Perceptions of Fairness and Customer Satisfaction Following Service Failure and Recovery

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ABSTRACT
Perceptions of fairness and customer satisfaction are examined for distributive service recovery and interactional service recovery strategies. The service recovery strategies are examined in relationship to the type of service failure. Types of service failures examined are distributive service failure and interactional service failure. Results show that distributive service recovery strategies are more effective than interactional service recovery strategies when the service failure is distributive. When service failures are interactional, both distributive service recovery and interactional service recovery strategies are effective.

LITERATURE REVIEW
Companies strive to delight customers by providing high quality products and services. Despite such efforts, companies are not always able to delight customers. Sometimes, service failures occur and customers express negative emotions and some even engage in complaint behaviors (McColl-Kennedy & Sparks 2003). Service failure represents a negative experience, both for the customer and the service provider. To reduce the negative impact of service failure, companies often develop and implement recovery strategies.

Although the increasing literature on service failure and recovery presents some insights for scholars and service managers as well, it tends to consider service failure as a uniform concept. However, it is fair to acknowledge that when a company provides a service, there may be two elements: outcomes (getting the product or the service) and process (how one is treated during the service encounter). Making this distinction is important because service delivery implies two types of experience. The first experience may be related to the outcome of the service and the second to the process. Thus, when people talk about service failure, their experience may include the outcome received as well as the process underlying the delivery of the outcome.

With this distinction in mind, we intend to assess the impact of service failure and recovery on customer reactions. Specifically, we focus on customer perceptions of fairness after a service failure and recovery. Indeed, researchers have examined the impact of service failure and recovery on perceptions of justice and customer satisfaction (Andreassen 2001; Maxham & Netemeyer 2003; Smith & Bolton 1998). Most of these studies concur that customers are more likely to continue doing business with a company if they are satisfied with service recovery (Andreassen 2001; Smith & Bolton, 1998).

In analyzing customer perceptions of justice, scholars often distinguished three forms of justice: distributive justice (Adams 1965), procedural justice (Lind & Tyler, 1988; Thibaut & Walker 1975), and interactional justice (Bies & Moag 1986). Distributive justice refers to perceptions of outcome fairness (Adams 1985), whereas procedural justice focuses on the fairness of decisions underlying the outcome distribution (Thibaut & Walker 1975). Interactional justice refers to the quality of interpersonal treatment people receive during the enactment of organizational procedures (Bies & Moag 1986).

Despite a growing body of literature on the impact of service failure and recovery on customer perceptions of fairness, the relationship between the type of service failure and the type of service recovery (we argue that an effective service recovery strategy is contingent on the type of service failure) has rarely been investigated. The purpose of the present study is to fill this void by examining the impact of service recovery on customer perceptions of fairness. In so doing, the study differentiates itself from previous studies by examining specific types of recovery, specific types of service failure, and particular forms of fairness.

The present study adds to the extant literature on service recovery and justice in two ways. First, it explores the relationship between the type of service failure and the type of service recovery. Recovering after service failure is an important strategy for companies to solve customer complaints and ensure customer retention. Failure to properly recover from a service failure may be costly for organizations. Second, understanding what type of service recovery corresponds to a specific service breakdown may help organizations design strategies to bounce back from service failures.

Service recovery refers to “actions of a service provider to mitigate and/or repair the damage to a customer that results from the provider’s failure to deliver a service as is designed” (Johnson & Hews 1997, 467). In this study, we used two types of recovery, distributive recovery and interactional recovery. These two types of recovery are likely to occur in face-to-face service delivery situations. We refer to a service breakdown leading to the loss of a tangible outcome as distributive failure. Distributive failure occurs when a customer does not get the product or service expected. Within a service recovery context, distributive justice is usually defined as what the customer receives as an outcome of the recovery process (McColl-Kennedy & Sparks 2003). A sense of equity would be restored when the customer receives the desired product or service or its substitute.

Thus, we argue that distributive failure can best be compensated by distributive recovery. Distributive recovery occurs when the organization or its representative provides a disgruntled customer a tangible outcome after a service breakdown. For instance, a customer dining at a restaurant finds the soup a little salty and informs the waitress. To compensate for this service failure—distributive failure, the waitress changes the soup with another one to the customer’s taste. Distributive justice after a service failure may positively influence perceptions of fairness and customer satisfaction (Smith, Bolton, & Wagner 1999). Thus, we formulated the following hypothesis.

H1. When distributive failure occurs, distributive recovery would have a more favorable impact on perceptions of distributive justice, overall customer satisfaction, and satisfaction with the recovery process than interactional recovery.

The same may hold true for interactional failure. Interactional failure occurs when the organization or its representative does not treat a customer with respect and dignity. The target appears as the target of the organization’s mistreatment and may raise a feeling of moral outrage. In this case, the customer may expect an apology from the offender. Only an apology can reduce the negative impact of interactional failure. “When a service failure occurs, the inequity of the exchange upsets the relationship between the service firm and its customers. The first step in restoring equity, from a service firm’s point of view, is to acknowledge wrongdoing and apologize. By apologizing, the firm expresses regret that the consumer did not
derive the arranged benefit (Boshoff & Leong 1998). Thus, the type of service recovery corresponding to interactional failure is interactional recovery. In interactional recovery, the organization or its representative apologizes to the customer or provides an explanation to ease the customer’s discontent. Following the previous example, an interactional failure would occur if the waitress appeared rude to the customer; and interactional recovery would occur when the waitress apologizes to the customer. We anticipate that interactional recovery is likely to compensate for interactional failure. Interactional justice is positively related to satisfaction (Maxham & Netemeyer 2003). Thus, we formulated the following hypothesis.

H2. When interactional failure occurs, interactional recovery would have a more favorable impact on perceptions of interactional justice, overall customer satisfaction, and satisfaction with the recovery process than distributive recovery.

METHOD

Participants:
The study was conducted on a sample of 111 undergraduate business and psychology students enrolled in a Northeastern university in the United States. The study was conducted during class time and students received partial credit for participating in the study.

Experimental Design:
The study used a 2X2 between-subjects factorial design. The factors are Type of service failure (Distributive or Interactive) and Type of service recovery (Distributive or Interactive).

Procedure:
The two independent variables were type of service failure and type of service recovery. The dependent variables were perceptions of distributive justice, perceptions of interactional justice, customer satisfaction with the recovery, and overall customer satisfaction. The study used a scenario-based methodology. Such a methodology is appropriate for studying service failure and recovery because it is almost impossible (even unethical) for a company to purposefully provide poor service to customers and attempt to rectify it. The scenario was built around a service in a restaurant since students are familiar with restaurant service. We constructed four scenarios corresponding to specific types of service failure and recovery.

Independent variable manipulations:
Type of service recovery and type of service failure were manipulated by changing the scenario descriptions as follows:

Distributive failure: “... The food was salty and contained ingredients you were allergic to.”
Interactional failure: “...You observed that the waitress was rude when taking your order.”
Distributive recovery: “...... The waitress changed the food and offered you a free dessert.”
Interactional recovery: “...... The waitress apologized with a smile.”

Dependent variable measurements:
Each scenario was followed by a 14-item, seven point, semantic differential scale measuring distributive justice (4 items), interactional justice (4 items), overall customer satisfaction (3 items), customer satisfaction with recovery (3 items). All items were derived from Maxham and Netemeyer (2003) and modified for the scenario in this study. For example, a scale used to measure overall customer satisfaction in this study included “I am satisfied with my overall experience with the restaurant.” Participants were asked to read the scenario and answer the 14-item scale.

RESULTS

AMANOVA was performed on the data. The data for all four dependent variables are presented in figure 1. Interactions between type of service failure and type of service recovery were significant for all four dependent variables: Distributive justice (F(1,108) = 6.26, p<.05), interactional justice (F(1,108) = 8.0, p<.01), customer satisfaction with the recovery (F(1,108) = 7.61, p<.01), and overall satisfaction (F(1,108) = 5.99, p<.05). For those interactions that were significant, t-tests based on pooled variance was conducted for differences between means.

H1 was supported for perceptions of distributive justice, perceptions of interactional justice, and satisfaction with the service recovery. In case of distributive failure, distributive service recovery led to more positive perceptions of distributive justice (t=3.55, p<.01), interactional justice (t=3.03, p<.01), enhanced satisfaction with the recovery (t=4.03, p<.01), and more overall satisfaction (t=2.79, p<.01) than an interactional service recovery. The means for all four dependent variables are summarized in table 1.

H2 was not supported for any of the four dependent variables. In the case of interactional failure, interactional recovery did not lead to more positive perceptions of distributive justice or perceptions of interactional justice, enhanced satisfaction with the recovery, or enhanced overall satisfaction.

DISCUSSION

The support for H1 indicates that when subjects were faced with distributive failure, distributive recovery has a stronger impact on customer perceptions of justice and satisfaction than interactional recovery. When there was a problem with the food in the restaurant customers were more satisfied when the food was replaced than by a mere apology. The lack of support for H2 indicates that when subjects were faced with interactional failure, interactive recovery did not have a more positive impact on customer perceptions of justice and satisfaction than distributive recovery. When the waitress was rude, an apology was no more effective than the offer of a free dessert in enhancing customer satisfaction and perceptions of justice.

While this study is exploratory in nature, the results suggest that interactional recovery strategies may work well in the case of both distributive failure and interactional failures. However, interactional recovery strategies work well only in the case of interactional failures. Possible explanations for this result may be that a distributive recovery (free dessert) consequent to either a distributive service failure or an interactional service failure can favorably influence a customer’s perceptions of distributive justice and interactional justice. However, an interactional recovery (an apology) consequent to either a distributive service failure or an interactional service failure can favorably influence a customer’s perception of interactional justice but not have an impact on the customer’s perceptions of distributive justice. An apology cannot restore the outcome (good quality food) when the customer has been served poor quality food (distributive failure). However, the offer of a free dessert can restore the customer’s emotional state that was upset by rudeness (interactional failure).

LIMITATIONS

This study presents some limitations worth mentioning. First, the study used a scenario-based methodology to examine service
FIGURE 1
Interactions of Type of Failure*Type of Recovery

Interactional Justice

Distributive Justice

Recovery Satisfaction

Overall Satisfaction

DF: Distributive Failure, DR: Distributive Recovery, IF: Interactional Failure, IR: Interactional Recovery
failure and recovery. This may result in customer perceptions different from an actual service failure. Thus, intentions not actual behaviors are measured. This limits the generalizability of the study. However, since people tend to often act on the premises of their intentions, we believe that the methodology used helps capture a reality of service failure and recovery. Second, the study suggests that the effectiveness of a service recovery strategy is contingent on the type of service failure. Although such a conclusion is advancing our understanding of the dynamics of service failure and recovery, the theoretical basis for this result needs further conceptual clarification. Despite these limitations, the present study bears lessons for management practice and further research.

**IMPLICATIONS FOR PRACTICE**

The results are important since the cost of strategies based on distributive recovery are likely to be more expensive than strategies based on interactional recovery. The training and operational needs for the two kinds of recovery are also different. The replacement and offer of free food in a restaurant will require different operational procedures than the issuance of an apology by the waiter. By understanding the links between specific types of service failure and service recovery, managers may be able to design appropriate service recovery measures. Our results found that distributive recovery was pivotal in ensuring customer perceptions of fairness, satisfaction with the recovery attempt, and overall satisfaction. It is therefore important for managers to provide tangible outcomes to disgruntled customers. In the case of a service encounter, the primary motivation of the customer may be to receive an outcome, here the food at a restaurant. When a service breakdown occurs, compensating for an outcome tends to have a more positive effect than a mere apology.

**IMPLICATIONS FOR RESEARCH**

Two lines of research may be gleaned from our study. First, future research may be extended to the field. Researchers may use critical incident techniques to assess the relationship between service failure and service recovery. For instance, researchers may use a sample of non student customers and assess their negative experiences and reactions during a service breakdown and recovery. Such studies may help capture actual behaviors that customers display during a service breakdown and recovery.

A second research avenue may be the importance of each type of service recovery and variables that may moderate the relationship. Are customers more likely to view distributive recovery as more important than interactional recovery? In other words, are customers more interested in getting tangible outcomes than being treated with respect and dignity during a service encounter? Is the relationship between type of recovery and type of failure dependent on the level of product involvement of the customer? Addressing such issues will improve our understanding of customer behavior. Although previous studies have integrated fairness concepts in studying service recovery, they have not addressed the primacy of service recovery on customer reactions. It is our hope that the present study will spur future empirical as well as conceptual analyses on the relationship between the type of service failure and the type of service recovery.

**REFERENCES**


