

Source: TIO website 2007

The above tables send a warning to members of the TIO to immediately address billing issues across landline, mobile and internet services. The only way of winning back lost customers due to billing issues is to help customers understand the billing process and to keep them informed, if there is a complaint, of the process to be followed. The language used to explain billing issues is also very important – the customer may get lost if a lot of “jargon” is used to explain the level of service offered. When a complaint is lodged in this instance, the level of the complaint may quickly escalate.

years. It should be noted that the Ombudsman did suggest that the complexity of the issues at hand are often what makes a complaint escalate to the next level and it was not necessarily a reflection of poor staff knowledge or lack of staff training. *Interestingly there is one major provider that has had no complaints registered with the TIO – the fact that complaints are dealt with in house at all levels is setting a very high benchmark for the rest of the Telecommunications industry.*

In 2005/06, 0.1% of all complaints to the TIO were escalated to Level 4, a figure consistent with the previous two

Complaint mix %				
Year	Level 1	Level 2	Level 3	Level 4
2003/04	89.7	7.8	2.5	0.1
2004/05	90.2	7.7	2.1	0.1
2005/06	91.1	7.3	1.5	0.1

Complaint Breakdown		
	2004/05	2005/06
Landline	44.2%	41.0%
Mobile	39.9%	40.9%
Internet	15.9%	18.1%

By 2005/06, total complaints to the TIO had risen 37% to 87,593 and the majority of these complaints concern landline and mobile services.

Total Number of Contacts, Complaints and Total Issues 2003-2006			
(Number)	Total Contacts	Total Complaints	Total Issues
2002/2003	72,771	55,515	62,670
2003/2004	75,904	59,850	68,020
2004/2005	97,798	78,915	100,825
2005/2006	107,601	87,593	127,479

All data is in whole numbers, Source – TIO Annual Report 2005/2006

Many complainants contact the TIO simply because they are dissatisfied with the attitude of their service provider. They may feel that their complaint is not being taken seriously or they may feel that the customer service is poor or indifferent. Perhaps the escalation in complaints is also a result of the growth in small sized internet service providers and mobile phone operators. Regulating and educating these providers is a long

task and perhaps the rapid growth of many of these organisations means that staff are not as well trained as they should be and their complaint handling skills are offering bordering on inaction. Part of the complaint handling process that should be measured is therefore staff ability to handle the complaint at the first point of resolution. Employees need to know how to listen and hear to

what their customer has to say and how to react appropriately.

Banking and Finance

Deloitte have recently audited FICS, using their own Assessment Program. According to Deloitte, both FICS and EWOV meet the current Australian Complaint Standards due to the fact that they have their own Internal Dispute Resolution Process.

The Australian Communication Industry Forum (ACIF) Codes of Conduct set benchmarks that companies should comply with – although they are not mandatory. These include the ability of customers to lodge a complaint, the ability of customers to receive updates on the progress of complaints and the ability of customers to have their complaint escalated. FICS suggest that if a particular company at the centre of a complaint had complied with the Complaint Handling Code initially, then there may not have been any cause for a complaint to be lodged with FICS in the first place.

In addition, FICS believes that the challenge today is to know how to define a complaint and learn how complaint management can be a key point of differentiation between companies. Research has shown that if customer expectations are greatly exceeded, rather than just met, then customer satisfaction is maximised. Given that many financial services are parity offerings, a customer is unlikely to be overly impressed by core product attributes when all companies are

providing similar products. Complaint handling is one of the key factors that can influence the extent to which customers are loyal towards their financial service providers. Market leaders in the finance industry are well aware that loyalty is no longer just a function of repeat purchase behaviour. Rather what the consumer does and what the consumer feels are two separate entities, requiring the managers to distinguish between exclusivity and loyalty. Therefore, a customer is loyal if they engage in repeat purchase behaviour and positive patronisation of the organisation, despite situational influences (such as bad service, miscalculated bills and so on) having the potential to cause switching behaviour.

It may be argued that as loyalty consists of one dimension that relates to behaviour and one that relates to attitude, the measurement of the success of complaint handling should distinguish two types of complaint satisfaction. One that is based on inertia (the customer continues with the organisation out of habit yet if convenient, will switch) and one that is based on true loyalty (repeat purchase behaviour is present, but also accompanied by a strong positive attitude towards the organisation).

Strategically, the organisation will ask itself: **how satisfied were customers with their experience and the outcome in their experience? Will**

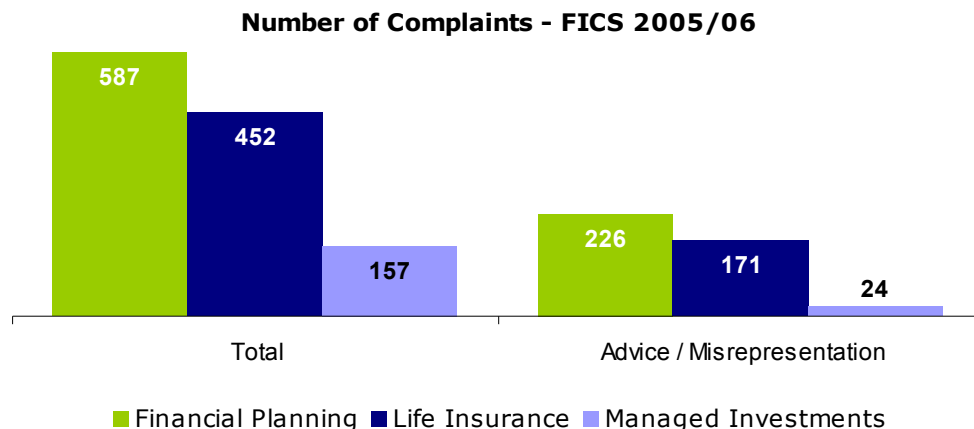
FICS recommend that complaints be acknowledged as soon as they are presented to the organisation. This allows complaint data to be transferred as knowledge across the organisation to ensure that the complaint process begins efficiently and the customer is “involved.”

the customer remain with the organisation, even when it may be presented with a feasible alternative?

FICS recommend that complaints be acknowledged as soon as they are presented to the organisation. This allows complaint data to be transferred as knowledge across the organisation to ensure that the complaint process begins efficiently and the customer is "involved." Relatively uninvolved customers are less likely to be brand loyal and will be more likely to switch to another organisation should the need arise. An ineffective complaint process

will be the catalyst the customer needs to defect to another organisation.

In 2006, the majority of complaints to FICS concerned Financial Planning (42%, overtaking Life Insurance for the first time), Life Insurance (33%) and Managed Investments (11%), with the total number of complaints increasing by 16% in the 2006 report. The major issue for Life Insurance complaints was denial (38%). The biggest area for complaints in the Financial Planning area was Financial Advice (39%) and the most complaints that were received pertaining to Managed Investments involved Misrepresentation (15%).



Excellence in complaint resolution can be measured by how likely one customer is to recommend the company to another. An internal complaint management system is the key for this to be achieved. St George has a centralised complaint management unit, although two thirds of complaints are pushed out to the decentralised business units – who are responsible for a resolution. St George has a KPI that

90% of complaints should be resolved within 5 working days – they started on 77% in January 2005 and in June 2006 they were 94%. The largest number of complaints is to do with fees and charges. Obviously when fees increase, so do complaints. Often customers are called, rather than responded to via email and just talking to them has allowed customer feelings to be communicated to higher management.

St George Best Practice recommendations include:

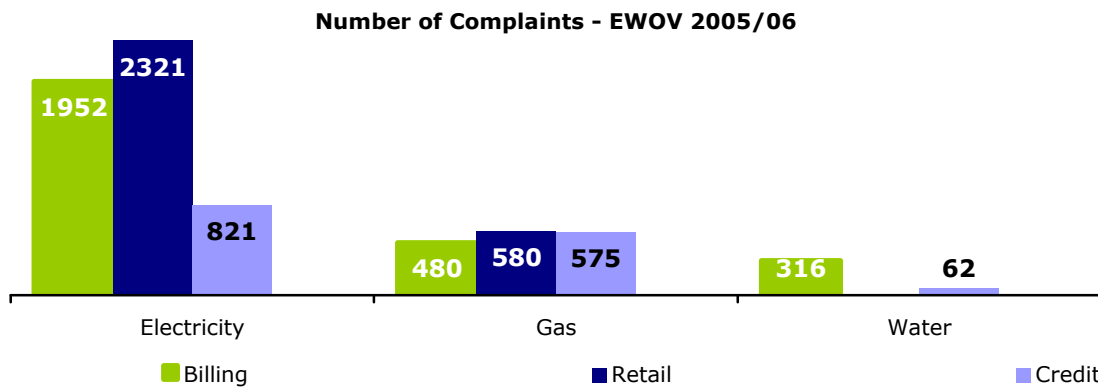
- Improve the customer feedback captured
- Develop first point resolution capability
- Development of positive service recover culture
- Continuous improvement.

Electricity and Water

According to the Energy and Water Ombudsman (Victoria) (EWOV) electricity companies have the most complaints with approximately 6000 cases between July and December 2006, as compared to natural gas, with just over 2000. Overall, cases were up by 2% for the same period, yet this could have been as a result of drought related issues, the major outage in Victoria in January 2006 and the growth of door to door energy sales.

EWOV are guided by eight principles within the complaint handling process: independence, access, equity, quality, effectiveness, efficiency, community

awareness, and linkages. Complaints are defined as being one of three types: those referred to the provider, those referred to higher-level contact, and those received for full investigation (of which there are three levels). Upgrading to the next level is often dependent on the time taken to resolve the complaint within the first initial level. The most common issues are billing (43%), retail competition (19%), credit (18%), transfer (11%), Provision (8%), Supply (6%) and Marketing (5%). Most cases (95%) were lodged by phone and the majority of complaints (68%) that were fully investigated were closed within 60 days.



Over the last 10 years, the Energy and Water Ombudsman (Victoria) (EWOV) have established that:

- Best practice is all about customer satisfaction and having a solid process in place within the organisation to register and deal with complaints
- Customer feedback is vital
- Time taken to resolve the complaint is important
- Best practice is best determined via a longitudinal study

EWOV analyse customer complaints and trends using customer bandwidths (number of customers an organisation has, based on information given to

EWOV by each retailer). For example, TRUenergy and AGL have the same customer bandwidth (between 500,001 and 750,000 customers), yet total complaints received for AGL was 2,079 in the 2005/06 year, while for the same period, total complaints for TRUenergy was 1,722. Interestingly, a greater proportion of TRUenergy enquiries were referred on as complaints (88%) compared to AGL (81%). As a result of these growing complaint numbers, many organisations are implementing ways to assess and measure the success of their own Complaint Handling. These may include annual Post Completion Complaints Surveys and Customer Exit interviews, which aim to address the reason(s) for defection and address key

issues within the organisation. Other measures include internal customer satisfaction surveys as a means to improve customer service and identify weaknesses within certain departments. Establishing best practice therefore involves regular complaint management reviews and conducting regular customer satisfaction surveys (i.e. on a monthly, if not weekly, basis, dependent upon the size of the customer base).

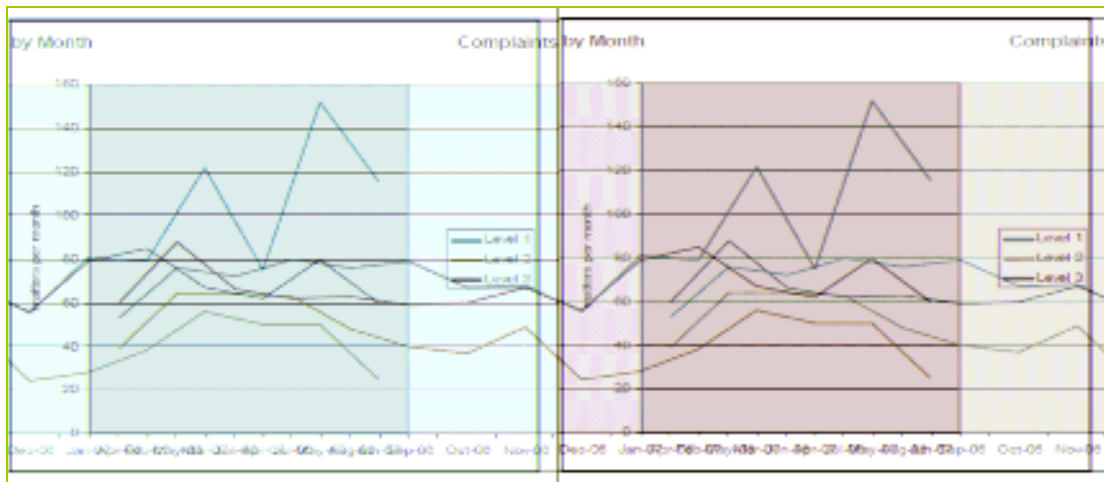
Based upon the above examples, what is currently being measured as part of an

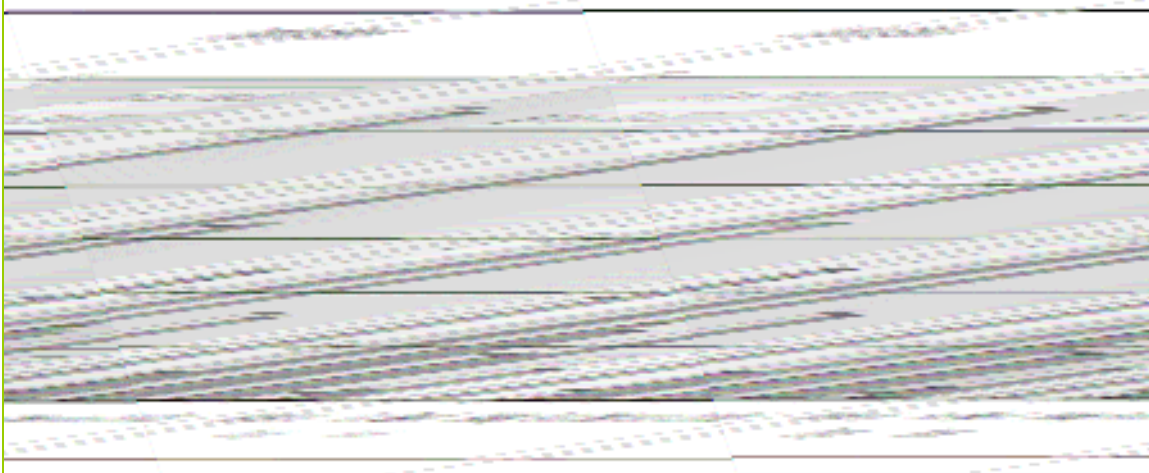
overall Complaint Handling Management system is:

- Time taken to assess complaint and provide response
- Time taken to resolve the complaint
- Number of registered complaints per organisation
- Number of registered complaints as compared to the number of customers
- Effectiveness of Key processes and procedures.

Health

The Private Health Insurance Ombudsman is an Australian Government agency but acts independently of the Government in dealing with complaints and reporting. In the second quarter of 2007, the PHIO received a 4% increase in complaints from last quarter and a 17% increase on the same time last year. However, there were improvements in certain areas. The latest Private Health report (March 2007) states that there is a continuing decline in complaints about medical gaps and issues relating to informed financial consent. The greatest number of complaints was for membership and service issues related to computer administration problems. These complaints concerned delayed payments, refunds and other service issues.





Source: PHIO website 2007

Most complaints to the PHIO in the first three months of 2007 were for membership benefits, followed by service issues related to computer administration problems. These complaints concerned delayed payments, refunds and other service issues.

In the 2006 Annual Report, the number of complaints received by the PHIO is the lowest since the introduction of major government incentives for private health insurance (rebates and so on). It is suggested that the factors that affect these complaint levels are:

- Changes in the insured population
- Government policies on health insurance
- Consumer awareness of available mechanisms for complaints
- Changes in consumer expectations

Interestingly, the PHIO argue that is the last point, changing consumer

expectations, which are helping to reduce the number of PHIO complaints (PHIO Annual Report 2006). Currently, consumers expect annual rises in premiums for health insurance and have accepted this as part of their increased usage of health services. Therefore, there are no surprises and a reduced number of complaints.

However, although complaints fell 8% in 2006, the number of Level 3 (Dispute level) complaints rose by 19%, making up 36% of the overall complaints to the PHIO in 2006. By April 2007, the figure had fallen 14% (by June 2007) with the greatest number of Level 3 complaints belonging to the largest private health insurer in the country so it is difficult to compare the incidence of Level 3 complaints across the industry due to different organisational sample sizes. Both Level 1 (Problem) and Level 2 (Grievance) complaints were reduced in 2006.

According to the PHIO, the success of the complaint management process is dependent upon a few key satisfaction measures:

Overall Satisfaction Measures	2006 Result	2007 Result
PHIO staff listened to client's concerns	94%	95%
Staff explained what sort of assistance PHIO could provide	85%	91%
PHIO staff were easy to understand	87%	92%
Complainant said they were satisfied or mostly satisfied with the manner in which staff handled their complaint	86%	88%
We resolved their complaint or provided an adequate explanation	74%	86%
PHIO acted independently in handling complaint	87%	88%
Client would recommend PHIO to others	82%	90%
For cases longer than a week, Client was satisfied with length of time it took to resolve complaint	76%	92%

Source: PHIO website 2007

Interestingly, the above table suggests that the success of the complaint management process is still very dependent upon the PHIO staff listening to the customer's concerns (95% 2007). Secondly, greater emphasis has been placed on staff explaining what the level of assistance from the PHIO is (6% increase in 2007) and that complaints are fully resolved (an increase of 12% in 2007). A greater number of clients were satisfied with the length of time taken to resolve the complaint, suggesting that the process itself, rather than the time taken to resolve, is a more important indicator of customer satisfaction with the complaint process. Customers are willing to wait to be satisfied and the managerial implications of this type of feedback should not be underestimated.

Summary of Key Ombudsman Issues 2005/06

	Total Complaints	% Change	Main Complaint Area	Comments
EWOV	17763	Down 8%	Billing – Electricity and Water Retail - Gas	Correct complaint registration is vital and use less formal complaint procedures to reduce number of complaints
FICS	1375	Up 15%	Financial Planning	Regulation of industry to comply with complaint standards
TIO	87, 593	Up 10%	Billing - Landline and Mobile Services Customer Service - Internet	Customer awareness is an issue as well as the language used to communicate with customers
PHIO	2374	Down 8%	Fund Membership – Refund and Level 3 complaints increased by 19%	Increase staff product knowledge to educate customers about package benefits

WHERE TO FROM HERE?

The complaint mantra should be “We make important what we can measure.” Often the problem is then is what to measure.

Factors to consider when evaluating the Complaint process:

- Satisfaction with the overall process
- Time taken to assess and respond to complaints according to perceived level of complaint – including consistency of delivery
- Time taken to resolve the complaint to the satisfaction of the customer and the organisation - including consistency of delivery
- Efficiency of instructing customers how to complain and explaining the amount of time needed to wait for response
- Level of empowerment given to staff to make reasonable decisions
- How is the complaint resolved – face to face, in writing, via phone
- How likely is customer to recommend organisation as a result of the complaint process itself, and is this feedback monitored and used to help the organisation

The complaint mantra should be “We make important what we can measure.”

The key to measuring the effectiveness of the complaint management process is careful analysis of post-complaint customer feedback:

- Was the customer aware of the Complaint Process?
- Did the customer manage to speak with the correct staff member qualified to handle the complaint?
- Was the company defensive?
- Did the customer feel that their complaint received a fair hearing?
- Was the complaint fully understood?
- Was assistance offered or notice of impending decision given within a reasonable time?
- Did the customer understand the complaints process and if the decision was not in the customer's favour, was the customer aware of any recourse?
- Was a reasonable solution reached and was this the preferred outcome for the customer?
- Would the customer recommend the organisation to others?
- Will the customer, despite having choices to switch to another organisation, continue to support this particular organisation?

The key challenge for organisations today is to prioritise this post complaint analysis and encourage customer feedback – both positive and negative. These complaints may find themselves in the public eye, via the media, and it is vital that organisations be seen to be trying to answer all complaints and deal with each one effectively. Over time sustained customer satisfaction will lead to stable views of an organisation's reputation and consequently customer attitudes will be formed that ultimately encourage positive word of mouth and long term loyalty.

BEST PRACTICE COMPLAINT HANDLING

Best practice in complaint handling should really be analysed from two perspectives – the customer and the company. From the **customer's perspective**, the key measure is 'how satisfied was the customer with the process' and 'will the customer recommend the organisation to a friend after the complaint is resolved, regardless of whether the outcome was favourable or not'. The complaint should also be handled as quickly as possible and communication should be given at each step of the way of the complaints process. Customers who take the time to complain do so for both financial and emotional reasons and this should be understood for the complaints process to be deemed best practice in the eyes of the customer.

From the **company's perspective**, complaints should really be seen as giving companies an opportunity to

improve their business and focus on customer retention, rather than lose customers and spend a lot of money trying to win them back. Best practice in complaint handling from a company perspective is when a company actively seeks out people who complain in order to use their feedback to improve customer satisfaction levels. In these companies there is a culture that has effective processes in place to understand the complaints, providing accurate feedback to the relevant departments who can then actively learn from the complaint.

Features of best practice in complaint handling are:

- Visible measures in place 'from a customer's perspective' e.g., how many people stay with company X after making a complaint.

- Clear understanding from the top of the organisation of what excellent complaint management looks like
- Well established processes in managing complaints
- Effective training courses for all staff to recognise and provide feedback for complaints

In today's' current complaint climate, there is a problem with organisations striving for best practice as there is disagreement as to what that means. What gets measured gets done and all too often companies measure the success of the complaint handling process simply by the number of complaints being handled in X time (eg resolved in 10 days) relative to the cost of the complaint to the company itself. This can be very dysfunctional from a customer's perspective, as suggested by one of our respondents: "all the company wanted to do was get me to agree to the resolution and move on...they really did not want to listen to me or understand my situation."

As a result of these discrepancies in measuring the success of the complaint handling process, best practice from the organisation's perspective can be vastly different to best practice from a consumer's perspective. A company may feel a case closed when a consumer's

The key areas of effective complaint handling to be communicated between industry partners involves addressing how the customer satisfaction issues are dealt with in each organisation

complaint was received, logged, and responded to in a timely fashion and the problem resolved within x amount of time. On the other hand, judging by the previous quote, the customer may feel that the response given suggested that the company did not listen to their complaint on an individual basis and the result was simply a standard response rather than an indication of the organisation's effort to address the heart of the problem and provide a solution which would leave the customer completely satisfied, not just partially satisfied.

To establish an industry benchmark (which is foreseeable) for complaint management, the key areas of effective complaint handling to be communicated between industry partners involves addressing how the following issues are dealt with in each organisation:

- Overcoming the challenges involved – bureaucracy (is the industry highly regulated, such as Banking and Financial Services)
- Ensuring that the organisation's KPI is not to reduce complaints but to seek out complaints
- Exceeding, not just meeting, customer expectations
- Consistency of delivery for each and every complaint
- Customer Understanding of the complaint process
- Clearly defined levels of complaints and complaint areas
- Facilitating the sharing of the complaint information across the organisation
- Monitoring of external and situational influences – look at what has just happened to organisation or industry – did interest rates just go up? Were bank fees increased? Are there ways to be proactive in this sense before complaints start to happen?

VALUE COMPLAINTS AS AN ASSET

It must be remembered that when a customer lodges a complaint with the Ombudsman, the company involved incurs a cost, dependent upon the nature of the complaint involved. Best practice from a customer's perspective is total customer satisfaction and from an organisation's perspective, best practice is ensuring that the complaint process is cost effective – encourage complaints to arise "in house" to try and resolve them before they reach the Ombudsman stage.

The reality is that a reactive complaint handling process wastes company money – proactive complaint management defines the reporting of complaints and how the outcome can be measured as part of an overall customer satisfaction process. Research indicates that encouraging complaints and dealing

with the issues facilitates more profitable customer purchase intention than if the company simply chose to ignore the complaints. Successful complaint management can actually be of financial benefit to a company, despite the "cost" of the dealing with the complaint initially. To achieve this benefit, business accountability needs to be balanced with complaint resolution and efficiency. An important factor to manage is cultural change – an organisation needs to accept that they want to seek out complaints and then use these complaints to improve customer satisfaction and ultimately, organisational profitability.

An example of customer defection as a result of poor complaint handling, posted on an online forum:

How Have We Failed You?: Why I Closed My PayPal Account

By Jodie Monger, Ph.D., Customer Relationship Metrics – Sep. 17, 2007

"After a very long time with PayPal, I closed my account. Why? I had a customer service issue and could not get anyone to help me. You may be thinking, "How is that possible?"

As a customer service professional, I am much more forgiving than the average consumer. I will work within the system to find the process that works and I will not give up before the very last moment. See, not the average customer!

My PayPal problem has been going on for six months. I have used the Contact Us form and no one has responded to me. Within the pages of my account I was unable to locate a telephone number of any kind to speak to a human being. I became very tired of the "don't call us" mentality from these people. Fine, I won't call you but then you need to fix my problem as I asked. My final email form to them restated my problem for the fourth time and requested a call from them or I would close my account. Do you think I received a response from them of ANY kind?

So I closed my account and within a day I receive a ridiculous survey from them so they can find out why I closed my account. They have proven to me over a long period of time and from many electronic requests to them that they do not care so why now would I spend time to tell them why I left? If you would ready your customer requests for help, you would know AND you wouldn't have a lost customer at this point.

That survey is the final straw to tell me that they march through their days collecting fees from those who use their service and have absolutely no strategy for managing the customer experience.

Does your organization create the illusion that you will assist customers by online Contact Us forms and then not respond? How do you know the effectiveness of each of the contact channels available to your customers?"

GETTING THE RIGHT PEOPLE TO LEARN THE RIGHT LESSONS

Ultimately the complaint handling process will fail unless the right information is given to the right people and these people are then willing and/or able to use it effectively. When a customer complains to an organisation, the frontline employee must know how to communicate this to his/her manager and in turn, the manager must be able to see how business could be improved if higher levels of loyalty and customer

satisfaction could be achieved and customer retention rates increased. "Often the most important barrier to learning from defections is that employees can't see how learning relates to their own success." (Reichheld 2000, p.68). Understanding the nature of failing to manage complaints effectively will undermine the value of the organisation and ultimately, the growth of the company.

CONCLUSION

The fastest way to build a customer-focused culture is by generating complaints. In doing so, it is an important strategic decision to measure how satisfied the customers were with their complaint **experience, rather than just the outcome of their experience.** Organisations should initially strive to adhere to the key Ombudsman recommendations, ensuring that customer complaints are reported and defined correctly from the outset. In addition, aiming to resolve these complaints while keeping the customer involved (preferably when the complaint is first lodged) will improve customer satisfaction levels and overall organisational performance.

Consequently, this valuable complaint data should be efficiently transferred as knowledge across the organisation and indeed to other organisations (via online forum or organised workshop) to allow best practice measures to be continually challenged and updated. The improved consensus with the complaint handling process will allow those who analyse and manage this data to provide more data rich report writing and more profitable feedback.

It is worth remembering that organisations need to have a complaint management process outlined in the organisation's strategic plan. The evidence

Ultimately the complaint handling process will fail unless the right information is given to the right people and these people are then willing and/or able to use it effectively.

of a good complaints system is characterised by: positively encouraging customers to complain, handling complaints face to face by well trained staff (if possible initially), properly recording all complaints, backing up of difficult complaints with well trained staff, user friendly language to help customers lodge complaints and implementing an escalation procedure that all staff and customers are aware of. Importantly, the pattern of complaints should be analysed within the organisation and the lessons learned should be circulated to all staff so that knowledge regarding complaints is transferred, rather than filed away.

The quality improvement efforts within the complaint management process will only be profitable if these efforts meet the increasingly demanding customers' needs. The future of best practice complaint handling is upon us – continuous improvement will be the challenge.

Examples of Australian Ombudsmen

Australia - Industry-based Ombudsmen

[Banking and Financial Services Ombudsman](#)

National scheme dealing with disputes that individuals and small business have with their banking and financial service providers.

[Energy Industry Ombudsman SA](#)

State-based scheme which investigates and resolves disputes between South Australian electricity and gas customers and their providers.

[Energy & Water Ombudsman NSW](#)

State-based scheme that investigates and resolves disputes between New South Wales electricity and gas customers and their providers. It also deals with water complaints to do with Sydney Water and Hunter Water.

[Energy and Water Ombudsman \(Victoria\)](#)

State-based scheme which investigates and resolves disputes between Victorian electricity, gas (natural and bottled) and water customers and their providers.

[Energy Ombudsman Queensland](#)

Independent statutory scheme which investigates and resolves disputes between Queensland residential and small business customers and their gas and electricity providers.

[Energy Ombudsman Western Australia](#)

State-based scheme that investigates and facilitates the resolution of complaints from residential and small business customers about their gas or electricity provider.

[Financial Industry Complaints Service](#)

National scheme which handles disputes about life insurance, funds management, stockbroking, financial advice, investment advice and sales of financial or superannuation products sold by life insurance companies.

[Insurance Ombudsman Service](#)

National scheme handling disputes between consumers and their insurers in relation to claims about domestic insurance, for example, home building, home contents, motor vehicle, travel, consumer credit, valuables and personal property; also deals with disputes about third party motor vehicle claims.

[Public Transport Ombudsman \(Victoria\)](#)

State-based scheme which deals with complaints about Victorian public transport, where members of the community have been unable to resolve directly with the public transport operators.

[Telecommunications Industry Ombudsman](#)

National scheme that deals with complaints about telephone, mobile, and internet companies.

Australia - Parliamentary Ombudsmen

[Commonwealth Ombudsman](#)

Takes complaints about Australian Commonwealth Government agencies.

[Ombudsman for the Northern Territory](#)

Takes complaints about Northern Territory government departments and agencies.

[Ombudsman Tasmania](#)

investigates complaints about the administrative actions of government departments, councils and public authorities. The Ombudsman Tasmania is also the Energy Ombudsman Tasmania.

[Ombudsman Victoria](#)

Takes complaints about Victorian government departments, most statutory authorities and local government.

[Ombudsman Western Australia](#)

Investigates complaints about Western Australian government departments, statutory authorities and local governments

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