

From Disgust to Delight: Do Customers Hold a Grudge?

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Abstract

This paper investigates the effect satisfaction with service recovery may have on complaining customers' future intent, and perception of and attitude toward the faltering service provider. The main findings indicate that service recovery has a positive impact on both dimensions. Somewhat surprisingly companies' current recovery efforts do not bring complaining customers back to par. On the other hand, excellent service recovery efforts as perceived by complaining customers only restore intent and image. Contrary to contemporary thinking the latter challenges the existence of the service recovery paradox.

Key words: Dissatisfaction, service recovery, corporate image, and customer intent.

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INTRODUCTION

Studies of customer dissatisfaction and complaining behavior (see for example Bearden and Teel 1983a; Day and Landon 1976; Folkes 1984; Folkes 1988; Gilly and D.Gelb 1982; Richins 1985; 1987; 1983a; 1983b; Singh 1990) can be divided into three broad areas 1) the development and testing of theories of consumer dissatisfaction; 2) the study of complaint behavior types; and 3) the analyses of various factors initiating complaining behavior. In an early review of the complaint literature, Robinson (1978) underscored the historic emphasis on consumer orientation, reporting that almost all the studies focused on the person filing the complaint and the nature of the complaint rather than the outcome of service recovery. From a customer's perspective complaining and recovering are integral parts of the process. Clearly from a company perspective it is critical to know not only who, where and how customers react to dissatisfaction, but also the consequences of service recovery efforts. Despite limited academic evidence of the impact of service recovery on key business variables (e.g. corporate image and customer intent) growing bodies of business managers adhere to the idea of wowing the customer through excellent service recovery.

Spurred by the impact customer dissatisfaction may have on companies' performance, research pertaining to customer dissatisfaction is experiencing a new renaissance. Contrary to previous research current research on customer dissatisfaction is more concerned with *unfavorable incidents* (Bitner, Booms, and Tetreault 1990), *customer switching behavior* (Keaveney 1995), *customer*

evaluations of service complaint experiences (Tax, Brown, and Chandrashekar 1998), *the proper fit between service failure and recovery effort* (Smith, Bolton, and Wagner 1999), *antecedents to satisfaction with complaint resolution* and *antecedents to customer intent for complaining customers* (Andreassen 1999; 2000).

Marketing research has for long battled with the question whether superior recovery efforts can create greater satisfaction than if nothing had gone wrong. Most often this apparent contradiction is referred to as the *service recovery paradox* i.e. customers who have experienced a service failure and received an excellent recovery are believed to be more satisfied than customers who have never experienced a service failure at all. In keeping with this several contemporary textbook authors make implicit or explicit assumptions about the existence and/or the effects of the service recovery paradox:

“A good recovery can turn angry, frustrated customers into loyal ones. It can, in fact, create more goodwill than if things had gone smoothly in the first place” (Hart, Heskett, and Sasser 1990, p. 148).

“Satisfaction with service recovery sharply increases customers’ willingness to recommend the firm and significantly improves their perception of overall service quality” (Berry 1995, p. 95)

“[T]he benefits of turning around a complaining customer are dramatic” (Rust, Zahorik, and Keiningham 1996, p. 182) .

“[C]ustomers whose complaints are satisfactorily resolved often become more company-loyal than customers who were never dissatisfied” (Kotler 1997, p. 481).

On a more scientific note three recent articles (McCollough, Berry, and Yadav 2000); Smith and Bolton 1998; Tax, Brown, and Chandrashekar 1998) acclaim the existence of the paradox. McCollough et al. find that the higher the recovery performance, the higher the post recovery satisfaction. Tax, Brown and Chandrashekar argue for the existence of the paradox through the direct impact of complaint handling on trust and commitment. Finally, Smith and Bolton find support for the paradox through cumulative satisfaction and repatronage intentions becoming more favorable with excellent service recovery.

In summary we will claim that there is a considerable body of conjecture and intuition pertaining to the existence of the service recovery paradox. However, changes in postrecovery satisfaction, trust, commitment or cumulative satisfaction as a function of recovery satisfaction is not the acid test of the existence or not of the paradox. In our mind the test is whether superior recovery performance impact complaining customers' perception of and attitude toward the service provider and their future intent. The key question is thus "Does high degree of satisfaction with service recovery have a positive impact on dissatisfied complaining customers' future intent, and perception of and attitude toward the faltering company?"

The present study looks at the impact of satisfaction with service recovery on corporate image and customer intent for existing customers' real experience with companies' complaint resolution. Based on cross sectional data the study

compares complaining customers' corporate image and intent with that of dissatisfied non-complaining customers and ordinary satisfied who have not experienced any recent service failure. Building on the disconfirmation of expectations paradigm, the paper discusses the interrelationships between satisfaction with service recovery, customer intent and corporate image. The general idea is that complaining customers who are very satisfied with the complaint resolution will have a corporate image and customer intent score, which is significantly different than the control groups. Finally, results and managerial implications are discussed at the end of the paper.

CONCEPTUAL FRAMEWORK

According to the disconfirmation paradigm (Oliver 1980), customer satisfaction is the result of an evaluation process whereby the customer compares her expectations of how the service should perform with the actual experience with the service. Positive, negative or share confirmation of expectations will either alter or maintain current levels of the customer's image of the supplier and her subsequent satisfaction with and intent to remain with the supplier. A service failure is said to occur when the service encounter falls short of the customer's expectations (i.e. negative disconfirmation) (Bell and Zemke 1987). More often than not service recovery is triggered by a customer complaint. For dissatisfied non-complaining customers we would expect a negative change in corporate image and their intentions to remain with the supplier. Service recovery consists of all the actions an organization may take to rectify the failure. The purpose is to move the dissatisfied customer to a state of satisfaction and hopefully retain the customer for the future. Perceived quality of the recovery efforts is believed to be the foundation for forming satisfaction judgment with service recovery. In keeping with the disconfirmation paradigm positive, negative or share confirmation of expectations of service recovery will either alter or maintain current levels of the customer's image of the supplier and her subsequent satisfaction with and intent to remain with the supplier. These mechanisms are outlined in Figure 1 below.

Insert Figure 1 about here

In the next two sections we will discuss the interrelationship between satisfaction with service recovery, customer intent and corporate image. With reference to other studies we will argue that satisfaction with service recovery is an antecedent to customer intent and corporate image for complaining customers. Finally, since corporate image is not as well established at satisfaction and intent, we will elaborate on this construct

Satisfaction With Service Recovery And Customer Intent

The correlation between customer satisfaction and customer intent have been documented in numerous studies pertaining to the financial impact of service quality (see for example Anderson and Sullivan 1993; Bearden and Teel 1983b; Bolton and Drew 1991; Fornell 1992; Rust, Zahorik, and Keiningham 1994; Rust and Zahorik 1993). Zeithaml, Berry and Parasuraman (1996) found that customers who experienced recent service problems and received satisfactory recovery had significantly more positive behavioral intentions than those with unresolved problems. Finally, in a study based on cross-sectional data of service companies, Andreassen (1999) found a strong correlation between satisfaction with complaint resolution and customer intent.

Assuming that customers would prefer a no-service failure situation to a service failure situation we anticipate that a complaining customer's intent with his or here service provider that caused the incident is equal or lower than a non-

complaining customer's intent with his or her service provider and lower than a ordinary satisfied customer. However, with high degree of satisfaction with service recovery we anticipate that customer intent for complaining customers is higher than non-complaining customers, and higher or equal to ordinary satisfied customers.

Satisfaction With Service Recovery And Corporate Image

Market researchers distinguish between transaction-specific satisfaction and their global or cumulative evaluation of the service (Holbrook and Corfman 1985; Olshavsky 1985). Transaction-specific satisfaction is a postpurchase/post-consumption evaluation resulting from the customer's comparison of the rewards and costs of the purchase/consumption process in relation to the anticipated consequences. Cumulative satisfaction reflects the customer's satisfaction with multiple interactions with the company over time (Bitner and Hubbert 1994; Crosby and Stephens 1987). Negative disconfirmation of expectations and subsequent dissatisfaction judgment is transaction specific. Consequently we use transaction specific satisfaction measure in this paper. Since satisfaction as a construct is well established in the literature, we will elaborate on corporate image as a construct as existing customers' perception of and attitude toward the service provider may have an impact on their future intent and new customers' switching or adoption behavior.

According to Dowling (1988) corporate image is a construct similar to the construct of self-concept in psychology. Both terms refer to a set of thoughts and feelings having reference to an object (e.g. a company or person). Building on Keller (1993), substituting brand with organization may give a definition of corporate image: “[P]erceptions of an organization reflected in the associations held in consumer memory.” Corporate image has also been described as “the picture that an audience has of an organization through the accumulation of all received messages” (Ind 1997, p. 48). From these two definitions we can learn that corporate image has to do with how customers perceive an organization based on experience or impressions and how these perceptions create a set of associations that contribute to a total picture of the organization.

Associations are close to what is termed schemas in cognitive psychology, i.e. “[P]eople’s cognitive structures that represent knowledge about a concept or type of stimulus, including its attributes and the relations among attributes” (Brewer and Nakamura 1984; Fiske and Linville 1980). Schemas develop, i.e. they become richer or change, over time. Rothbart (1981) suggests three models for schema change; bookkeeping, conversion, and subtyping. A change in attitude, as a function of updating schemas triggered by for example a service failure and subsequent service recovery efforts by the supplier, will be followed by a change in behavior. According to Fishbein (1967) and Fishbein and Ajzen (1974) attitudes are functionally related to behavioral intentions, which will predict behavior. Oliver and Linda (1981) argue that the outcome (i.e.

satisfaction/dissatisfaction) of a number of transactions becomes the input to a less dynamic attitude. This is in keeping with the findings of Johnson, Gustavsson, Andreassen, Lervik & Chae (2001). Some researchers (Fazio and Zanna 1978; Zanna and Fazio 1982) claim that attitudes that are formed through direct experience are more specific; they are held with more confidence; they are more stable; and they resist counter arguments better than attitudes not based on direct experience. Finally, in two studies related to the impact of corporate image on customer intent, Andreassen and Lindestad (1998a; 1998b) found support for a positive correlation between corporate image and customer intent.

Assuming that customers prefer a no-service failure situation to a service failure situation we anticipate that a complaining customer's perception of and attitude toward the service provider that caused the incident is equal or lower than a non-complaining customer's perception of his or her service provider and lower than a ordinary satisfied customer. In keeping with the service recovery paradox we anticipate that with higher degrees of satisfaction with service recovery corporate image for complaining customers will become higher than non-complaining customers, and higher or equal to ordinary satisfied customers.

HYPOTHESES

Key to any firm's long-term survival is its ability to retain and attract profitable customers. Whereas retention is believed to be a function of existing customers' future intent and perception of and attitude toward the firm, attracting new customers is believed to be a function of prospective customers' favorable perception of and attitude toward the firm in order to stimulate switching or adoption behavior. We believe that service firms' recovery efforts reflect this knowledge and that their recovery efforts will reflect what they perceive as necessary to maintain or improve future cash flow from that particular customer. We have argued that satisfaction with service recovery drives future intent and will update existing customers' perception of and attitude toward the firm. This can be expressed as follow.

$$\text{Eq 1. } \begin{aligned} \text{CL} &= f(\text{SSR}, \text{CI}, \xi_1) \\ \text{CI} &= f(\text{SSR}, \xi_2) \end{aligned}$$

CL = customer intent
SSR = Satisfaction with service recovery
CI = Corporate image
 ξ = Error term not captured by the equation

First, building on this and using dissatisfied non-complaining customers as benchmark we would predict that future intent for dissatisfied complaining customers should be highest. Second, we would expect the same to be true for corporate image. Third, because service companies are concerned about the life time value of any customer they will do what it takes to bring dissatisfied complaining customers back to par. Finally, using ordinary satisfied customers

as benchmark we believe that dissatisfied complaining customers who are very satisfied with the company's recovery efforts will have the highest future intent, perception of and attitude toward the service provider. The latter is in keeping with contemporary thinking regarding the service recovery paradox.

In order to document that service recovery does have proposed the impact on corporate image and future intent, we propose the following hypotheses for empirical testing.

HI: Mean values of corporate image and customer intent for complaining customers after they have received service recovery are higher than similar mean values for dissatisfied non-complaining customers.

Customer oriented service companies realize that they have brought dissatisfied customers in a deficit by not living up to their expectations. Consequently we believe companies' recovery efforts will be aimed at retaining these customers' future cash flow by investing in recovery efforts which at least will bring dissatisfied complaining customers back to par.

In order to document service companies' general quality of complaint handling and subsequent satisfaction judgment's impact on perception and intent, we propose the following hypothesis for testing.

H2: Mean values of corporate image and customer intent for complaining customers after they have received service recovery are equal to similar mean values for satisfied customers.

In keeping with the service recovery paradox companies will try to delight dissatisfied complaining customers by offering outstanding service recovery. The purpose is to create an improved perception of and intent beyond mean value for comparable groups. In order to test the existence of the service recovery paradox, we propose the following hypothesis.

H3: As satisfaction with service recovery increases, mean value of corporate image and customer intent for complaining customers will surpass similar mean values for non-complaining customers and satisfied customers.

These hypotheses will be tested empirically by analyzing differences in variance (ANOVA) among the three groups of respondents. Significant differences among the groups indicate support for the hypothesized impact of satisfaction with service recovery on corporate image or customer intent.

METHODOLOGY AND PROCEDURE

Outline of the study

The present study is based on posttest-only design with nonequivalent groups, i.e. ex post facto. In a review of the complaint literature, Robinson (1978) points out the lack of dissatisfaction studies which also include dissatisfied non-complaining customers. Few if any have studied service companies' recovery practices with regard to impact on corporate image or customer intent. In order to incorporate dissatisfied non-complainers an ex post facto design was chosen. Assuming that there is no response bias within or between dissatisfied complainers, dissatisfied non-complainers, and ordinary satisfied customers the impact of service recovery efforts on dissatisfied complaining customers' future intent, perception of and attitude toward the faltering service provider can be estimated by benchmarking the other groups.

A general illustration of the approach to this study is presented in Figure 2.

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Insert Figure 2 about here

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In Figure 3 complaint resolution is viewed as treatment, which is assumed to impact corporate image through a dynamic update of perception of and attitude toward the company. A change in customer intent follows as a function of positive, neutral or negative disconfirmation of expectations. One control group

is used as a benchmark in order to isolate any differences in corporate image and customer intent, which may be attributed to the treatment (i.e. service recovery).

Sampling frame

The Norwegian Customer Satisfaction Barometer (NCSB) was created during 1994 and 1995ⁱⁱ in order to uncover degree of satisfaction with various services by interviewing defined companies' existing customers. Whether these customers are satisfied, dissatisfied non-complaining or dissatisfied complaining is of no methodological importance to NCSB. The companies included in the NCSB are all major competitors in a wide variety of service industries. The companies surveyed in each industry are the firms with the largest market share. Cumulative shares are approximately 60-70 percent.

NCSB is based on findings from a national probability sample of households, where 8.600 telephone interviews about the companies measured are completed. For each of the companies included in the study, interviews were conducted with 200 of their existing customers. To be eligible for interview, a prospective respondent must qualify as the purchaser of specific services within defined time-periods. Thus the definition of "customer" in the NCSB is "[A]n *individual chosen randomly from a large universe of potential buyers who qualify by recent experience as the purchaser or consumer of one service of one specific company which supplies household consumers in Norway.*"

Unlike most data collection procedures for customer satisfaction, NCSB identifies customers from the universe of purchasers, then identifies the company from which the customer purchased or consumed, rather than starting from an identified company and its lists of customers. If a respondent qualified as a recent purchaser or consumer of a service, she was asked if this service came from the list of the companies being measured. If not, the interview was terminated. Each respondent was only interviewed for one service.

During the NCSB interview at the end of 1997, each respondent was asked if she had reason to be dissatisfied with the service for which she was interviewed, during the last six months. If the respondent answered affirmatively, he or she was, as the last question of the NCSB interview, asked to participate in a new dissatisfaction study at some future agreed date and time within the next two to three weeks. No incentives were promised or mentioned. If the respondent accepted the invitation, he or she was called back and interviewed at the agreed date and time. No response at this stage was handled using three callbacks. All telephone interviews both for the NCSB and the dissatisfaction study were handled by an independent professional market research bureau. Each interview lasted from 12 to 15 minutes.

Dissatisfied complaining and non-complaining customers and ordinary satisfied customers were recruited from various service industries. This is illustrated in Table 2.

Place Table 2 about here

In line with previous studies; cf. TARP (1979; 1986), the number of respondents who complain is lower than that of those who do not complain. Both within and between groups it appears that no category dominates and thus do not create a bias in the sample.

The final sample from all companies contained 822 respondents with equal distribution of males and females. The average household income was about NOK 380.000 (roughly USD 55.000). The respondents' age varied between 18 and 80, and was close to normal distribution with mean birth year 1956.

Average education was one to two years of college education, with a small bias towards respondents having finished their college degree. The respondents were equally distributed between urban and rural areas. Both complaining and non-complaining customers had the same experience with regard to number of times they had filed a complaint with a company, about five times. It can be argued that being a complaining or non-complaining customer is a function of degree of dissatisfaction with the initial service failure, i.e. the more dissatisfied the more likely the respondent is a complainer. Testing for differences in degree

of dissatisfaction revealed no significant differences between the two groups. One may also argue that being recruited for a dissatisfaction study may trigger the reprocessing of old memories and that the context may create a negative bias in the responses for the same constructs when compared to the NCSB study. Paired sample t-tests for complaining customers revealed significant negative differences in the responses given for customer intent (mean difference – 0.3793; $t = -3.921$) and corporate image (mean difference – 0.1354; $t = -1.992$). For this reason the mean of the NCSB responses and dissatisfaction responses for the two constructs were used in the ANOVA analyses.

Corporate image for the three groups was operationalized using four identical items that are believed to reflect existing customers perception of and attitude toward the service supplier. The items were derived at after a pretest among 400 respondents concerning banking and charter services. The items are:

- opinion of the company
- the company's profile
- perception of company being customer-oriented
- company related word of mouth from other

Cronbach's alfa was computed for each of the three groups (ordinary satisfied customers $\alpha = .7763$; dissatisfied non-complaining customers $\alpha = .7166$; dissatisfied complaining customers $\alpha = .7467$). Four 10-point LIKERT scales (-5 to +5) anchored very negative, very positive; very dissatisfied, very satisfied; in very low degree, in very high degree; negative, very positive were used.

Indications of customer intent may be related to own behavior or through willingness to recommend the supplier to others. The willingness to provide referrals or not is another way of patronizing the supplier. The NCSB uses two items as a common denominator in the measurement of customer intent. These two items are also used in the current study.

- remaining loyal to the company (LaBarbera and Mazursky 1983; Rust and Zahorik 1993)
- providing referrals (Parasuraman, Berry, and Zeithaml 1981; Reichheld and Sasser 1990)

Cronbach's alfa was computed for each of the three groups (ordinary satisfied customers $\alpha = .7602$; dissatisfied non-complaining customers $\alpha = .7457$; dissatisfied complaining customers $\alpha = .7076$ respectively). Two 10-point LIKERT scales (-5 to +5) anchored very improbable and very probable were used.

Analysis and results

The data are analyzed using one-way ANOVA . The results are shown in Table 3 below.

Place Table 3 about here

As can be seen from Table 2 there is no significant difference in means for corporate image between dissatisfied complaining and non-complaining customers. There is, however, a significant difference between these two groups and ordinary satisfied customers. The latter group has the highest mean value.

Analysis of variance in customer intent is shown in Table 4 below.

Place Table 4 about here

From Table 3 it is clear that there are significant differences between all groups with regard to mean value. Dissatisfied complaining customers' intent is lowest, whereas ordinary satisfied customers have the highest mean value.

The findings reported in Table 2 and 3, are mean values for the whole sample.

Sub-samples of respondents who are satisfied or very satisfied with the complaint resolution may give different results.

Analysis of corporate image and customer intent, as a function of degree of satisfaction with service recovery, is shown in Table 5 below.

Place Table 5 about here

When the mean value of satisfaction with complaint resolution is - 1 or higher (scale -5 to +5) dissatisfied complainers' perception of and attitude toward the supplier changes and becomes equal to ordinary satisfied customer. At this level, however, dissatisfied complainer's intent is equal to dissatisfied non-complainers and below ordinary satisfied customers. Number of respondents in category 1 is 80 or 40 percent (N = 201). When the mean value of satisfaction with complaint resolution changes from zero to one or higher, dissatisfied complainers' intent becomes equal to category 3. This implies that at a moderate degree of satisfaction with service recovery, i.e. score -1 (scale -5 to + 5) dissatisfied complainers' perception of and attitude toward the supplier is restored, i.e. their corporate image mean value score is equal to that of ordinary satisfied customer. However, to restore dissatisfied complainers' intent, degree of satisfaction with complaint resolution must be higher, i.e. score 1 (scale -5 to + 5). At this level customer intent becomes equal to that of ordinary satisfied customers. Number of respondents who fall into this range is 61 or 30 percent (N = 201).

DISCUSSION

Support is found for H_1 . Mean values for complaining customers' perception of and attitude toward (i.e. corporate image) and future intent are significantly higher than similar mean values for dissatisfied non-complaining customers. This finding implies that service companies' recovery efforts have a positive impact on complaining customers' future intent, perception of and attitude toward the company. Since both intent and image is directly indirectly linked to performance, this finding is of relevance to managers.

H_2 is rejected. Mean values for ordinary satisfied customers' future intent, perception of and attitude toward their supplier are significantly higher than similar mean values for dissatisfied complaining customers. On average dissatisfied complaining customers' intent, perception of and attitude toward the faltering company is not restored. Even dissatisfied non-complaining customers' intent is higher than that of complaining customers' (7.817; $p < 0.001$). This finding is an evidence of service companies' poor service recovery efforts or a reflection of major variations in complaint handling among the companies. The latter is in line with Kendall and Russ (1975) who found that there is considerable variation in managerial policies toward complaint letters. In keeping with Keaveney (1995) dissatisfaction is a strong incentive for existing customers to switch in general, dissatisfaction with service recovery must represent an even stronger incentive to switch. The financial impact of exit behavior due to mediocre recovery efforts should be of relevance to managers.

H₃ is rejected. Despite very high scores in satisfaction with service recovery mean values for complaining customers' future intent, perception of and attitude toward the faltering company never surpass similar mean values for satisfied non-complaining customers. Our findings indicate that a minority of the respondents (30 percent) was satisfied with service recovery. Interestingly no satisfaction scores above +1 (scale -5 to +5) improved customer intent beyond ordinary satisfied customers'. Depending on how one defines customer loyalty (e.g. retentional or emotional) this finding challenges the existence of the service recovery paradox. Defined as retention this result indicate that there is no point in pampering the dissatisfied complaining customer, i.e. these customers will not increase their consumption rate as a function of being satisfied with the company's recovery efforts.

MANAGERIAL IMPLICATIONS

While service quality and customer satisfaction has received considerable attention from business executives lately, customer dissatisfaction, customer complaint handling and complaint resolution seem to be a neglected area. Complaint handling is by the end of the day driven by economics; increased retention (i.e. reduced churn), longer customer relations (i.e. increased customer lifetime value), reduced cost of selling to existing customers and reduced costs of attracting new customers to the firm (i.e. increased marketing effectiveness and efficiency). From this study we may draw three conclusions. First, complaining customers who have received service recovery have a more positive perception of the supplier and a higher repurchase intention than dissatisfied non-complaining customers. This finding is an evidence of the fact that service recovery does have an impact on how complaining customers perceive the company. Service recovery also seems to impact their future repurchase intention. This finding is in keeping with Smith & Bolton (1998) findings that cumulative satisfaction and repatronage intentions increases as a function of satisfaction with service recovery. Consequently investing in service recovery efforts is a good investment from an image and customer retention perspective. Second, comparing customers who have not experienced any recent service failure with complaining customers indicate that the latter group's perception of the supplier and future repurchase intention after they had received service recovery was not restored. From this finding we can learn that service companies in general must improve their complaint resolution efforts

dramatically in order to retain dissatisfied complaining customers. Our findings indicate that 40 percent of the dissatisfied complaining customers was dissatisfied with the complaint handling. Further, only 30 percent of the respondents were satisfied with the complaint handling. Third, complaining customers' perception of the supplier and their repurchase intention never surpassed that of ordinary satisfied customers. From this finding we can learn that from an image and buy-more perspective there is no point in delightingⁱⁱⁱ the dissatisfied complaining customer. In other their words, there is no linear correlation between delight and intent. This finding is in keeping with Oliver, Rust & Varki (1997) who found only limited support for the effect of delight on intention. However, there is reason to believe that delight with recovery may move the customer up the loyalty pyramid (i.e. cognitive, affective, conative and action loyalty; (Oliver 1997). With strengthened loyalty customers would be more inclined to buy the same services over a longer time period. Further, delighted customers would be inclined to buy other services from the supplier. Both effects have a strong positive impact on the customer lifetime value. There is also reason to believe that customer delight with service recovery will create positive word of mouth. Positive word of mouth may position the company as being relatively more attractive than other alternatives thus creating an incentive for new customers to switch or adopt based on marginal marketing investments by the company. This is in accordance with Rust & Oliver (2000) who argued that even though the delighting firm will suffer from increased customer expectations, competition is hurt worse through customer attrition to the delighting firm.

Increased life time of and ad-on sales from existing customers combined with reduced acquisition costs of new customers are good news for the companies' bottom line.

Consequently, companies should relate to recovery from two perspectives; retain and increase future cash flow from current customers. Through positive word of mouth from existing customers position the company as relatively more attractive and thus create an incentive for new customers to switch or adopt. In summary we will claim that the primary goal of the recovery strategy is to retaining existing customers. Access to new customers should be a bonus not a goal.

SUMMARY

Using an ex post facto design, this paper studied the impact service companies' current recovery efforts have on complaining customers' future intent, perception of and attitude toward the faltering company. Analyses of variance among complaining customers who had received complaint resolution and customers who have not received recovery, i.e. dissatisfied non-complaining customers and ordinary satisfied, was performed. The findings indicated that on average complaining customers' perception of the supplier's image, after they have received service recovery, is equal to dissatisfied non-complaining customers but lower than that of ordinary satisfied customers. Second, the findings indicated that complaining customers' future intent, after they have received service recovery, is significantly lower than that of both dissatisfied non-complaining customers and ordinary satisfied customers. Finally, the findings indicated that even with very high scores in satisfaction with service recovery complaining customers corporate image and future intent never surpasses that of ordinary satisfied customers.

LIMITATIONS

Ideally, the impact of satisfaction with service recovery on corporate image and customer intent should have been identified by a pretest and posttest comparison of the same respondent, i.e. before and after things had gone wrong. This would be an argument for an experiment. However, often a treatment is implemented before the researcher can prepare for it. This is the case with dissatisfied complaining customers. The absence of a pretest leads to the possibility that any posttest differences between the groups can be attributed either to the treatment (i.e. service recovery) effect or to selection differences between the different groups. However, complaining customers and respondents for the control groups were recruited by random. By comparing the groups we found no indication of disparity beyond that of psychographics. To our advantage it could be argued that an experiment could create an artificial setting for the respondents which in itself could impact the results. This supports an alternative design. Third, recall-based studies tend to be asymptotic for customers' responses to ordinary service failures because customers tend to report on incidents that are of importance to them. Fourth, customers who complain tend to be non-representative of the total population. Comparing the three response groups give no reason to claim that major differences existed. Finally, memory lapses, rationalization tendencies, and consistency factors may have impacted the responses. For this reason dissatisfied complaining customers' mean values from two following surveys (i.e. NCSB and present dissatisfaction study) were used. In conclusion we feel that several of the

proposed weaknesses are to some extent handled within the current design and thus support our ability to draw conclusions.

Figure 1

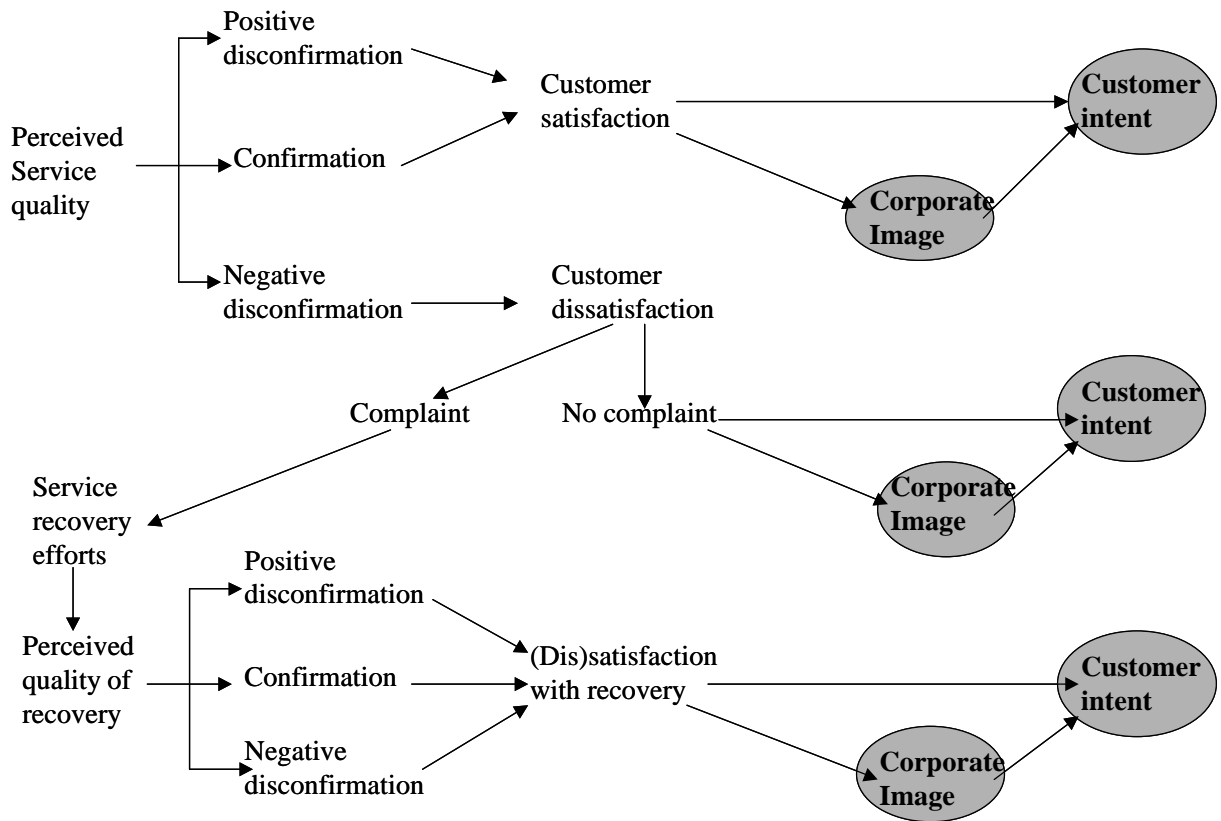


Figure 2

The outline of the study

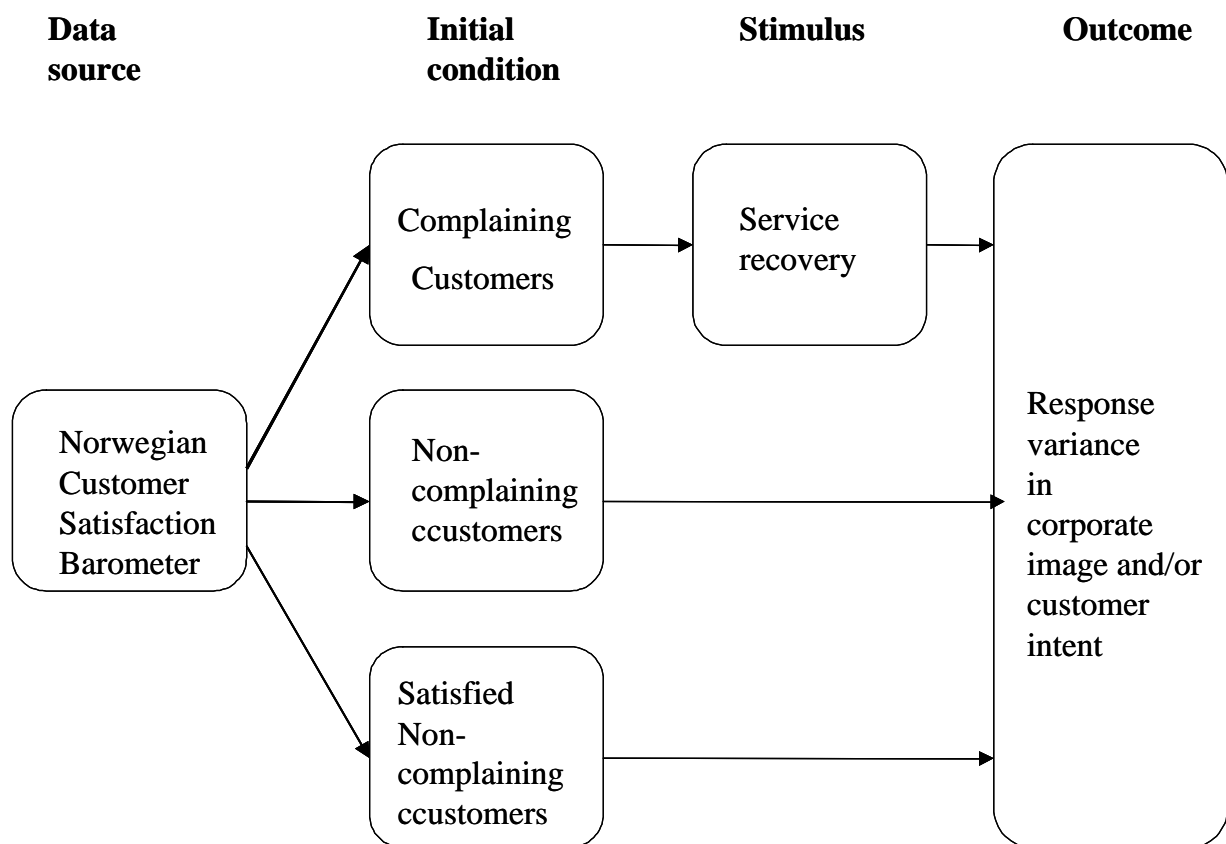


Table 1

Distribution of respondents

Industry	% of total sample	Dissatisfied complaining customers		Dissatisfied non-complaining customers		Ordinary satisfied customers	
		Freq.	Percent	Freq.	Percent	Freq.	Percent
Fast food	8.0	4	2.0	44	10.5	21	10.5
Insurance	6.0	19	9.5	13	3.1	19	9.5
Postal services	3.0	6	3.0	11	2.6	11	5.5
Regional newspapers	11.0	21	10.4	55	13.1	17	8.5
National newspapers	7.0	0	0	55	13.1	6	3.0
Telecomm.	3.0	6	3.0	9	2.1	8	4.0
Personnel transportation	7.0	5	2.5	42	10.0	9	4.5
Bank	14.0	36	17.9	50	11.9	31	15.5
Service stations	6.0	9	4.5	28	6.7	13	6.5
Car dealers	10.0	41	20.4	22	5.2	23	11.5
Charters	11.0	36	17.9	42	10.0	16	8.0
Grocery chains	11.0	18	9.0	50	11.9	26	13.0
Total		201	100.0	421	100.0	200	100

Table 2

The impact of satisfaction with service recovery on CORPORATE IMAGE for complaining customers and non-complaining customers.^{iv}

CATEGORY		N	Subset for alpha = .05	
			1	2
Tukey HSD	a,b 2	201	7.0041	
	1	421	7.0538	
	3	199		8.1279
	Sig.		.941	1.000
Tukey B	a,b 2	201	7.0041	
	1	421	7.0538	
	3	199		8.1279
	Sig.		.947	1.000

Means for groups in homogeneous subsets are displayed.

- a. Uses Harmonic Mean Sample Size = 242.414
- b. The group sizes are unequal. The harmonic mean of group sizes is used. Type I error levels are not guaranteed.

1= complainers, 2= non-complainers, 3= satisfied customers

Table 3

The impact of satisfaction with service recovery on CUSTOMER INTENT for complaining customers and to non-complaining customers. ^v

CATEGORY	N	Subset for alpha = .05		
		1	2	3
Tukey HSD _{a,b}	201	6.9813		
	421		7.8177	
	194			9.0464
Sig.		1.000	1.000	1.000
Tukey B _{a,b}	201	6.9813		
	421		7.8177	
	194			9.0464
Scheffe _{a,b}	201	6.9813		
	421		7.8177	
	194			9.0464
Sig.		1.000	1.000	1.000

Means for groups in homogeneous subsets are displayed.

a. Uses Harmonic Mean Sample Size = 239.903

b. The group sizes are unequal. The harmonic mean of the group is used. Type I error levels are not

1= complaining customers, 2= non-complaining customers, 3= satisfied customers

Table 4

	Corporate image (CI)		Customer intent (CL)	
	Subset for alpha = 0.05		Subset for alpha = 0.05	
SSR = -2	2 < 1 < 3		1 = 2	3
SSR = -1	2	1 = 3	1 = 2	3
SSR = 0	2	1 = 3	2 < 1 < 3	
SSR = 1	2	1 = 3	2	1 = 3
SSR = 2	2	1 = 3	1 = 2	1 = 3
SSR = 3	2	1 = 3	2	1 = 3
SSR = 4	2	1 = 3	2	1 = 3

1= complainers; 2= non-complainers; 3) = satisfied customers.

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Notes

ⁱⁱ The NCSB with some adjustments is based on Fornell's work in Sweden and USA. The theoretical foundation for these barometers are documented in Johnson & Fornell (1991); Fornell (1992); Fornell & Johnson (1993), and Fornell, Johnson, Anderson, Cha & Bryant (1996). For an update on the development of national satisfaction index models, please see Johnson, Gustavsson, Andreassen, Lervik & Cha (2001)

ⁱⁱⁱ Oliver, Rust & Varki (1997) define delight as satisfaction plus positive surprise

^{iv} Reducing the sample size in category 1 from 421 to 201 produces the same findings.

^v Reducing the sample size in category 1 from 421 to 201 produces the same findings.