

**Centre for Utility Consumer Law
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**Complaint handling:
Principles and Best Practice**

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Report for energywatch

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CONTENTS

Executive summary	1
1. Introduction	6
2. Principles of complaint handling:	8
2.1 Internal company schemes	8
2.2 External dispute resolution schemes	15
3. Consumers' perceptions of complaints processes	19
4. Best practice	25
5. Role of Customer Relationship Management	33
6. Good complaint handling = economic sense	36
7. Putting things right in future	39
References	41

Executive summary

In 2008 the landscape for handling energy-related consumer complaints is due to undergo radical change. This report examines and analyses the principles and best practices upon which the new system should be built in order to optimise the sector's performance, minimise the risk of consumer detriment, and to ensure the coherence and effectiveness of all aspects of the new arrangements.

The report utilises a wide range of research evidence, and well-established and tested principles and practices taken from a variety of sectors; it also highlights areas which would benefit from further or better-designed research. In addition, it reviews the potentially contradictory role of customer relationship management employed by many companies. It sets out the essential components of good practice for internal company complaint handling processes and for external dispute resolution (ADR) schemes.

Principles for company schemes

There is a high level of agreement on the basic principles that should form the foundations of companies' complaint handling schemes, drawn from national and international published standards and from academic and other work:

1. **Highly visible procedures** – including clear information about how to make and pursue a complaint with a single point of contact; and clear and accurate feedback on how the complaint is processed and escalated.
2. **Easy and free access** – removal of all unnecessary access barriers; provision of 0800 numbers and call back facilities.
3. **Effective company protocols** – to achieve high levels of quality assurance and performance. These must include a sector-wide, well-understood and accepted definition of what constitutes a complaint; accurate recording methods including provision of customer reference numbers at the outset; secure and efficient data handling; and follow up procedures to check consumer satisfaction with the way that complaints are handled.
4. **Fairness and consistency** – treating all customers fairly and with respect; having consistent processes for resolving complaints and determining outcomes.
5. **Responsiveness** – clear and appropriate time limits for resolving the majority of consumer complaints and, where necessary, flexibility for dealing with complex complaints together with keeping the complainant informed.
6. **Organisational ownership and commitment** – the importance of good complaint handling and of regular analysis of complaints data should be understood and supported at all levels throughout the company. Substantial efforts should be made to ensure that the most effective organisational structures and procedures are in place, including robust staff training and monitoring.

Implementation

If the companies are to put these principles into practice – and if consumers are to have full confidence in the new complaint handling arrangements – the report concludes that a set of basic standards must be established and accepted across the energy sector. The example is cited of the financial services sector in which the regulator has laid down rules for complaint handling, which include recording and reporting on complaints. The existence of competition at the retail level in energy is not regarded as a sufficient guarantee that all energy companies will follow best practice in complaint handling. In any case, all consumers should be able to expect a reasonable and acceptable level of service in this respect. The clearest and most robust way of achieving this would be a duty which falls to the regulator, Ofgem, and to set standards for complaint handling across the energy sector which are backed up by effective monitoring and enforcement action. If that is not achievable, some form of co-regulation should be explored through which standards are set, monitored and enforced in a system that includes regulatory and other independent input as well as that of the industry.

Principles for external dispute resolution

The report sets out the following principles to which an external dispute resolution scheme should adhere:

1. **Information:** clear information about a consumer's entitlement to a good or service, as well as clear information about complaint processes
2. **Accessibility:** complaint handling systems should be free of charge and fully accessible to all consumers, including people in vulnerable situations.
3. **Consumer support and empowerment:** the ability to call on third party help when making a complaint.
4. **Fairness:** processes and decisions need to be fair and based on public available rules and criteria.
5. **Effectiveness and performance:** dealing with complaints in a timely fashion, ensuring positive improvements in service delivery and performance monitoring and auditing.
6. **Resolution and redress:** the ability to resolve the problem, a range of remedies, including financial compensation and the ability to tackle systemic issues.
7. **Independence:** independent of those complained against.
8. **Accountability:** publicly available information on how the service works and how it is governed.

9. **Resources:** adequate resources and flexibility to deal with present and future demands.
10. **Consumer involvement:** complaint handling systems need to be informed by consumers' views and experiences.

The role of ADR schemes in raising complaint handling standards is also explored, including examples from other sectors. The report concludes that the existence of a regulator in the energy sector is not an obstacle for this role to be included in the remit of the sectoral ADR scheme. It is argued that its involvement in raising standards should be an integral part of ensuring that the new arrangements work as well as possible.

Consumers' perceptions of complaints processes

The report shows that there are a number of dimensions involved in evaluating consumers' perceptions of complaints processes and outcomes. Consequently simplistic surveys designed to measure consumer satisfaction fail to capture important elements of consumers' expectations, experiences and views. In addition, some research appears to conflate consumer satisfaction with process and outcomes. Even though these are complex matters, it should nevertheless be possible to distinguish between consumers' perceptions of 'interactional justice' – how they felt they were treated – and their views about fairness of outcomes - 'distributive justice'.

Available research evidence suggests that consumers' personal circumstances and situations can have a significant bearing on their expectations and experiences of complaints processes, including their socio-economic circumstances and psychological aspects such as self-esteem, and feelings of disempowerment. Importantly, it is clear that these types of factors often lead people to have negative perceptions about complaints processes which dissuade them from complaining in the first place: yet they are not usually included in consumer research surveys but may be amongst the consumers who are most at risk of vulnerability.

The report also highlights the important role that companies' behaviour can play in influencing consumer perceptions – an obvious point but nevertheless one that needs to be made. For instance, whilst there is relatively little empirical research on this point, findings by Citizens Advice show the barriers encountered by consumers in trying to communicate with companies by telephone.

The section concludes with an example of research from the US which showed a startling disjuncture between consumer expectations when making complaints and the subsequent outcomes.

Best practice

The report explores in detail the key elements of what constitutes best practice for company internal complaint handling schemes and external ADR schemes. This expands on the principles set out above, and is based on other research carried out by the Centre and on discussions within the Consumer Action Network. The report recommends that these best practice points are incorporated fully into the policies, procedures and protocols of the new complaint handling and ADR arrangements. It also highlights the importance of carrying out rigorous and regular consumer research into the adequacy and effectiveness of the new landscape, and of using the findings to improve performance and quality assurance.

The role of Customer Relationship Management

The report notes that many companies are employing Customer Relationship Management (CRM) tools and techniques in order to help interface with their customers. Although a vast literature has been published on CRM, very little of it appears to deal directly with complaint handling experiences and performance. However, one frequent manifestation of CRM is the use of call centres and telephone trees, which can act as barriers to accessing complaints processes. Furthermore, the report suggests that CRM can be used to segment and discriminate between groups of consumers, and can therefore undermine good practice principles in complaint handling.

Good complaint handling = good economic sense

The report highlights that, both in principle and in practice, complaint handling should not simply be regarded as a cost, for instance, it costs more to replace a dissatisfied customer than to retain an existing customer. Moreover, in the Internet era, dissatisfied customers can these days relay their dissatisfaction to large numbers of people via the web. In addition, research evidence from the US cited which shows that customers who complain are more likely to re-purchase the good or service than those who do not. There is also a small stream of research that shows that good complaints culture and processes may well lead to improved financial performance. For instance, the information from complaints data can be used in root cause analysis to identify and help tackle systemic problems in company operations.

Putting things right in future

The report concludes with a forward-looking set of proposals aimed at helping to ensure that all elements of the new arrangements meet well-established principles and best practice points in the new complaint handling arena. It stresses the need for a coherent and seamless service in which all relevant organisations recognise and accept the importance of effective joint working within a common framework.

There are some key and urgent priorities:

- Ofgem should clarify how it proposes to make regulations prescribing standards for complaint handling in exercise of its new statutory duty.
- All energy-related companies should ensure that their policies and procedures adhere to accepted principles and best practices in relation to all aspects of complaint handling.
- Ofgem should ensure that the new ADR scheme for energy is robust, speedy and responsive, that there are sufficient sanctions available for breaches of rules, and that there is a regular flow of published information from the ADR scheme to Ofgem.
- Ofgem, the energy ADR scheme and the new NCC should establish arrangements for handling complaints that raise issues of wider interest.
- The energy ADR scheme and the new NCC should be required to publish information regularly on the performance of the energy industry in relation to complaint handling, including identification of systemic failures and naming and shaming of individual companies where appropriate.
- All the relevant organisations – such as Consumer Direct, the new NCC, the energy ADR scheme and Ofgem – should ensure that they work together effectively, share information, and collaborate where appropriate in order to protect consumers' interests and to raise quality standards in the energy sector.
- All parties, including energy companies, involved should be working together to ensure that there is security and continuity for consumers who make complaints during the transitional period leading up to March 2008 and for a period beyond.

Finally, the report recommends that Ofgem, the new NCC and the energy ADR scheme should review the operation of their systems on a regular basis, as well as the effectiveness of companies' complaint handling.

I. Introduction

The handling of consumer complaints in the energy sector is due to change radically following the implementation of the Consumers, Estate Agents and Redress Bill and the creation of the Energy Supply Ombudsman following energywatch's super complaint on billing practices to Ofgem. Similar changes are proposed for postal services and, ultimately, for the water industry and, if the reforms prove to be successful, they could be adopted for other areas, such as transport. As regards consumer complaints, the key proposals place prime responsibility on the companies to deal with complaints initially, subject to the right of consumers to go to an external body, such as an Ombudsman, if they are dissatisfied with the outcome. These external schemes will require the approval by the regulator and will have to meet certain requirements including those principles of best practice for redress schemes which the regulator regards as applicable to the scheme. Initial inquiries about who to complain to and how to complain will be handled by Consumer Direct. In addition, the new National Consumer Council will be able to investigate certain categories of complaints.

The new system puts central responsibility for complaint handling on the companies and the approved external bodies. The aim of this paper is to initiate a discussion on what should be the principles of best practice underpinning the new system, how these principles should be implemented in practice and how to move from the current arrangements to the future institutional structure. We do this by discussing first, the principles of good complaint handling, then looking at customers' perceptions of the complaint handling process, evidence of existing best practice, how complaint handling fits into customer relations management and finally the economic benefits to companies of good complaint handling. We conclude by discussing what needs to be done in the short and medium term.

Before going on to do this, there are a few preliminary points. First, good complaint handling and redress matter to consumers. Particularly in the energy industry there are potentially very serious consequences when things go wrong and, for example, disconnection is threatened. These can be due to any number of factors, including the nature of the problem and the person's situation which places them potentially vulnerable and at risk.

Secondly, complaint handling should matter to companies in a competitive industry. The research indicates that service failure costs companies in terms of money and reputation and that most dissatisfied customers do not complain (Stauss and Seidel 2004: 36). The same research indicates that customers who have used a company complaints procedure and feel that they have been treated properly are more likely to remain loyal to the company over the longer term and to provide positive word of mouth experiences to their acquaintances. By contrast, the BMC Churn Index suggests that poor fault handling is the biggest predictor of churn and that there is a high rate of churn in the energy industry. In addition, complaints data offer a valuable source of information for the company about systemic problems, customer views and potential new opportunities. Thirdly, in the internet era, dissatisfied customers are no

longer restricted to word of mouth comments about companies to their neighbours and acquaintances, they can now publicise their problems to the world at large through websites.¹

¹ For example: <http://www.clik2complaints.co.uk/modules/mylinks/visit.php?cid=9&lid=898> Hellmail – post: http://www.clik2complaints.co.uk/modules/newbb/viewtopic.php?forum=14&post_id=2551 (Carphone Warehouse); www.thomsoncomplaints.co.uk (Thomson Holidays); www.britishcompanies.co.uk/booksforchildren.htm (BCA bookclub)

2. Principles of complaint handling

2.1 Internal company schemes

The British Standards Institution (BSI 2004) publishes an international standard which sets down guidelines for complaint handling in organizations and can be taken as the starting point for assessing good practice in complaint handling schemes². This has nine principles which it recommends for the effective handling of complaints: visibility, accessibility, responsiveness, objectivity, no charges for complaint handling, confidentiality, customer-focused approach, accountability (within the organization) and continual improvement (see box). Because the BSI standard is devised as general guidance for a variety of organizations, the principles can be implemented in a number of different ways. There is a strong emphasis on maintenance and improvement of the complaints handling process through, for example, analysis, auditing and determining the levels of complainant satisfaction with the process and reviewing its operation.

BS ISO Principles for complaint handling

Visibility: Information about how and where to complain should be well publicized to customers, personnel and other interested parties.

Accessibility: A complaints-handling system should be easily accessible to all complainants. Information should be made available of the details of making and resolving complaints. The complaints-handling process and supporting information should be easy to understand and use. The information should be in clear language. Information and assistance in making a complaint should be made available in whatever languages or formats that the products were offered or provided in, including alternative formats, such as large print, Braille or audiotape, so that no complainants are disadvantaged.

Responsiveness: receipt of each complaint should be acknowledged to the complainant immediately. Complaints should be addressed promptly in accordance with their urgency. The complainant should be treated courteously and be kept informed of the progress of their complaint through the complaints-handling system.

Objectivity: Each complaint should be addressed in an equitable, objective and unbiased manner through the complaints-handling process.

Charges: Access to the complaints-handling process should be free of charge to the complainant.

Confidentiality: personally identifiable information concerning the complainant should be available where needed, but only for the purposes of addressing the complaint within the organization and should be actively protected from disclosure, unless the customer or complainant expressly consents to its disclosure.

Customer-focused approach: the organization should adopt a customer focused approach, should be open to feedback including complaints and should show commitment to resolving complaints by its actions.

Accountability: the organization should ensure that accountability for and reporting on the actions and decisions of the organization with respect to complaints handling is clearly established.

Continual improvement: the continual improvement of the complaints-handling process and the quality of products should be a permanent objective of the organization.

² This is under review and a new version will be available from the end of April 2007.

Putting principles into practice relies heavily on organisational commitment. In interview,³ the Chair of the Local Government Ombudsman (LGO) emphasized that it was important that complaints were owned by the leader of the organization because this was a signal that complaints mattered and an opportunity to improve performance. In addition, a clear reporting line was needed for the head of a complaints handling unit. The key question for an organisation's complaint handling was their accessibility, which could come in many guises.

From the academic side, Johnston (2001: 61 and see also Johnston and Mehra 2002) summarises his understanding of a good complaints process thus:

- Having clear procedures
- Providing a speedy response
- The reliability (consistency) of response
- Having a single point of contact for complainants
- Ease of access to the complaints process
- Ease of use of the process
- Keeping the complainant informed
- Staff understand the complaint processes
- Complaints are taken seriously
- Employees are empowered to deal with the situation
- Having follow-up procedures to check with customers after resolution
- Using data to engineer-out the problems
- Using measures based on cause reduction rather than complaint volume reduction

Again, there is a high level of agreement on these basic principles within the literature, running from brief guides on how to do complaint handling (TIO no date, Consumer Affairs Victoria 2004; Welsh Tourist board no date) to more detailed investigations (Office of Consumer Affairs 2002) and academic literature (van Ossel et al 2003).

³ 9th August 2006.

Complaint handling in financial services

The crucial issue is how these high level principles are implemented and a good UK example is the rules of the Financial Services Authority (FSA 2006) on complaint handling procedures for firms. This came out of a major change to the regulation of financial services from around 2000 which stemmed in part from high profile supervisory failures, such as the collapse of Barings and BCCI and problems over the mis-selling of endowment mortgages. The FSA sought to establish the Financial Ombudsman Service (FOS) and, as part of this move, established common rules on complaint handling for the firms within its jurisdiction.

In the first instance, these rules require that firms keep and retain records of complaints. They are also required to report to the FSA information about number of complaints, broken down according to categories and product types, complaints closed by the firm within certain times, the outcome of complaints and the total amount of redress paid. Internal complaints procedures are required to be in writing and to be able to handle any expression of dissatisfaction about the provision of or failure to provide a service. Firms are required to refer eligible complainants in writing to the availability of its internal complaint handling procedure at, or immediately after point of sale, they must publish details of their procedures and supply copies on request to people or automatically when a complaint is received and display publicity in its branches or sales offices indicating that they are covered by FOS.

Complaints must be investigated by an employee of sufficient competence who, where appropriate, was not directly involved in the matter, the person who responds to complaints must have the appropriate authority to settle complaints or have ready access to someone who does, and responses to complaints should adequately address the subject matter and offer appropriate redress, which may include compensation. The firm should ensure that all relevant employees know about the procedure, there should be appropriate management controls, complaints should be handled fairly, consistently and promptly and firms should identify and remedy recurring or systemic problems.

In terms of time limits, the FSA requires written acknowledgement of a complaint within five business days and a final response within either four or eight weeks. Final responses must inform complainants about FOS.

Complaint handling in other regulated sectors

Energy

By contrast, in the area of regulated industries, the rules on complaint handling have not been developed in such detail. In the energy sector, there is a requirement that energy supply companies produce a Code of Practice on handling complaints. Ofgem's (2001) guidance on the contents of these codes states that it should contain a definition of a complaint, and the time-scale for handling different types of complaints. It goes on to say that the procedure in the Code should be:

- effective, aimed at solving the problem and providing at the very least a satisfactory explanation, an apology or some form of redress;
- readily accessible to users of the service;
- simple to operate, with clearly set out procedures and responsibilities;
- speedy, with time limits for dealing with complaints;
- objective, with provision for an independent means to investigate complaints if necessary
- confidential – the privacy of the individual should be protected;
- integrated with the organisation's management information systems.

Ofgem went slightly further in the supply licence review, suggesting that the standard condition should be amended to require companies to publish their complaints procedures on their web-sites. Membership of the Energy Supply Ombudsman brings with it the requirement to have an adequate internal complaints procedure.

Communications

By contrast, Ofcom (2005a) specifies, as a minimum, what complaints procedure documentation should contain:

- Company name and major office address.
- A description of the service(s) offered.
- Details of the services covered by any subscription or rental charge.
- Details of standard tariffs, including any standard discounts or special/targeted tariff schemes, to cover access, usage and maintenance.
- Company policy on compensation and refunds with specific details of any compensation/refund schemes offered.
- Details of any maintenance service provided.

- Details of standard contract conditions, including whether any minimal contract periods apply.
- Details of the company procedures for resolving disputes and recourse to alternative dispute resolution mechanisms.

or make clear where the customer may find this information, as required under General Condition 14.1 in relation to the requirement under General Condition 10.2 (see Annex A).

Unlike the FSA rules, Ofcom does not specify anything about record-keeping or reporting information about complaints to Ofcom. Nor does Ofcom set down any requirements regarding the running of complaint schemes, in particular in relation to timetables or solving recurring or systemic problems.

The Otelco Terms of Reference (13 c) simply provide that members must provide an adequate complaints procedure, although this does not appear to be a condition of membership for Cisas and nor does this appear to be a requirement of membership of the Internet Service Providers Association. In its review of alternative disputes and redress (ADR) schemes, Ofcom (2005b) commissioned a survey of end user satisfaction with the ADR process. This found that there was little evidence that communications providers were advising complainants about the ADR process on first contact. The survey found that complainants were least satisfied with the way regular staff handled their contact and two thirds were “very dissatisfied” (Ofcom 2005b: para 6.16). The review recommended that communications providers should improve their complaint handling procedures, train front line staff adequately in handling complaints, use a standard definition of a complaint for recording and monitoring purposes and Ofcom promised to work with the ADR schemes to develop best practice in complaint handling as part of the conditions for membership of an ADR scheme (Ofcom 2005b: p. 36).

Water

Water companies are required to have a complaints procedure, but Ofwat has apparently not laid down any guidelines as to what should be covered by them. They are required to respond fully to complaints within ten working days under the Guaranteed Standards Scheme. The Consumer Council for Water monitors this through a Best Practice Register which indicates, as of August 2006, only two companies offer to respond within seven working days, although four offer higher levels of compensation if they do not respond within ten days. Some data on complaint handling feeds into the Overall Performance Assessment (OPA) run by Ofwat and the overall OPA assessment may have a small impact on the price control agreed for an individual company.

Postal services

In the postal service area, condition 4 of Royal Mail's licence requires it to establish complaint procedures which are transparent, simple and inexpensive and cover loss, theft, damage and non-compliance with the scheduled services and standards. The procedures have to be in terms which are agreed with Postwatch and there are provisions requiring regular reporting of the operation of the complaints procedures to Postwatch and Postcomm as well as provisions designed to ensure reasonable publicity for the procedures.

Australian comparisons

It is interesting to compare the UK situation with the position in Australia where the Australian Communications Industry Forum (ACIF 2004) has created its own code on complaint handling, partly in recognition that the current regulatory arrangements were inadequate for complaint handling (for background see box). The Code provides a broad definition of complaints as "an expression of dissatisfaction or grievance"⁴ and, as well as some general principles, relatively detailed guidance on complaint handling procedures. Thus complaints handling procedures must be visible and accessible to all customers, including people with disabilities and from non-English speaking backgrounds (ACIF 2004: 7.2).

A complaint must be acknowledged within five working days and the supplier should provide a timeframe for the possible final determination of the complaint. In general, complaints should be resolved in thirty calendar days, although there is provision for complaints taking longer than this to resolve (ACIF 2004: 7.3). Complaint handling must be free, there should be an internal escalation process and customers should be told of their rights to further recourse. A supplier must not demand payment of genuinely disputed amounts whilst the complaint is being investigated (ACIF 2004: 7.8). Finally, complaints must be properly recorded and there must be internal data collection and analysis in order to rectify and eliminate the underlying causes of complaints and improve the quality of customer service. This analysis and reporting must occur quarterly, at a minimum.

⁴ This is consistent with BSI 2004.

ACIF Code Development and Review

The development of this Code in 2000 was facilitated by ACIF through a Working Committee comprised of representatives from the telecommunications industry, Government regulatory agencies, the Telecommunications Industry Ombudsman (TIO) and consumer groups. The Code required suppliers to:

- have complaint handling processes which are available to customers and the TIO;
- acknowledge complaints within a minimum timeframe, inform customers of that timeframe, and advise customers of the initial investigation of their complaint. Where the customer remains dissatisfied with the outcome, the customer must also be informed of their external avenues of recourse;
- give sufficient information to customers so that they can inquire about the progress of their complaint; and
- have procedures in place to record complaints and their outcomes.

The Code was amended in 2001 to confirm the TIO's jurisdiction to handle complaints under the Code, and to allow the ACA to refer industry complaints about the Code to ACIF for resolution.

In 2002, the ACA investigated complaint handling processes of suppliers under the Code and, in its *Report of the ACA Investigation, Carriage Service Providers and Complaint Handling Systems*, identified areas of concern with some suppliers' complaint handling processes that included:

- the ability of customers to lodge a complaint in the first instance, raising issues of access and resources;
- the ability of customers to receive updates on the progress of complaints, raising the issue of responsiveness; and
- the ability of customers to have a complaint escalated.

The Report also identified one area in which some suppliers were systematically breaching the Code: the failure to have systems in place to record all complaints within a complaint handling system.

The Code was reviewed under ACIF processes to address the issues raised by the ACA Report, as well as other issues identified by the TIO and consumer organisations.

Why Current Regulatory Arrangements are Inadequate

Current regulatory arrangements are constrained in the following areas:

- **Legislation:** the legislative suggestion for a Code on complaint handling does not include any suggestions on what complaint handling practices and processes would be appropriate;
- **SFOAs:** Current legislation only requires information on internal complaint handling processes to be publicised but does not prescribe how those processes should operate;
- **AS_4269:** The Australian Standard on complaint handling is a guideline only and cannot be enforced against service providers;
- **TIO:** The function of this body is to be an office of last resort for consumers and the jurisdiction does not extend to prescribing the content of complaint handling processes; and
- **Quarterly reporting by service providers to the ACA:** This is currently inconsistent due to the various recording and reporting interpretations arising from the first version of this Code.

2.2 External dispute resolution schemes

Raising standards

Before looking at the principles which should inform how an external scheme is run, there is a preliminary question relating to the overall aims of a redress scheme. Although the handling of individual cases is central to any such scheme, there is also the question of the extent to which it should be involved with or concerned about raising standards of service in the industry, beyond deciding individual cases which may have wider implications. This has been a particular issue in relation to Ombudsman services and it has become evident recently that the public sector ombudsmen see raising standards as an important part of their remit. This can be illustrated by the Parliamentary Ombudsman's description of its role which includes among other things, to:

- understand complaints and investigate them thoroughly, quickly and impartially, and secure appropriate outcomes
- and share learning to promote improvement in public services. (Parliamentary Ombudsman 2006)

This is further illustrated by the Parliamentary Ombudsman's recent publication of "Principles of Good Administration" for public bodies.⁵

⁵ Available at: http://www.ombudsman.org.uk/improving_services/good_administration/principles.html

There are a number of means by which the Local Government Ombudsman (LGO) approaches the issue of raising standards and solving systemic problems. The Ombudsman may, for example, stipulate in the remedy that the local authority must improve its administrative systems and to report back to the Ombudsman in significant cases. In addition, the LGO may also publish special reports which identify trends in problems across the country which identify systematic weaknesses. Finally, the LGO publishes an annual, individual, letter to all the councils within its jurisdiction, drawing attention to general trends in complaints and any systemic issues that it has identified. The information within the letter is also reported to the Audit Commission, the cabinets of local authorities and local media.

Arguably, the public sector Ombudsmen can take this approach because there is no obvious single regulator for the public services nor the pressures of competition faced by the private sector. However, there are examples of specific arrangements in place to tackle systemic issues in sectors where there is a single regulator and the sector is open to competition. The Financial Ombudsman Service (FOS), although primarily focused on complaint handling, recognises that it is part of a wider regulatory system and not only shares information with the Financial Services Authority (FSA) but has also agreed a process for dealing with cases which have “wider implications” and can be dealt with by either the FSA or the FOS.⁶

In a different context there is the example of the Australian Telecommunications Industry Ombudsman (TIO). It is funded by the telecommunications industry but was established through legislation. The TIO’s primary function is defined as complaint handling of various sorts of complaints but it also has a specific jurisdiction to investigate “systemic problems”, that is:

“a problem with or the failure of a system, process or practice of a member that causes detriment (that is not trivial) to a significant number or a class of end-users of a carriage service and which arises from a complaint that is within the jurisdiction of the TIO by virtue of another provision of the TIO Constitution”. (TIO 2006: Clause 5A)

If the TIO and the member company cannot agree on a resolution for a systemic problem, ultimately the TIO can refer the matter to whatever it regards as the relevant statutory regulator.

By contrast, within the UK communications industry, the two external bodies, Otelio and Cisas see their roles as being primarily about grievance redress. Otelio describes its purpose as to consider complaints from consumers, although it also sees itself as contributing to world class standards for consumers (Otelio 2006: 26, 28). As well as making binding recommendations on individual cases, it also produces non-binding recommendations in cases where there is a training need or a procedural problem, although the implementation of these recommendations is not monitored (Otelio 2006: 9). Cisas describes itself as an “*independent dispute resolution service for communications providers and their customers*” but it also produces good practice recommendations and monitors whether or not they have been met (see Cisas 2005).

⁶ For details see: <http://www.ombudsmanandfsa.info/>

The current position of the Energy Supply Ombudsman seems to go further than Otelo because, although its main purpose is the receipt and handling of unresolved complaints, the Ombudsman also has power to encourage good practice in complaint handling by member companies⁷ and, when it comes to remedies:

“The Energy Supply Ombudsman may ... make recommendation to [member(s)] about changing its policies or procedures, including in relation to the provision of its services.”⁸

In addition, the Ombudsman may also recommend systemic changes in policy or procedure related to dispute handling within the energy supply industry.⁹ Unlike FOS, there is apparently no power for sharing information with the regulator.

Principles of good complaint handling

There are a large number of works which set out a list of principles to which an external complaint handling scheme should adhere. In previous work for the Consumer Action Network (George et al 2005) we identified the following principles that an external scheme should meet:

1. **Information:** clear information about a consumer’s entitlement to a good or service, as well as clear information about complaint processes
2. **Accessibility:** complaint handling systems should be free of charge and fully accessible to all consumers, including people in vulnerable situations.
3. **Consumer support and empowerment:** the ability to call on third party help when making a complaint.
4. **Fairness:** processes and decisions need to be fair and based on public available rules and criteria.
5. **Effectiveness and performance:** dealing with complaints in a timely fashion, ensuring positive improvements in service delivery and performance monitoring and auditing.
6. **Resolution and redress:** the ability to resolve the problem, a range of remedies, including financial compensation and the ability to tackle systemic issues.
7. **Independence:** independent of those complained against.
8. **Accountability:** publicly available information on how the service works and how it is governed..
9. **Resources:** adequate resources and flexibility to deal with present and future demands.
10. **Consumer involvement:** complaint handling systems need to be informed by consumers’ views and experiences.

⁷ Energy Supply Ombudsman Terms of Reference para 10.1 (l)

⁸ Energy Supply Ombudsman, Terms of Reference para 9.4

⁹ Energy Supply Ombudsman Terms of Reference para 10.2 (f)

Of these ten principles, only numbers three and ten do not usually feature in the literature. So, for example, the BIOA's (British and Irish Ombudsman Association) criteria for recognition of Ombudsman schemes include accessibility, independence, that Ombudsman decisions should be implemented, that procedures should be fair, that there should be adequate information about the scheme, that the scheme should be adequately staffed and funded and that Ombudsmen should produce an annual report. Although these principles are currently under review, and a new version will be announced at the end of April 2007, we would be very surprised if there was a major change in emphasis. Similarly, Which? (2006) has produced principles for a model ombudsman system which are: access, independence, fairness, transparency, effectiveness, efficiency and confidentiality¹⁰.

In Australia, where there has been a proliferation of industry based schemes, although mainly in the utility and financial services areas, seven benchmark principles were issued by the Department of Industry, Science and Tourism (1997).¹¹ In summary, they were: accessibility, independence, fairness, accountability, efficiency and effectiveness.

The above examples indicate that there is substantial agreement about the principles at a high level, although there may be difficulties about how those principles are applied in practice. Thus, for example, the BIOA's criteria for recognition include as alternatives that those investigated by Ombudsmen should be legally bound by their decisions or that there should be a reasonable expectation that the Ombudsman's decisions should be complied with. This is a compromise which allows the public sector ombudsmen to claim membership, even though they may only make recommendations, rather than binding decisions and there are a number of cases where public authorities have not complied with Ombudsman decisions, with perhaps the most high profile recent case being that of Equitable Life, where the government rejected the Ombudsman's findings and did not compensate the victims.¹²

¹⁰ Confidentiality meant maintaining the confidentiality of complainants and third parties but not, implicitly, that of the companies.

¹¹ <http://www.treasury.gov.au/contentitem.asp?NavId=&ContentID=1124>

¹² See http://www.ombudsman.org.uk/news/hot_topics.html

3. Consumers' perceptions of complaints processes

Whilst a great deal is known about the key principles that should be embraced in complaint handling systems, far less is known about the extent to which these are actually applied in practice by providers. Moreover, there is little cross-sectoral research on this subject.

Although more is known about consumers' perceptions of some complaint handling processes, much of the available research is based on measurements of consumer satisfaction in general, without distinguishing between consumers' experiences and views on the processes, and on the outcomes. Inevitably these dimensions intersect and therefore it may not always be clear exactly what is being measured in terms of consumers' views of complaint experiences. For instance, recent research by the Association of British Insurers (2007) found that when asked, consumers who had made a complaint reported that they were able to distinguish between their levels of satisfaction with the process and with the outcome. 51 per cent were satisfied with the outcome but 50 per cent said that the company had handled the complaint poorly. It is not clear whether the 49 per cent who were dissatisfied with the outcome were the same as those who reported dissatisfaction with the way their complaint was handled.

Other research has underlined the importance of disentangling the different dimensions of consumers' views on the adequacy of complaint handling processes.

Stauss and Seidel (1998) attempted to define these different quality dimensions:

1. Adequacy/fairness of the outcome: both the problem solution and fairness of any compensation.
2. Access: ease of finding competent contact person.
3. Friendliness: politeness, courtesy, communication style.
4. Empathy: willingness to take the customer's perspective, including understanding the customer's annoyance.
5. Individualised approach to complaint handling.
6. Visible effort to solve the problem.
7. Active feedback, including notification about procedures, delays and decisions.
8. Reliability: keeping promises.
9. Speed of response: reaction to complaint and resolution.

Stauss (2002) pointed out that most studies of complaint satisfaction and repurchase behaviour either implicitly or explicitly interpreted complaint satisfaction in terms of outcomes. If he is correct, this casts doubt on the usefulness of some studies of complaint satisfaction if they have not distinguished between satisfaction with outcomes and satisfaction with processes.

Another approach was used to explore and identify the factors influencing consumer perceptions by Blodgett et al (1995 and 1997) in the US. They made a distinction between the way in which consumers perceived how they were treated by retailers – characterised as ‘interactional justice’ – and whether they received a fair settlement – described as ‘distributive justice’. The authors argued that consumers’ perceptions and behaviour could be influenced by both – namely that whether people seek redress depends on their perceived likelihood of success and on their perceptions of the willingness of providers to remedy the problem. Respondents to their survey made it clear that their perceptions were influenced by the competence, friendliness and helpfulness of staff and also by whether it was felt that suppliers welcome complaints, for instance, through the signals communicated to customers through stated sales policies.

The above work and other research underline the importance of recognising that research into consumer complaint satisfaction needs to unpick the various factors that influence consumer perceptions of complaints processes and outcomes.

Consumers’ circumstances

Obviously consumers’ perceptions of the adequacy of complaint handling processes can also be influenced by their personal circumstances and situations. For instance, someone with low literacy and/or numeracy skills might find particular aspects of a process especially challenging and offputting which could then influence their views and stated satisfaction with a complaints process (and possibly outcome).

Unfortunately such a supposition does not appear to have been tested adequately to date according to published research literature.

One of the few exceptions was a US study on complainants to the Public Service Commission of West Virginia (Hunter and Brisbin undated). The study was carried out in 1989/90 and showed that only 48 per cent of respondents with less than a high school diploma believed that the outcome of the complaint process was fair, compared with 72 per cent of those who had a college degree. And only 33 per cent of those with less than a high school education had received most or all of what they wanted from making a complaint, compared to 71 per cent of those with a college degree.

However, it is known that people with low self-confidence, lower skills and on lower incomes are less likely than others to make a complaint in the first place. This is clearly another important contributory element that has to be taken into account in considering consumers’ perceptions of complaint handling processes.

For instance, research for the OFT (Synovate 2005) found that those more confident of making a complaint were from the ABC1 social group and from a white group. However, energywatch’s figures show that over half of the respondents to its 2006 customer satisfaction survey were in the C2/DE socio-economic groups. This is indicative of what can be done to encourage people to complain who may not otherwise have done so when things have gone wrong in their dealings with energy companies.

Over 70 per cent said they tend not to complain unless they have to, especially people aged 75+, or people who had left school at a younger age or were in the DE social group. Similarly research by the Scottish Consumer Council (2003) found that income, education, skills and confidence levels, as well as age and sometimes gender, can exert powerful influences in determining whether consumers make a complaint; research in Northern Ireland also had similar findings. Such findings were not restricted to the UK, for instance, an EU survey of consumers in Member States (European Commission 2004) find that the likelihood of making a complaint increased with the level of education; the same findings emerged from a study in Australia (Volkov 2005).

Another Australian study (Social Systems and Evaluation 2003) reported that for people from a culturally and linguistically diverse background, young people, and people with disabilities, perceptions about complaints processes can act as powerful disincentives to complain. People from these groups reported feeling that they would not be listened to, nothing would be done, and those to whom they would complain would lack empathy. The fear factor was particularly pronounced among new immigrants, whilst formal complaints processes could appear to people with disabilities to be distressing, demoralising and intimidating.

Psychological aspects

As work for the OFT makes clear, there are important psychological aspects of consumer behaviour involved in whether consumers complain or not and their broader attitudes towards making a complaint (Lunt 2006). For instance, he highlights the strong emotional factors at play for consumers in contemplating or making a complaint, including feelings of self-esteem, surprise and disbelief and sometimes being fearful of entering the complaints process and also consumers frequently feel out of control in the process. In addition, social fear or politeness rules may lead some consumers not to complain as they fear the consequences of being rude, bothering someone or hurting someone's feelings.

Lunt points out that these findings also explain why complaint levels are relatively low given the high levels of dissatisfaction: in these instances “...people are avoiding the potentially **negative psychological effects** of complaining.” (his emphasis)

Moreover, his research showed that people experience some problems related to breach of trust which are seen as counter to the normal way that people live their lives. Consequently people often experience a sense of moral outrage and their reaction may be framed according to the principle at stake rather than according to pragmatic economic exchange.

Companies' policies and behaviour

How consumers' interact with providers inevitably affects their perceptions of the quality of complaint handling processes.

However, the evidence is patchy. Goriely and Williams (1997) discussed the way that companies use filter procedures that reduce the number of complaints they receive, and concluded that a classic way of doing so is to require the person to put it in writing.

Meanwhile more recent research by Citizens Advice (2004) explored people's actual experiences and problems encountered in trying to communicate with providers by telephone. Such experiences are very likely to influence people's decisions and behaviour in relation to raising and taking through complaints. The research identified factors such as time and cost of accessing and working one's way through an automated telephone tree, and being passed around without the problem being addressed or resolved satisfactorily. In addition the research highlighted numerous problems encountered by people with communication difficulties, hearing impairments, mental health problems etc. It is instructive that only 3 per cent of respondents failed to make negative comments about automated phone systems.

What companies may regard as a reasonable outcome is not necessarily regarded as such by consumers. Research by Customer Care Measurement & Consulting (2005) in the US asked consumers what responses they wanted in pursuing complaints and compared the results to what consumers perceived they got out of the process. The results are startling and potentially very worrying:

Remedy	% Wanted to Get	% What they Got
Explanation why problem occurred	73%	18%
Product repaired/service fixed	72%	27%
Thank you for my business	71%	25%
Assurance problem wouldn't recur	70%	16%
Apology	59%	25%
Chance to vent	59%	47%
Money back	45%	18%
Free product/service in future	35%	12%
Compensation for time, inconvenience or injury	23%	4%

It does not appear that similar research has been published relating to the UK. There is some research carried out for the OFT (Synovate 2005) which identified the most common problems experienced when consumers tried to resolve difficulties with products and services. The length of time for action to be taken, poor attitude of staff, and having to hassle to get results were the three most prevalent problems that were reported. However, this research does not go into further detail as to the expectations and perceptions of respondents about complaints processes.

The need for a better understanding of consumers' perceptions

In reviewing the published literature relating to consumers' perceptions and views on complaint handling, the most significant gap in the available research relates to the absence of empirical evidence on consumers' own perceptions, experiences and views about particular providers' complaint handling processes. Equally there is a lack of independent research on how consumers' experiences and perceptions are affected by providers' complaint handling policies and practices, including staff and managers' attitudes, competences, and behaviour towards customers with problems.

Although existing academic research explores issues relating to interactional justice to some extent, it has some significant limitations. In particular, there is a strong tendency to characterise or categorise consumers and their complaint intentions and behaviour according to factors such as whether they are assertive, alienated, whether they have had prior experience of making a complaint, their emotional state, beliefs and attitudes. Useful as these characterisations have been in the research process, it is legitimate to question whether this approach sufficiently captures the reality of people's circumstances and experiences. For example, although much of the research literature discusses elements such as people's confidence as a potentially determining factor in complaint behaviour, the term 'confident consumers' can be too simplistic – a person may be confident in dealing with individuals on the phone, but may be daunted by the need to fill in complaints forms, or vice versa.

However, it is of course essential to recognise the difficulties involved in designing and carrying out this type of research. For instance, there are inevitably practical problems in trying to contact and interview in any depth consumers who have experienced problems but not complained, or who did so but dropped out of the process. Similar practical difficulties exist in being able to obtain the necessary data to investigate the relationships between the very wide range of consumers' circumstances, abilities and disabilities and their perceptions of the ease or otherwise of making a complaint.

Nevertheless even though the research base is often more indicative or illustrative rather than definitive, there is sufficient evidence to confirm that good complaint handling processes are important to consumers, and that the design and implementation of these processes need to be informed by an understanding and acceptance of the wide variety of consumers' wants and needs.

Much of the existing research evidence on consumer satisfaction with complaint handling, or with service quality in general, is not sufficiently detailed to provide an in-depth and comprehensive analysis of the impact on consumers of all the various aspects of complaint handling in the energy sector. Consequently, if the energy companies are to optimise the way they deal with complaints, and the other elements in the new arrangements for complaint handling are to work as effectively as possible, there is an urgent need to carry out the necessary qualitative research on consumers' experiences and views.

This type of consumer research would also be valuable in informing and helping to shape the various key performance indicators for assessing the performance of complaint handling organisations (Consumer Direct, the new NCC, and the Energy Ombudsman) and the targets used in companies' internal schemes.

4. Best practice

The principles set out in section 2 of this report describe the key elements of what constitutes good practice in complaint handling and redress processes. In this section we discuss what good practice should look like and give some examples of good and bad practice.

Very little independent up-to-date detailed comparative research evidence is available on good practice in complaint handling. There do not appear to be any studies which have compared complaint handling systems, either within or across industries, on the basis of consistent criteria that attempt to evaluate their effectiveness. Examples of good practice tend to be based on case studies or to be anecdotal and we do not know of any which use customer views as a baseline for evaluating complaints procedures. The suggestions set out below are based on the Centre's experience and previous work in this area and on discussions within the Consumer Action Network.

Accessibility

An obvious starting point in evaluating complaint handling systems is whether they are truly accessible. This applies from the first point of contact right through the process of registering, handling and resolving a complaint, as well as signposting consumers to other sources of assistance at relevant points.

Information must be made easily available to consumers so that they know where to go when things go wrong, the responsibilities of companies' internal complaint systems, and what help is available from external advice and dispute resolution schemes. Recent research by Ofcom (2006: 115) found that a significant minority – 16 per cent - of consumers did not know where to start complaining about their gas or electricity supply. Moreover, 67 per cent were unaware of the correct/reasonable process to escalate a complaint about gas or electricity.

The new arrangements for complaint handling and redress must work seamlessly for consumers. Frontline staff working for Consumer Direct, suppliers, the National Consumer Council and the Energy Ombudsman will need the expertise to ensure that consumers are quickly and accurately directed to whichever is the appropriate source of help according to their individual circumstances, including people who may meet the criteria for being assisted by the new NCC. All those involved in these new arrangements should agree a clear strategy for raising consumer awareness of the existence of internal and external schemes and how to access them.

It should be a matter of routine to provide consumers with clear and accessible information about how they can make a complaint, and make it as simple as possible for them to do so. Proper signposting is crucial. Information should be easy to find and included at minimum on the back of consumers' bills and statements. The information should cover how to make a complaint to the supplier, and where

consumers can go for advice or if they are unable to resolve the complaint satisfactorily. Equally this information should be obvious and clear on suppliers' websites. There should also be clear signposting to information in different formats and languages. Once consumers have registered dissatisfaction, it should be recorded as a complaint – providing a complaint reference number would be one way of ensuring that the start of the process is defined, and would also enable consumers and company staff to track the complaint.

The first point of contact for consumers in making a complaint will be critical for all parties involved, and should therefore be able to take full account of the wide range of communication difficulties that consumers may have. For instance, letters from consumers may not be clear perhaps because they have literacy difficulties or have learning disabilities, or for example have had a stroke and cannot write properly. A good complaint system should obviously avoid the use of complicated or hard-to-understand forms or procedures, printed or online. Care should also be taken to ensure that help is readily offered to consumers who might be unable to fill in a form themselves.

Ensuring that consumers know at what stage of the process their complaint is being considered and what might happen next should be an integral part of any accessible and easy-to-use complaints system. This applies as much to suppliers' processes as to external redress schemes. Similarly suppliers and external complaint and ADR schemes should ensure that consumers are informed about the role and function of staff contacted during complaints processes.

Consumers need to know how long these processes will take, including advice and ADR processes where appropriate. This is not only beneficial for consumers for obvious reasons (and can help to reduce consumers' worries and levels of agitation), published timetables are also essential benchmarks against which to measure the performance of suppliers and external schemes.

If the new arrangements for complaint handling and redress in the energy sector are to work, information will need to be clearly and readily available to consumers about each aspect. This should include the ADR element. Although ADR schemes traditionally rely on publicising their existence through providers and advice agencies to avoid consumers approaching them prematurely, this approach is not adequate to meet consumers' needs. It frequently results in low levels of awareness of the existence of ADR schemes or in attracting a relatively narrow section of white middle-class consumers. Instead consumers should be given information on each aspect of the process including the role of ADR – if it is clearly presented, this should minimise the risk of people going to ADR schemes prematurely.

All consumers should have access to independent ADR for unresolved complaints against energy companies. If this is to happen, all suppliers need to be formally required to be members of an approved ADR scheme – it would be preferable for there to be a single scheme to avoid confusion for consumers and unnecessary duplication of resources.

Responsiveness

Consumers who have a problem with a supplier may not be clear whether they are raising a query or making a complaint that needs to be registered, processed and resolved. Regardless of the channel used, such as call centres, internet or written communication, it is important both for the consumer and supplier to be clear about whether someone is actually making a complaint. This means there has to be clear guidance to staff which broadly defines what is a complaint, together with proper recording mechanisms. For instance, the Scottish Consumer Council (SCC) has defined complaints as “*any expression of dissatisfaction that needs a response*”. SCC explains that this wide definition is useful as it catches a broad spectrum of comments and complaints, and many consumers don’t know how to categorise their concern or complaint.

Suppliers also need to ensure that they register a complaint properly in order to avoid delays or confusion for all parties that could potentially be involved. For instance, consumers may end up approaching an Ombudsman prematurely because a supplier has not registered a complaint as a result of lack of understanding among its staff.

All of the above should apply when consumers contact suppliers through call centres. When designing and running call centre systems, suppliers should be aware that complicated telephone trees and long waiting times rank very high on consumers’ recorded dislikes. Inevitably consumers can end up even angrier than when they tried to begin the process.

In the new arrangements it will be essential for there to be mutually agreed systems to ensure speedy four-way communication between Consumer Direct, NCC, the Energy Ombudsman and Ofgem on complaint handling and redress performance and quality in order to spread and promote best practice. In addition, NCC and the Ombudsman will need to be able to recognise cases where complaints information may signal a breach of a licence condition, or to identify emerging or existing areas where there is significant consumer detriment and where investigations or enforcement action might be required. Such a system would also highlight where changes in licence conditions might be needed.

Charges

Access to internal and external complaint handling and redress systems should be free of charge but there are frequently indirect or hidden costs for consumers. For instance suppliers or ADR schemes may offer an 0845 number (a local rate which varies between operators) but even this can give rise to costs which might bear especially heavily on consumers who are on low incomes. As the National Consumer Council (NCC 2006: 22) found in its research, the use of expensive phone lines for customer contact does not go down well and is regarded by consumers as a sneaky action: “*You ring up someone to sort of complain, and the most frustrating thing is when you’re on one of these premium rate numbers, not an 0800 and you’re sat listening to some irritating music.*”

Fairness and objectivity

Complaint handling, advice and ADR procedures and processes need to be - and be seen to be - open and fair to all. Best practice demands of suppliers and others the setting and use of clear criteria – such as people’s vulnerability and the seriousness of the problem - by which to signpost the need for rapid investigation and resolution and/or redress. Suppliers should be prepared to explain properly to complainants both how and why they are taking particular decisions regarding redress. Consumers need to be given an opportunity to see and comment on provisional decisions by ADR schemes, and be given reasons for final decisions. Fairness is a cornerstone of quality assurance, which needs to be backed up by the use of independent monitoring, and consumer-relevant KPIs which measure not only input and output volumes and times, but also levels of satisfaction and dissatisfaction with complaint handling and redress processes, and with subsequent outcomes.

Ombudsman decisions must be binding on all suppliers if the system is to be fair and open to all consumers. This needs to be coupled with speedy and robust means for ADR schemes and regulators to take action against individual suppliers in cases of non-compliance.

Effectiveness

Company systems and external advice and ADR schemes should all aim to handle and resolve consumer complaints as speedily as possible whilst giving each complaint full consideration. Time targets should be determined according to consumers’ needs as far as possible – suppliers and external schemes should be required to justify the rationale for longer timescales. If limited resources are hampering their ability to investigate and resolve complaints speedily, then urgent attention should be paid to increasing the resources available rather than subjecting consumers to worrying and unnecessary delays.

For instance the Complaints Culture Survey in Australia, referred to in the previous section, highlighted the fact that all but 4% of respondents expected complaints to be dealt with within one week, with 54% stating that they expected action on the same day. Even if consumers’ expectations might be regarded as unrealistic by some, drawn-out procedures are hardly likely to improve relationships with customers (of suppliers and ADR schemes alike). The Energy and Water Ombudsman in Victoria, Australia, manages to run the system without rules determining how much time has to elapse before a consumer can approach the Ombudsman, after going to the supplier first. This raises the obvious question as to why this cannot happen here.

It clearly matters a great deal to consumers how long it takes from registering a complaint to resolution, and it can be argued this is a significant source of dissatisfaction as well as potentially causing considerable anxiety. This also exemplifies why consumers so often feel powerless as they simply do not know what is being done or how quickly they can expect to hear back. Consequently independent

research is needed to examine the complaints processes used by suppliers and ADR schemes in order to explore how the timeliness of these processes might be improved whilst maintaining high quality standards. Such research could also include cross-sectoral investigation to see whether lessons can be learnt and applied from elsewhere.

Best practice in complaint handling should be founded on maximising the potential for consumers to make a complaint, not on minimising the numbers of complaints for PR or other narrow business purposes. Systems need to be reviewed regularly to identify and weed out any unnecessary barriers (whether deliberate or unintentional).

Poorly run and resourced call centres can act as a barrier to accessing complaint systems. For instance, all too often staff are given narrow performance targets that mean they may be unable to spend sufficient time in talking to a complainant, especially if a consumer has a speech impediment or hearing difficulty. Or staff may not be properly instructed on how to refer or escalate complaints within the system, or on what information they should give to consumers who are registering a problem. Complaints and redress processes should also include systems that enable people who do not have English as their first language to make a complaint in a timely way.

It is crucial that frontline staff are able to deal with consumers' concerns or complaints individually – understandably people become angry if they feel they are being given, or fobbed off, with a set script that takes little account of the nature of their problem. As National Consumer Council research found, when they are talking to a particular person, people expect that individual to take charge of the situation. NCC remarked that time and again, consumers feel they are passed from person to person, each time having to explain their story afresh.

Senior management should actively encourage staff to communicate information internally to managers and directors, rather than causing them to feel they should avoid being the bearer of bad news. The culture should be that complaints are to be welcomed as they provide an invaluable source of data about service quality and alerts about potential problems, as well as needing to be resolved properly for the sake of consumers and of the company's reputation.

All too frequently companies only take action to improve their complaint handling through crisis management when things go badly wrong and complaints soar. When suppliers treat complaint handling as an important and integral part of business activities, they are far more likely to pay attention to and resolve problems that suddenly arise, for instance, when new IT systems are implemented. These kinds of problems can easily degrade or undermine relationships with customers. If things do go wrong, it is not in anyone's interest for the problem to be exacerbated by the existence of an uninformed or otherwise inadequate complaint handling system.

As discussed above, the 'organisational positioning' and status of complaint handling systems and staff are of critical importance in determining whether complaints are handled well, properly integrated within a company, and regarded as a core and important part of the business. This area merits some form of independent research whose lessons could be shared between suppliers, complaint handling bodies and ADR schemes.

Accountability

If senior management of a company regard complaint handling as a marginal aspect of the business, then it is less likely that the system will pursue good practices. In these situations suppliers are in danger of having a poor reputation and possibly losing existing customers and not gaining new ones. This is exemplified in customer relations management (CRM) debates about whether complaint handling might be regarded as a potential profit centre, rather than simply as a cost centre (see next section). Complaint handling should be an integral part of maintaining and improving relationships with customers, as well as providing valuable business information about service quality.

Similarly if complaint handling is not regarded as an important part of the business, it could easily become 'organisationally distant': largely or completely separated from other relevant operational activities. Staff involved in complaint handling need to have sufficient status and be properly integrated with relevant departments so that complaints can be sorted out informally as early and effectively as possible. In addition, where complaints are bringing to light compound problems in particular areas of operations, it is obviously important that this information is communicated and acted upon by appropriate staff. Good and effective communication of this sort will also have beneficial effects on relationships with consumers.

The performance and quality of suppliers' systems do not stand alone but need to be part of the broader national arrangements regarding complaints and redress mechanisms in the energy sector, including the new NCC, the energy Ombudsman, and Consumer Direct. This landscape of course includes Ofgem. The corollary of this is that there will need to be appropriate and relevant information-gathering and publication of information which not only makes clear the state of play but thereby encourages the adoption of best practice in complaint handling. This means that all parties will need to accept and sign up to a common framework for sharing and publishing complaints data.

Accountability also needs to be underpinned by independent evaluation of the performance of internal and external schemes, including the ability to name and shame individual companies which perform poorly. Key performance indicators (KPIs) should be based on research into consumers' views and expectations. The process of setting KPIs should also avoid perverse effects, such as narrow time targets for staff to deal with telephone calls which prevent them from giving sufficient attention to consumers.

Best practice demands the regular publishing of the results of such monitoring and assessment. For instance the Energy and Water Ombudsman (Victoria, Australia) now provides each member of the Ombudsman scheme with a monthly Customer Contact Information Report, which draws together the feedback from their customers.

Systems to ensure proper accountability obviously need to include not only the performance and quality of suppliers' complaint handling, but also of external complaint handling schemes and ADR. Clear routes must be available for consumers to pursue complaints against the way in which external schemes have handled their problem. Serious consideration should also be given to the value of using an independent assessor for ADR schemes, such as that appointed by the Financial Services Ombudsman (FOS) who is responsible for carrying out a final review if a complainant remains dissatisfied with the standard of service of the FOS. The work of the independent assessor is also valuable in raising broader issues for consideration by the FOS through their annual report.

Resources

If complaint handling and redress are to be accorded the importance needed to make the systems work effectively for the organisation and consumer alike, they have to be properly resourced. First and foremost, internal and external schemes need to resource all elements of the process, including frontline staff, customer service departments and management systems. They need to ensure that staff handling complaints are adequately trained and are recognised as a key part of the organisation. Investment in good record-keeping by departments and in clear interdepartmental communication is also a fundamental aspect of best practice in complaint handling.

Suppliers, ADR schemes and other complaint handling bodies should have the flexibility to bolster their resources if and when there are unanticipated increases in the number of complaints or changes in the nature of complaints. Failure to be able to do so can lead to organisations using filtering or prioritising methods that unfairly discriminate against individual or groups of consumers or lead to delays and further consumer detriment.

Independence

Independence from providers is a paramount requirement for external complaint handling and redress schemes if they are to have the confidence of consumers. If such schemes are fully or partially funded by industry, the processes should be clearly independent of suppliers' influence. Consequently, rule-setting, investigation and resolution processes need to be – and be seen to be – completely independent of suppliers. Appointments to governing bodies must be carried out through open public recruitment, and the majority of board members should be independent of industry.

Remedies

When something goes wrong - especially in an essential service such as energy - consumers need to have their complaint sorted out satisfactorily as speedily as possible. The importance of this basic requirement should never be under-estimated. The option of switching to another supplier should not be used as justification for failing to sort out a complaint properly. Consumers cannot necessarily switch to another provider, for instance if they have debts over a certain amount, or the problem may have arisen in the process of switching. In any case, consumers may still need to resolve their complaint with the original supplier even if they decide to switch.

Internal company complaint handling and ADR schemes need to be in a position to offer a range of remedies depending on the individual situation. These need to include at base a straightforward apology, recognition of the validity of the complaint to the possibility of financial compensation for actual losses and for distress and inconvenience. Consumers should still continue to be able to have the choice of whether to accept the outcome of a complaint or dispute resolution process or to go to court.

5. Role of Customer Relationship Management

Advocates of the Customer Relationship Management (CRM) approach, especially the numerous CRM consultancies, maintain that it is or should be more than a customer database, more than a call centre system, or any other customer-oriented software system. It should, they maintain, be a company strategy. Jennifer Kirkby, a CRM expert and business editor of the Customer Management Community argues that: “*essentially it should be about how a company aligns itself with its customers*”. (ref to be added)

In theory at least, CRM should therefore include effective, efficient and easy-to-use customer complaint handling and redress. But as Ozimek (2006) pointed out: “*a large number of companies are doing what they perceive to be CRM, but the perception of what CRM really means is unique almost to each organisation.*”

Consequently, complaint handling in any particular organisation may or may not be part of an overt CRM strategy or system. The literature on CRM reveals the multitude of uses for which CRM products and systems are employed, such as:

- Mining customer data for trends;
- Identifying which customers will respond to an offer before it gets sent out to them (eg direct mailshots);
- Making it easier to concentrate a company’s efforts on their ‘best’ customers;
- Enabling marketing and customer service staffs to jointly interpret a customer’s relationship with the company;
- Reducing the cost of servicing customer complaints;
- Automating customer feedback handling processes in general;
- Developing and operating a centralized database which facilitates the organization of data and automates business processes and common tasks;
- Designing and executing of targeted marketing campaigns;
- Assessing risks and protecting against fraud;
- Improving customer retention;
- Maintain information on the channels or business units through which customers buy the company’s products.

- and much else.

Some CRM companies emphasise customer complaints management products or applications, others do not appear to have any particular focus on complaints handling.

One of the most prevalent aspects of CRM’s ‘public face’ is of course the automated telephone tree/call centre ‘relationship’ experienced by customers (so-called self-service). The CRM literature (much of which is self-promotional) has emphasised the

cost reduction potential of self-service customer interfaces, without necessarily addressing whether such systems improve (or degrade) the effectiveness of the substantial customer complaints workload handled by these systems.

But of course there has been much public criticism of self-service interfaces (see , for example, Citizens Advice, 2004). Among the most frequently cited criticisms are the length of time it can take to make telephone contact with the ‘right’ person (and use of premium phone rates), overcomplicated and hard-to-use phone decision-trees, and the fact that the company-determined ‘scripts’ to which staff have to adhere can make it harder than necessary for complainants to explain the nature of their complaint, and what they want done with it.

These criticisms have moved some companies to take action, such as guaranteeing that customers who phone will get straight through to a member of their customer service staff, or use of dedicated phone numbers for all or for particular types of complaint.

Some have done so using CRM strategies or systems, but there is a danger that the ‘data mining’ and analytical processes employed could discriminate between complainants. For example, one industry-based commentator (Evans, T undated) highlights the ability of these processes to:

- Segment customers who call in terms of whether they are ‘high value’ or ‘low value’ customers;
- Prioritise such ‘high value’ callers, by adding predictive analytic solutions to their call-routing capabilities;
- Refer ‘high-value’ callers to ‘retention agents’, or ‘upsell’ staff;
- Route high value callers to more skilled customer interface staff.

This, very conventional, business model approach to customer relationships (including those who complain or have queries) obviously places complaint handling within the framework of companies’ valuation of relationships with particular customers or groups of customers. So CRM can be used to embed within systems processes which actively discriminate against less valued complainants.

Similarly, CRM does not necessarily ensure that companies consider customer complaints handling and customer retention issues in terms of general performance. The above example implies that retention of less valued customers is not a priority.

And as research by Stauss et al concludes, companies often have little or no idea about the profitability or otherwise of their complaint management. Consequently, the researchers argue, complaint handling is often not regarded as a profit centre but as a cost centre – even though complaint handling can have a large impact on customer retention (including repurchase), and be an important source of information for quality improvements.

So unless this substantial knowledge gap is filled, whatever CRM packages and strategies are employed seem likely to be based on a cost-reduction objective; that is, CRM in itself is not necessarily any guarantee that complaint handling performance in general will improve.

This conclusion is underscored by Ozimek who, in a hard-hitting and authoritative commentary, argues that companies frequently buy CRM packages on the basis that they will reduce various business costs (though in reality companies are often disappointed by the outcomes, see for instance Evans, undated). He adds that companies' finance managers are attracted by the prospects of this, and also that IT managers and staffs are interested (for various reasons) in 'new' CRM software and systems – both groups tend to take over 'ownership' of CRM, but neither of which, he asserts, are used to putting their own customers' interests centre-stage.

Whilst this characterisation might appear to be somewhat impressionistic, the commentary does raise important questions about the organisational cultures and dynamics within which CRM is introduced and operated, and whether companies are clear about what they want it to achieve.

Evans S (undated) cites research suggesting that two thirds of companies have seen neutral or negative effects, and quotes an IT analyst's estimate that 75% of CRM initiatives fail to meet their objectives. Similarly, a study by Hennenberg (2006) found that companies introducing CRM for analytics, centralisation and campaign management, often only have a vague strategic understanding of the CRM project in place before they define the process and technical requirements. Meanwhile Bentum and Stone (2005) argue that many of the CRM failures can be attributed to a 'corporate culture' which is not appropriate for its adoption.

For example in a wide ranging review of the factors leading to CRM success in companies, Rigby and Ledringham (2004) present a schematic of '*The Customer Relationship Cycle*': this includes segmentation, behaviour modelling, scoring and targeting, campaign management, pricing, promotion, win/loss analysis, share-of-wallet analysis, loyalty programme management, retention management, and win-back campaign management, but there is no mention of complaint or complaint handling.

In short, there is a vast literature on CRM, but very little of it deals with complaint handling experiences and performance in an overt or significant way. However, the CRM approach can actively militate against a fair and accessible complaint handling. Indeed it could be argued that the much-discussed analytical and predictive aspects of CRM systems can be used to effectively downgrade complaint handling with respect to some customers.

6. Good complaint handling = economic sense

Setting up a complaints handling system is a cost for a company. The question that then can be asked is whether or not there are any economic benefits to the company from good complaint handling or whether it is just a cost of doing business. The starting point for this discussion is the issue of customer retention. In all businesses, there is a cost to attracting a customer, for example, through marketing or through the administrative processes needed to deal with the customer. In some businesses, customers may only become profitable for a company after a period of time, which will vary on the initial costs of attracting the customer. Loyal and longer established customers may be more profitable to the company than those who switch in and out.

Furthermore, it costs more to replace a customer than to retain one. One figure which is often cited is that it is five times more expensive to replace a customer than retain one (Hart et al 1990). One of the issues that the literature seems to agree on is that not all customers who are dissatisfied complain about their dissatisfaction and that complaining may be as low as 9% of dissatisfied customers (Van Ossel et al 2003, Welsh Tourist Board no date). Goodman and Grimm (2005) have estimated that, as a general rule, for every complaint a business receives, there are about twenty-five or fifty unreported problems. As TARP (1986: 44) put it, “*noncomplaining, dissatisfied customers may not be angry enough to complain, but they often are unhappy enough to switch brands.*”

Research undertaken in the United States in the mid 1980s (TARP 1986, Ch. 3, cited in Van Ossel et al 2003: 140) showed that customers who complain are more likely to re-purchase the good or service than those who do not complain, even if their complaint is not resolved (see Figure 1). If the complaint is resolved, then the customer's intention to re-purchase became even greater. Later research by Halstead and Page (1992) did not show complainers as having higher repurchase intentions than non-complainers. They suggested that this might have been due to the high cost and visibility of the product in their study (carpets) as opposed to the TARP study. They did find that higher satisfaction with the complaint response amongst dissatisfied consumers did lead to higher repurchase intentions than those who were dissatisfied with the complaint response.

More recent research (Nyer 2000) has produced results which are consistent with the earlier TARP work, although the sample used was trial members of a fitness centre and the author suggests that it is unclear what psychological processes cause these effects. TARP itself did specific work on telecommunications in the early 1980s which showed that repurchase intentions ranged from thirty-one per cent for noncomplainers to seventy-five per cent for satisfied complainants and forty-three per cent for dissatisfied complainants, indicating that a marketing advantage was created even when the complaint could not be satisfactorily resolved (TARP 1986: 44)¹³.

¹³ Although this study could only have been done at the earliest stages of a competitive long distance telecommunications market.

Research in Australia into customer retention came to the conclusion that excellence in customer retention was strongly associated with the presence of a documented complaint-handling process rather than the planning, budgeting and assigning accountability for customer retention (Ang and Buttle 2006). Again, although there are limitations in this study, it points in the same way as previous work.

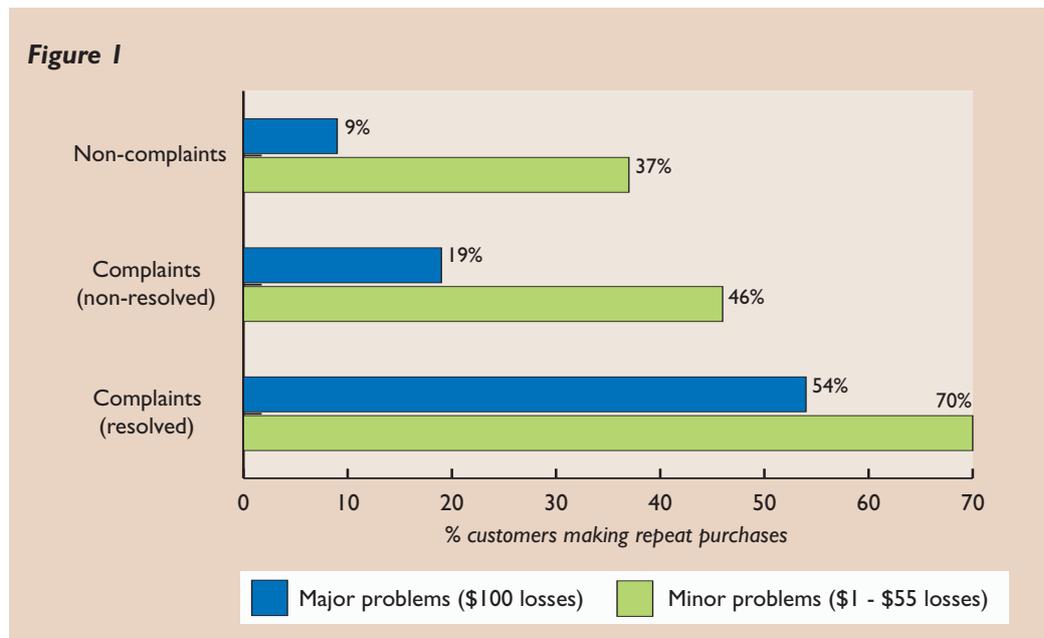


Figure 7.3 Repeated purchases for dissatisfied customers

Source: TARP (1986) *Consumer Complaint Handling in America: An update study*. United States Office of Consumer Affairs.

At a more general level there is a small stream of research which suggests that good complaint culture and processes may well lead to improved financial performance. This begins with Johnston (2001) who suggests that the financial benefits derive from satisfying and retaining dissatisfied customers from complaints to improving institutional processes and by satisfying and retaining employees. Stauss and Schoeler (2004) attempted to take this work further by systematically identifying the costs of complaint management and their benefits. They identify four benefits (Stauss and Schoeler 2004: 148). First, information benefits, that is, the value that is generated from using complaints information to improve company processes. Secondly attitude benefits, that is positive attitude changes in the customer. Thirdly, repurchase benefits and finally, communication benefits when complaints are solved and satisfied customers engage in positive word of mouth. They have gone further than this and produced models which allow the quantification in monetary terms of these benefits, although they say that this cannot be done directly as regards the attitude benefit.

Their basic model for calculating the profit for customer retention is worth explaining here. First, the company must establish the customers who are retained due to complaint management, which is done by complaint satisfaction surveys. The monthly

sales per customer are calculated and multiplied up on an annual basis. This is then multiplied by a return on sales to give a secured profit. Their illustration is given below:

Number of complainants who remained loyal due to complaint management	5,031
X monthly sales	200 \$
X 12 months	12
= secured sales on a yearly basis	12,074,400 \$
X % return on sales	8%
= secured profit per year	965,952 \$

(Source Stauss and Schoeler 2004: 154)

Some comments should be made. First, the profit contribution has to be put against the costs of complaint handling. Secondly, the actual numbers are entirely illustrative¹⁴ but could be replaced by real numbers from an energy company. Thirdly, the alternative question that can be asked is what would be the profitability of recruiting the equivalent number of new customers. On the given model, which does not distinguish between new and old customers, the same secured profit would be available by recruiting new customers. Whether complaint handling or recruitment was more profitable would depend on an assessment of whether the avoidable costs of the new recruitment were greater or less than the avoidable costs of complaint handling. A critical question here is also the profitability over time of customers (see Xevoelonakis (2005) for a telecommunications based model).

Overall, the research suggests that it would be short-sighted for energy companies to view complaint handling as simply a cost: there are benefits in terms of customer retention which, in principle could lead to financial benefits for the company, especially in a competitive industry with high rates of switching. This is without attempting to put a value on any “softer” benefits which may accrue, such as better staff satisfaction leading to lower staff turnover and better customer service.

¹⁴ Some of them seem unrealistic; they assume that 24% of the customer base (100,000) are complainants, which is a very high number. The percentage return on sales, in contrast, seems quite low.

7. Putting things right in future

If the new complaint handling arrangements are to work effectively for consumers, a number of critical elements must be put in place. These include: ensuring that the company procedures are effective and efficient; that regulatory oversight is robust; and that all the parts of the new system operate seamlessly from the consumer standpoint.

Consistent and effective company procedures

After the abolition of energywatch, the emphasis will be placed on the industry to have clear accessible complaints mechanisms, which are intended to work for consumers without the need for third party intervention. It is not clear to us to what extent, if at all, existing company complaint procedures meet the standards set by the BSI (2004). If we consider accessibility as an example, we can see that not all company web-sites include details of how to complain.¹⁵ For a couple of the others, EDF Energy and Powergen, complaints are dealt with under the “How to contact us” section of the web-site and no further details of the procedures are provided. Of those who do provide details, at least two of them, Southern Electric and Scottish Power, do not offer an 0800 number. Although they all give e-mail addresses on their web-site, only one, npower, appears to have an on-line complaints form to fill in (although it is possible Powergen has this as well).

If there is this sort of variation in performance amongst the main energy suppliers, who are all members of the Energy Supply Ombudsman, on a relatively straightforward issue, then this suggests that there is much additional work to be done on improving company complaints procedures. We would note at this point that Consumer Direct, although important, is not an answer if only because consumer awareness of it is currently low. Moreover, Consumer Direct’s remit is limited as it does not take up complaints with providers on behalf of consumers.

Regulatory oversight

Under the new legislation, responsibility for ensuring that the industry has adequate standards of complaint handling rests ultimately with Ofgem who have a duty, (under Clause 43 of the Bill) to make regulations prescribing standards for complaint handling.

In exercising this power, Ofgem should go further than it has up to now and prescribe, for example, a definition of a complaint, publicity obligations, rules on charging, time limits for handling complaints etc. Making of such regulations will also trigger obligations on Ofgem to collect information about compliance with those standards, require the companies to publish information about their compliance and requirements on the NCC to publish that information. The result would be that the companies’ overall performance, on a named basis, would be available in the public

¹⁵ For example, British Gas at house.co.uk

domain, unlike the current position. This could be done in a manner which will allow the companies flexibility in how they design their processes and to build upon them.

Ofgem will also be responsible for recognising external redress schemes and it is required to take into account generally accepted principles of best practice in relation to complaint handling (Clause 49). Given that the legislation prescribes that a redress scheme cannot expel a regulated provider there must be either sufficient sanctions within the redress scheme for breach of its rules or a proper flow of information from the redress scheme to Ofgem so that Ofgem may take action, if necessary, to ensure compliance. At the moment, the Energy Supply Ombudsman does not appear to have formal arrangements to pass information onto Ofgem and there do not appear to be any sanctions for non-compliance.

In addition, there should be arrangements between the Energy Supply Ombudsman and Ofgem for handling complaints which raise issues of more general interest, known as cases with “wider implications” in the financial services area or “systemic issues” by the Australian TIO. It is worth noting in this context that the Australian energy ombudsmen see one of their jobs as to make submissions on regulatory issues on a regular basis outside of just complaints handling, something which is not envisaged within the current Terms of Reference of the Energy Supply Ombudsman.

Seamless service

It will be critical for the functioning of the entire system that there is appropriate signposting for consumers of the routes through complaint handling to dispute resolution and redress.

Ofgem, the NCC and the energy companies must ensure that there are complaints systems which pick up complex complaints and/or complaints involving ‘vulnerable customers’ and ensure they are directed and dealt with effectively and speedily. The complaints systems must be able to differentiate these complaints and treat them appropriately.

Finally, looking forward, both Ofgem and the NCC will have to review the operation of the systems in place on a regular basis. This review process should include auditing the working of the complaints systems in place in companies, rather than simply relying on quantitative measures. Regular consumer research will also be vital to look at the experience of those who have complained, both at company and external redress level, because there is very little information available on this issue and it is the crucial issue for determining if a complaints process is working properly.

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