Looking Backward To Costs And Forward To Rewards: The Influence Of Service Recovery And Relationship Structure On Customer Responses To Service Failure

Manfred F. Maute (E-mail: maute@unbc.ca), University of Northern British Columbia

Abstract

Service failure research has failed to consider the potential for rewards to influence customer retention while overlooking the role that relationship structure plays in shaping customer responses to service failure. Using the investment model of ongoing relationships as a conceptual framework, this study investigates the effects of recovery strategies that manipulate past service failure costs and customer loyalty strategies that manipulate future relationship rewards on customer responses to a core service failure. Service recovery strategy and customer loyalty strategy were observed to increase relationship satisfaction and decrease customer defection. Beyond influencing service failure responses directly, relationship structure variables such as current relationship rewards, costs, and investments, and alternative relationship value mediated service recovery effects on customer defection.

1.0 Introduction

esearch on customer retention has recently begun to examine how customers respond when service failure calls into question the "mutual exchange and fulfillment of promises" (Bitner, 1995, p. 248) that serves as the basis for ongoing service relationships. Early customer defection models were transactional in nature, backward - looking, and narrow in confining the scope of service recovery to efforts that mitigated service failure costs. This research develops and tests a more complete model of customer defection that looks forward to the value of future benefits from continuing a service relationship as well as backward to service failure costs while acknowledging the role that service relationships play in shaping customer responses to a service failure.

The paper begins by presenting a brief overview of the service failure/recovery literature and contrasting backward-looking and forward-looking recovery strategies. The investment model of ongoing relationships is introduced to explicate the key constructs comprising service relationship structure and to predict service recovery and customer loyalty effects on customer responses to a core service failure. A series of customer defection models that progressively incorporate service recovery and relationship structure predictors is then developed and tested empirically.

Readers with comments or questions are encouraged to contact the author via email.

2.0 Background

2.1 Service Failure/Recovery

Service failures are challenging events for service providers, exacerbating the potential for customer defection on one hand, while creating opportunities to restore satisfaction and loyalty on the other.

Among the 462 switching episodes examined in Keaveney's critical incident study (1995), core service failures (44.3%), failed service encounters (e.g., personal interactions between customers and service employees) (35.1%), and service recoveries (e.g., employee responses to service failures) (18.5%) were identified by customers as primary reasons for switching service providers. In nearly half of the episodes where customer defection was attributed to a single factor, core service failures and service encounter failures, together with pricing, were cited most frequently as the sole reason for switching.

Although the negative effect of customer defection on market share, revenues, and costs is well documented (see Rust & Zahorik, 1995; Reicheld 1996), some studies suggest that service failure need not portend only adverse consequences for service providers. In what has been referred to as the "double deviation", Bitner, Booms & Tetreault (1990) concluded that well executed service recoveries not only restore, but enhance satisfaction and retention. According to Spreng, Harrell and Mackoy (1995) service recovery satisfaction had a more positive effect on overall customer satisfaction and retention for an interstate moving service than the negative effect of a service failure.

Conceptualizing service recovery as a "bundle of resources", Smith, Bolton and Wagner (1999) observed that service failure characteristics (e.g., magnitude and type of failure) influenced customer preferences for different service recovery attributes including speed, initiation, apology, and compensation. Recovery attributes, in turn, were related to perceived justice and service recovery satisfaction. While matching recoveries to different types of the service failures has considerable intuitive appeal, researchers have only recently begun to examine how service relationships affect customer responses to service failure. In a study of consumer complaining, Tax, Brown and Chandrashekaran (1998) found that satisfaction with complaint handling not only influenced customer evaluations of the consumption experience, but also increased service relationship trust and commitment.

2.2 Customer Loyalty

Despite some evidence that service relationships influence customer responses to service failure, researchers have been slow to depart from the backward-looking perspective of service recovery that focuses on offsetting service failure costs. Largely as a result, research on service recovery stands apart from the study of customer loyalty generally. In the latter case, the service failure stimulus is absent and the service provider's intent is to nurture the development of a service relationship one transaction at a time, rather than necessarily to recover from a service failure (see Bitner, 1995). The definition of loyalty programs as "structured marketing efforts which reward, and therefore encourage loyalty behavior" (Sharp & Sharp 1998, p. 474) acknowledges this distinction, without precluding the possibility that rewards can customer responses to a service failure.

The potential for customer loyalty strategies to facilitate service recovery has been suggested by several researchers. In discussing how loyalty affects customer retention, Reicheld (`1996) notes that satisfaction typically accounts for no more than 40% of the variation in customer defection. Sharp and Sharp (1998) describe how loyalty programs 'lock in' dissatisfied customers who continue to purchase a service to obtain rewards. In a longitudinal study of a consumer subscription service Lemon, White and Winer (2002) found that expectations of future benefits, as well as anticipated regret at the loss of a service relationship explained significant variation in customer decisions to maintain or terminate a service relationship beyond that contributed by satisfaction.

2.3 The Investment Mode

The expectancy disconfirmation and perceived justice frameworks that dominate published research on service recovery have been used to investigate relationships between service failure characteristics, recovery tactics, perceived justice, and satisfaction (see Tax, Brown & Chandrashekaran 1998; Smith, Bolton & Wagner et al, 1999; Bolton, Kannan & Bramlett, 1998). The resulting preoccupation with individual judgments of fairness, expectations, and satisfaction has led many service researchers to overlook the effect that service relationships have in shaping buyer responses to a service failure (for an exception see Sirdeshmukh, Singh & Sabot, 2002).

The investment model of ongoing relationships theorizes that the value of a relationship value is determined by rewards and costs relative to a comparison level, with the comparison level representing what individuals have come to expect from relationships generally (Rusbult, 1980). Relationship satisfaction refers to the positive affect associated with a service relationship and is theorized to increase as relationship value increases (e.g., rewards increase/costs decrease), or the comparison level decreases (Rusbult, Zembrodt & Gunn, 1982). Relationship commitment refers to the intent to maintain the relationship and is affected not only by current relationship value (e.g., rewards less costs), but also by relationship investments and the value of the best alternative relationship. Higher current relationship value, larger investments, and lower alternative relationship value increase commitment (Rusbult, Zembrodt & Gunn, 1982).

Customer defection occurs when individuals "disassociate themselves from the object of their dissatisfaction" (Hirschman (1970 pg. 29), and is manifested when customers reduce or refuse to make further purchases of a service and switch brands. Research on interpersonal and organizational relationship dissatisfaction reveals that defection is influenced by the same antecedents as relationship commitment (Rusbult, Johnson & Morrow, 1986; Rusbult et al, 1988).

2.4 Recovery Strategies

Service recovery strategies are backward-looking as the intent is to mitigate the temporal, psychic, functional, and monetary costs incurred by customers who experience a service failure (see Fornell & Wernerfelt, 1987). Refunds and service guarantees, for example, reduce the costs associated with interrupted service. Service recovery strategies should, therefore, increase current relationship value by decreasing the costs associated with the service failure and decrease alternative relationship value by increasing the comparison level. Increases in current relationship value and decreases in alternative relationship value should, in turn, increase relationship satisfaction and decrease customer defection.

In contrast, customer loyalty strategies are forward-looking. Beyond the benefits derived from specific transactions, the intent of customer loyalty strategies is to encourage customers to maintain their relationship with the service provider by offering them patronage rewards. For example, in return for establishing a long-term relationship with an airline, customers obtain products/services free or at a reduced cost, and additional privileges including access to airport lounges and cross promotions for complementary services such as hotels and car rentals (Barlow, 1992).

Customer loyalty strategies should, therefore, increase the value of the current relationship by increasing relationship rewards. Since each transaction represents an incremental contribution to future benefits that 'locks in' customers, the size of relationship investments should increase. Much like service recovery strategy, customer loyalty strategy should increase the comparison level, thereby reducing the value of the best alternative relationship. Increases in current relationship value should increase relationship satisfaction, whereas increases in current relationship value and current relationship investments, and decreases in alternative relationship value should decrease customer defection.

3.0 Methods

3.1 Subjects and Procedure

A service recovery experiment, conducted by survey, was chosen to generate a more representative set of service failure recovery events than is possible with retrospective-based approaches alone, eliminate the time, cost, ethical, and managerial problems of observing or enacting service failures in field settings, and reduce the potential for various sources of bias associated with retrospective, self-report data (see Smith, Bolton & Wagner, 1999). The study was presented to subjects as a survey on customer satisfaction with airlines. All one hundred and sixty-eight business students who participated for course credit were experienced airline travelers and considered themselves well-informed consumers of airline services.

Subjects read one version of a failure/recovery scenario describing a service transaction in which the focal airline canceled a flight due to a technical problem. After assuming the role of an airline customer who had experienced the service failure/recovery event, subjects completed a written protocol describing their feelings after the service failure and responded to a series of questions about the event. Every participant encountered exactly the same description of the service transaction and the service failure. Service failure magnitude and causal attributions about the source of the failure were controlled in all four versions of the scenario.

3.2 Manipulations

Experimental manipulations were performed on a 2 x 2 basis utilizing a between-subjects design in which service recovery strategy (absent vs. present) and customer loyalty strategy (absent vs. present) were manipulated. Service recovery strategy was manipulated by varying descriptions of actions taken by the airline to offset the service failure costs incurred by customers (see Maute & Forrester, 2001). Customer loyalty strategy was manipulated by varying descriptions of the passenger's past service relationship with the focal airline and access to rewards for continuing patronage.

In the service recovery condition, subjects reported that the airline kept customers better informed about the service failure ($t_{[164]} = 17.53$, $p < .000$), and rated airline employees as more professional ($t_{[165]} = 16.49$, $p < .000$) and the airline's response to the problem as more effective ($t_{[165]} = 13.35$, $p < .000$). In the customer loyalty condition, subjects rated service quality as higher ($t_{[165]} = 4.24$, $p < .000$), patronage benefits as more appealing ($t_{[165]} = 10.69$, $p < .000$), commitment to the airline as greater ($t_{[165]} = 2.98$, $p < .003$).

3.3 Measures

Exchange-theoretical constructs were measured with multi-item, seven-point Likert-type agreement scales ('Strongly Disagree/Strongly Agree'). Relationship satisfaction with the current service provider was captured with a standard, two-item satisfaction scale ('Very Dissatisfied – Very Satisfied'; 'Terrible – Delighted'). Subjects rated the likelihood that they would respond to the service failure by reducing the amount of flying with the focal airline, flying with an alternative airline in the future, and refusing to fly again with the same airlinen on seven-point graphic rating scales anchored with 'Very Unlikely – Very Likely'. Multi-item scales were found to be internally stable with Cronbach α coefficients ranging from 0.77 for customer defection to 0.94 for relationship satisfaction.

4.0 Results

4.1 Service Recovery

A series of regression analyses was undertaken to test for relationships between recovery strategies, relationship structure, and customer responses to service failure. Table 1 presents the results of regressing relationship satisfaction and customer defection on service recovery strategy and customer loyalty strategy.

Recovery strategies explained 42.4% of the variation in relationship satisfaction. Both service recovery strategy (t $_{[4,161]}$ = 6.72, p < .000) and customer loyalty strategy (t $_{[4,161]}$ = 8.84, p < .000) increased customer satisfaction with the service relationship. While the effects were directionally similar, a comparison of the magnitude of the standardized regression coefficients indicates that customer loyalty had a somewhat stronger effect on relationship satisfaction than service recovery. Here, and in the analysis that follows, prior satisfaction with airlines (p >.503) and airline service expectations (p >.878) were modeled as covariates. Neither emerged as a significant predictor of service failure responses.

Service recovery accounted for 28.1% of the variation in customer defection, substantially less than for relationship satisfaction. Otherwise, however, results were not dissimilar. Both service recovery (t $_{[4,160]}$ = -4.405, p < .000) and customer loyalty ((t $_{[4,160]}$ = -6.378, p < .000) decreased customer defection, with the magnitude of the customer loyalty effect eclipsing that of service recovery. Prior satisfaction and service expectations were not significantly related to defection (p values >.401).

TABLE 1: WLS Regression of Relationship Satisfaction and Customer Defection on Service Recovery and Customer Loyalty Strategies

	Unstandardized Coefficient	Standardized Coefficient	t/F Value	Significance	Adj R^2
Relationship Satisfaction			31.41[a]	.000	.424
Service Recovery	1.631	.400	6.72[b]	.000	
Customer Loyalty	1.244	.525	8.88	.000	
Prior Satisfaction	.062	.040	0.67	.503	
Service Expectations	-.008	-.009	-0.15	.878	
Customer Defection			17.19[a]	.000	.283
Service Recovery	-.950	-.299	-4.50[b]	.000	
Customer Loyalty	-1.457	-.449	-6.74	.000	
Prior Satisfaction	-.167	-.103	-1.56	.122	
Service Expectations	.024	.027	-0.15	.400	

[a] F value.
[b] t value.

4.2 Relationship Structure

Relationship satisfaction and customer defection were regressed on current relationship value, costs, investments, and alternative relationship value to examine the association between relationship structure and customer responses to service failure. Table 2 indicates that relationship structure explained from 67% to 100% more of the variation in service failure responses than recovery strategies. Current relationship value (t $_{[4,160]}$ = 12.13, p < .000) increased and current relationship costs (t $_{[4,160]}$ = -3.89, p < .000) decreased relationship satisfaction. Current relationship value (t $_{[6,160]}$ = -2.31, p < .022) and current relationship investments ((t $_{6,160]}$ = -43.32, p < .002) decreased customer defection, while current relationship costs (t $_{[6,160]}$ = 5.25, p < .000) and alternative relationship value (t $_{[6,160]}$ = 2.08, p < .000) had the opposite effect. Neither airline satisfaction nor service expectations were significantly related to intentions to defect (p values > .34).

Three conditions define when a variable functions as a mediator (Baron & Kenny, 1986). Evidence of association between mediators and dependent variables, one of the three conditions, is satisfied by the statistically

significant relationship between relationship structure and service failure responses summarized in Table 2.   The discussion that follows evaluates whether relationship structure meets the remaining two conditions for mediation.

4.3 Independent Variable Related to Mediator

Table 3 presents the results of regressing relationship structure on service recovery strategy and customer loyalty strategy. Results indicate that service recovery and customer loyalty were significantly associated with current relationship value (F=24.66, p<.000, Adj. R^2=.378), current relationship costs (F=23.02, p<.000, Adj. R^2=.347), current relationship investments (F=17.17, p<.000, Adj. R^2 =.298), and alternative relationship value (F =2.56, p<.040, Adj. R^2 =.060), satisfying the second condition for mediation.

TABLE 2: WLS Regression of Relationship Satisfaction
And Customer Defection on Service Relationship Structure

	Unstandardized Coefficient	Standardized Coefficient	t/F Value	Significance	Adj R^2
Relationship Satisfaction			106.16	.000	.718
CRValue	.682	.686	12.13	.000	
CRCosts	-.233	.221	-3.89	.000	
Customer Defection			35.66	.000	.559
CRValue	-.191	-.185	-2.31	.022	
CRCosts	.430	.393	5.25	.000	
CRInvestments	-.284	-.225	-3.22	.002	
ARValue	109	.119	2.08	.039	

TABLE 3: WLS Regression of Relationship Structure
On Service Recovery And Customer Loyalty Strategies

	Unstandardized Coefficient	Standardized Coefficient	t/F Value	Significance	Adj R^2
Current Relationship Value			24.66	.000	.379
Service Recovery	1.531	.508	8.16	.000	
Customer Loyalty	1.041	.342	5.49	.000	
Current Relationship Costs			23.02	.000	.347
Service Recovery	-2.466	-.839	-13.26	.000	
Customer Loyalty	-.254	-.086	-1.72	.087	
Airline Satisfaction	-.203	-.138	-2.18	.031	
Current Relationship Investments			17.17	.000	.298
Service Recovery .487	.190	2.88	.005		
Customer Loyalty 1.293	.504	7.59	.000		
Airline Satisfaction .142	.111	1.68	.095		
Alternative Relationship Value			2.56	.040	.060
Service Recovery -	.465	-.132	-1.60	.111	
Customer Loyalty	-.653	-.185	-2.40	.017	

Beyond the overall association between the two recovery strategies and service failure responses, the effects of individual relationship structure predictors affirmed most of the predictions derived from the investment model. Service recovery strategy increased current relationship value ($t_{[4,161]}$ = 8.16, $p < .000$) and decreased current relationship costs ($t_{[4,161]}$ = -13.26, $p < .017$). Service recovery had a negative, but not statistically significant ($p > .111$) effect on alternative relationship value, and unexpectedly increased relationship investments ($t_{[4,161]}$ = 2.88, $p < .005$).

Customer loyalty also had a positive effect on current relationship value ($t_{[4,161]}$ = -13.26, $p < .017$) and current relationship investments ($t_{[4,161]}$ = 7.59, $p < .000$) and a negative effect on alternative relationship value ($t_{[4,161]}$ = -2.40, $p < .017$). In contrast with service recovery, customer loyalty was not related to current relationship costs at the .05 level of significance. Thus, while both recovery strategies increased current relationship value, customer loyalty strategy appears to have achieved this outcome by increasing relationship rewards rather than by reducing relationship costs. Finally, it is noteworthy that the airline satisfaction covariate ($t_{[4,161]}$ = -13.26, $p < .017$) was negatively associated with current relationship costs, an indication that customers with greater prior satisfaction with airlines rated service failure costs as lower.

4.4 Relation Between Independent and Dependent Variables Affected by Mediator

The third condition requires that relations between recovery strategies and service failure responses be weakened in the presence of the relationship structure mediators. This condition is tested by regressing relationship satisfaction and customer defection on recovery strategies and relationship structure. Results are summarized in Table 4.

TABLE 4: WLS Regression of Relationship Satisfaction and Customer Defection
On Recovery Strategies and Service Relationship Structure

	UnStandardized Coefficient	Standardized Coefficient	t/F Value	Significance	Adj R^2
Relationship Satisfaction			78.81	.000	.739
Service Recovery	.500	.161	3.37	.001	
Customer Loyalty	.368	.118	2.52	.013	
CRValue	.598	.602	10.08	.000	
CRCosts	-.174	.165	2.98	.006	
Customer Defection			27.06	.000	.560
Service Recovery	.009	-.030	-0.47	.640	
Customer Loyalty	-.311	-.096	-1.47	.143	
CRCosts .	386	.353	4.40.000		
CRInvestments	-.242	-.192	-2.52	.013	
ARValue	.113	.124	2.17	.032	

Findings suggest that relationship structure mediated recovery strategy effects on customer defection, more so than on relationship satisfaction. Despite introducing two additional predictors, the explained variation in relationship satisfaction increased only 2.1%. Although current relationship rewards ($t_{[4,161]}$ =10.083, $p < .000$) and current relationship costs ($t_{[4,161]}$ =-2.797, $p < .006$) were significantly related to relationship satisfaction, the presence of relationship structure mediators reduced the statistical significance of the service recovery ($t_{[4,161]}$ =3.370, $p < .001$) and customer loyalty ($t_{[4,161]}$ =-2.521, $p < .013$) effects only modestly.

All four relationship structure mediators were significantly related to customer defection, even though the explained variation in the dependent variable remained essentially unchanged. Current relationship rewards (t $_{[6,161]}$ =-2.041, $\underline{p}$ < .043), costs (t $_{[6,161]}$ =4.400, $\underline{p}$ < .000), investments (t $_{[6,161]}$ =-2.521, $\underline{p}$ < .013), and alternative relationship value (t $_{[6,161]}$ =2.169, $\underline{p}$ < .032) pushed the service recovery (t $_{[6,161]}$ =-1.720, $\underline{p}$ < .087) and customer loyalty (t $_{[6,161]}$ =-1.720, $\underline{p}$ < .087) effects into statistical non-significance at the .05 level, satisfying the third condition for mediation.

5.0 Discussion

5.1 Recovery Strategies

Recent studies suggest that service failure diminishes trust in the service provider and increases the risk that customers will defect to a competitor (see Tax, Brown & Chandrashekaran, 1998; Keaveney, 1995). Using the investment model as a framework, this study extends previous research on service recovery to build and test a model of customer defection that incorporates future benefits from continuing a service relationship into the customer's stay/go decision and in doing so, accounts for alternative approaches to service recovery that attempt to manipulate customer perceptions of future rewards and past service failure costs.

In its simplest form, the model reflects the power and versatility of two very different approaches to service recovery. Results suggest that customers look backward to the mitigation of service failure costs, as well as forward to the value of future benefits when deciding how to respond to a service failure. Service recovery strategy and customer loyalty strategy emerged as strongly significant predictors of service relationship attitudes and service failure behaviors, increasing relationship satisfaction and decreasing customer defection. While the effects were directionally similar, a comparison of effect magnitudes reveals that customer loyalty strategy had a greater impact on service failure responses than service recovery strategy.

One explanation for the potency of a forward-looking recovery strategy is based on the manner in which the loyalty manipulation was worded. The protaganist in the service failure scenario was described as having accumulated a substantial balance of reward miles in the focal airline's frequent flier program. Rewards that are distant and require substantial additional patronage to redeem are unlikely to provide customers with strong motivation to maintain an under-performing service relationship. On the other hand, the strength of the customer loyalty effect affirms the importance of choosing meaningful and accessible rewards if the goal is the continuation of a service relationship. It appears that customer loyalty strategies based on a powerful reward were capable of shaping what customers felt about service relationships and how they behaved in the aftermath of a service failure as much, if not more, than backward-looking, cost-based service recovery strategies.

5.2 Relationship Structure

Strong support was obtained for the notion that service relationships, above and beyond service recovery, are important factors in shaping customer responses to service failure. Moreover, the investment model emerged as an effective framework for predicting how recovery strategies influence customer responses to service failure. It seems both remarkable and quite encouraging for service providers that recovery strategies designed to appeal to customers' economic interests by reducing costs or increasing rewards could influence how customers feel about a service relationship. Findings suggest that when the focus of recovery is satisfaction with the current service relationship, managing relationship rewards and costs is disproportionately important after a service failure. As the only relationship structure predictor of satisfaction according to the investment model, current relationship value accounted for slightly less than three quarters of the variation in relationship satisfaction. Interestingly, reliance on backward-looking, cost-based recovery strategies to the exclusion of forward-looking reward-based strategies deprives service providers of an important tool with which to influence customer perceptions of the value of the current relationship.

Customer defection is a complex and largely irreversible decision that hinges not only on the value of the

current relationship, but also on what the customer has invested in it, and what alternative service providers can offer. Substantial relationship investments, or a paucity of attractive alternatives could prompt customers to decline the opportunity to defect, despite considerable dissatisfaction with the current relationship. The natural ambiguity that exists in the customer's mind about a stay/go decision can be exploited by service providers. Beyond enhancing the value of the service relationship, service providers can remind customers of investments forgone if the current relationship is terminated, while raising doubts about the capability of alternative service providers to deliver relationship value. Ironically, after a service failure, current customers may be especially receptive to exactly the same appeal from competitors.

Researchers have recognized for some time that service failure evaluations can alter how customers respond to a service failure. Smith, Bolton & Wagner (1999), for example, observed that distributive, procedural, and interactional justice, together with disconfirmation, influenced service recovery satisfaction. Choosing recovery attributes (e.g., compensation, apology, initiation) and enacting fair, efficient and effective responses to service problems helps service providers select appropriate recovery efforts, allocate recovery resources, and train employees. It does not, however, advance the understanding of the underlying mechanism by which defensive strategies 'act on' customer evaluations and behaviors, nor does it provide service managers with guidance on how to craft effective recoveries strategies that leverage the relationship outcomes most important to their customers.

In its most complex form with a full range of strategic and relationship structure predictors, the customer defection model explained little in the way of additional variation in service failure responses than the simpler model comprised only of relationship structure predictors. That some of the variation in customer defection accounted for by recovery strategies was not unique provides preliminary evidence that service recovery effects on service failure responses operate though, or are mediated by, relationship structure variables such as current relationship rewards, costs, investments, and alternative relationship value.

Support for "perfect mediation" (Baron and Kenny, 1986, p.1177) was obtained for customer defection as strongly significant service recovery effects on defection fell into non-significance with the introduction of relationship structure mediators. A similar analysis for relationship satisfaction produced more equivocal results, as the statistical significance of service recovery effects was diminished modestly, but not conclusively, when mediators were introduced. Typically, results such as these imply the presence of multiple factors that serve as mediators, any one of which may be a necessary, but not sufficient condition for an effect to occur. As an affectively charged evaluation, relationship satisfaction may be mediated by factors other than relationship structure. Identifying other potential mediators more in the consumer satisfaction tradition could be a productive area for future research.

By accounting for relations between predictor and criterion variables, a mediator offers an explanation for how external events take on psychological significance (Baron & Kenny, 1986, pg. 1176). The customer defection results in particular imply that the capacity to influence what customers think, feel, and do after a service failure lies in reinforcing attitudes about the rewards, costs, and investments associated with current relationship and the value of alternative relationships. That is, customers are more likely to be satisfied and less likely to defect if the current service relationship is perceived to offer high value (e.g., higher rewards, lower costs), attracts greater investments, and renders alternative relationships less attractive. The efficacy of recovery efforts appears to turn on the extent to which recovery strategies can leverage customer perceptions of relationship outcomes such as rewards, costs, and investments. Understanding the relationship outcomes that customers value and creating recovery strategies that shape those outcomes impactfully seems to be the best hope for service providers who are compelled to play defence in the aftermath of a service failure.

6.0 Conclusions

Prior research has represented service recoveries as tactical interventions designed to undo the damage caused by service failure, while regarding customer loyalty strategies as a separate approach to a very different customer retention problem. Despite the limitations associated with student subjects, the use of airline scenarios as experimental stimuli, and a single service industry context, this study makes an important and useful contribution to

the understanding of how service recovery influences customer responses to service failure. The development and testing of a customer defection model that contrasts cost-based and reward-based recovery strategies may encourage researchers and service practitioners to consider a broader range of strategic responses to service failure and customer defection. Results suggest quite clearly that with the right reward, customer loyalty strategy can become a potent tool for managing customer responses to service failure. An important implication of these findings is that service providers who rely only on backward-looking recovery strategies to mitigate service failure costs may be disadvantaged by lower relationship satisfaction and higher customer defection.

A second contribution lies in raising the research profile of service relationships. Relationship structure variables including relationship value, costs, and investments emerged as key predictors of service failure responses, accounting for substantially more variation in relationship satisfaction and customer defection than recovery strategies, and as mediators of customer defection. Although results were less conclusive for relationship satisfaction, understanding more about how service recovery 'acts on' service failure responses will help researchers trace the psychological mechanism that translates service recovery and customer loyalty strategies into stay/go decisions in the mind of the customer, while providing service managers with more precise guidance on how to craft effective and competitively durable service recoveries that leverage those relationship outcomes most important to their customers. 📖

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