Reducing Consumer Switching Intentions Following Service Failure: Do Empowerment and Apology Help?

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Abstract

This research explores the effectiveness of apology and empowerment as service recovery actions and their impact on consumers switching intentions within the hospitality industry. It also examines two different types of failure - process failure and outcome and whether consumer-switching intentions vary based on failure type. Results suggest that apology is effective in reducing switching intentions in both types of failure. Employee empowerment reduces switching intentions in outcome failure situations, but increases switching intentions in process settings. There is also an interaction effect of apology and empowerment in the outcome failure setting, but not in the process failure setting. Recommendations for managing service recovery are provided.

Introduction

The importance of dealing with service failures is widely recognised and a range of processes for managing service recovery have been suggested. A number of authors have identified that service failure results in customer dissatisfaction, which potentially increases the likelihood that consumer will shift to alternative service providers (Boshoff, 1998; Keaveney, 1995; Tax et al., 1998). Service providers seek to minimise customer-switching behaviour (Zemke and Bell, 1990), although competitors seek to increase switching behaviour through activities such as reduces switching costs (Keaveney, 1995).

While service failure may encourage consumers to consider switching providers, effective recovery may reduce this from occurring (Hart et al., 1990; Bailey, 1994). As such, service firms seek to ensure that recovery strategies are used to effectively deal with failure thereby minimising consumer-switching intentions (Andreassen, 2001).

Service Recovery Actions and its Dimension

Service failure can occur in regards to: a) outcome - overall experience or activities comprising service delivery (Levesque et al., 2002) or b) process – activities related to how the service is delivered (Zeithaml and Bitner, 2000). In relation to this, customer equity considerations such as outcome and process fairness are seen as impacting factors to consumer future intentions toward the service organisation (Ruyter and Wetzels, 2000). However, limited literature has focused on whether service recovery actions need to vary based on the type of failure (Nguyen and McColl-Kennedy, 2004). This paper seeks to partly address this gap, within one defined failure/recovery setting.

The literature has identified that a range of recovery actions can be used to address service failure. For example, authors have suggested that employees’ apologising for failure might reduce consumer dissatisfaction (Bitner et al., 1990; Boshoff and Leong, 1998; Kelley 1993; Poon and Low, 2005; and Zemke and Bell, 1990). Although other researchers have found that...
an apology does not impact on consumers’ perception of a failed encounter (Johnston and Fern, 1999). Another recovery action that has been examined in the literature is employee empowerment (Boshoff and Leong 1998) and it has been suggested that this too will reduce consumer dissatisfaction.

The literature has not generally considered whether apology and employee empowerment interact in regards to consumers switching intentions or whether they affect consumers differently based on the type of failure experienced. This research seeks to explore both the direct and interaction effect of varying these two recovery actions, as well as whether the effects differ within outcome failure and process failure situations.

**Framework and Hypotheses**

Research has suggested all recovery actions are not equally successful in dealing with service failure (Hoffman et al., 1995; Tax et al., 1998). Johnston and Fern (1999) suggested that services encounters and therefore recovery actions are situation specific. Dissatisfaction with a service or satisfaction with recovery strategy will vary from customer to customer and situation to situation (Hart et al., 1991, Smith et al., 1999). Swanson and Kelley (2001) identified that there can be either; a) outcome or technical failure is when the service need is not met, or b) process or functional failure is a negative experience during the process of having the need being met. Smith et al. (1999) found that the type of failure can impact on consumers’ evaluations of the encounter.

Nguyen and McColl-Kennedy (2004) reviewed the literature and found that the types of failure had received limited past research including Mohr and Bitner (1995), Parasuraman et al. (1985) and Smith et al. (1999). However, these works did not explore how varying recovery actions in different types of failure might affect consumer outcomes, such as switching intentions. Customer switching behaviour has been extensively studied (eg. Grace and O’Cass, 2001; Keaveney, 1999; Reardon and McCorkle, 2002) and it has been found that service failure is one motivation to switch suppliers (Keaveney, 1995; Kelley et al., 1993).

In exploring recovery actions and switching behaviour Wirtz and Mattila (2004) found that empowering employees reduced consumers’ switching intentions. Similarly, Boshoff and Leong (1998) identified that employee empowerment resulted in higher customer loyalty and re-patronage, i.e. lower switching. Nguyen and McCole-Kennedy (2004) also suggested that there was a relationship between using empowering employees in recovery situations and reductions in consumer switching intentions. As such, following hypothesis is proposed:

**H1** Empowered (versus not empowered) employee action to deal with service failure will reduce (increase) consumer switching intentions in a) process based service failure and b) outcome based service failure.

Other recovery actions also might impact on switching intentions. Duffy et al. (2006) and others (Boshoff and Leong, 1998; McColl-Kennedy and Sparks, 2003) have suggested that an apology is an important recovery action as it acknowledges failure occurred, reduces customer anxiety, convey that the problem is being attended to and thus defuses customer anger. Writz and Mattila (2001, p590) suggest that an apology has a “strong positive impact on future intentions.” An apology can be seen as a first step in re-establishing equilibrium in customer relationship (Boshoff and Leong, 1998). Therefore, it is hypothesised that:
H2 During service recovery attempt, offering (not offering) apology will negatively (positively) impact consumer switching intentions in a) process based service failure and b) outcome based service failure.

Recent evidence also suggests that recovery actions interact with one another, in regards to consumer outcomes. For example, Writz and Mattila (2004) found that apology mediates the effect of magnitude of compensation offered to the complaining customer. Ennew and Schoefer (2004) also found interactions in recovery actions exist in regards to reducing consumers switching intentions. As such, following hypothesis is proposed:

H3 Apology offered while attempting service recovery will mediate the effect of empowerment on consumer switching intentions in a) process based service failure and b) outcome based service failure.

Research Method

This research used a between respondent experimental design, where subjects were exposed to a hypothetical service failure scenario. Between subject designs are extensively used within services marketing literature (For examples see Michel, 2001; Writz and Mattila, 2004; and Yen et al., 2004). A randomised block full-factorial design was used which allowed the researchers to isolate variation attributable to a nuisance variable while simultaneously evaluating two or more treatments and associated interactions (Kirk, 1995).

The research employed a 2 x (2 x 2) between-subject experimental design. For this purpose, eight scenarios were developed looking at failure in a hospitality setting with two level of each of three independent variables. Twenty respondents completed each block, i.e. 160 respondents overall. Other studies have used between similar numbers of respondents per block (Wirtz and Mattila, 2001; Boshoff and Leong, 1997). Hotel managers assisted in the scenario development. Realism tests were then undertaken with a student sample to identify if the scenarios were perceived to be realistic (Swanson and Kelley, 2001). A pre-test of the instrument was then undertaken with employees working in a hotel. All respondents had just experienced a hotel stay, the hospitality setting examined. The sample distribution was evenly split between genders (males=50.5% and females=49.5%) and consisted of Australians and New Zealanders (40.3%), Europeans (44.2%) and others (15.5%).

Within the scenarios, failure (process failure and outcome failure), levels of apology (apology offered vs. apology not offered) and employee empowerment (empowered vs. not empowered) were manipulated. Outcome failure was captured by “…informs you that the hotel is overbooked and there are no rooms are available” and process failure by “… when you get to your room, you find that the room has not been cleaned.” Apology was captured by “…the receptionist apologizes for the inconvenience” and no apology was captured by “…they go on saying these things happen in big organisation”. Empowerment was captured by “…the Desk clerk indicates that they can fix it without seeking decision from senior manager (empowered) and “… the Desk Clerks indicates that they can not fix the problem”.

The dependent variable, switching intentions, was measured using eight items adapted from Swanson and Kelley (2001) and Patterson and Smith (2001). Scales were measured using 7-point Likert-type scales, with the anchors: 1="Definitely", 7="Definitely Not". The analysis
firstly explored ANOVA results for the direct effects of apology and employee empowerment, as well as interaction effect within the process and the outcome failure situations. We then examined the mean responses of the direct effects separately using paired-t tests to determine the direction any effects.

**Analysis**

Table 1 reports the ANOVA results in regards to the direct and interaction affects of apology and employee empowerment, within the two failure types (process and outcome). As can be seen, apology has a statistically significant effect on switching intentions in both types of failure, although it is only significant at the .10 level in process failure situations. Empowerment has a statistically significant (at the .05 level) effect on switching intentions for both process and outcome failure situations. The interaction effect between employee empowerment and apology is only significant in regards to switching intentions within the outcome failure situation.

<table>
<thead>
<tr>
<th>Table 1 Test of Between-Subjects Effects (Switching Intentions)</th>
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<td><strong>Failure types</strong></td>
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<td>Process apology</td>
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To examine the direction of the effect of recovery actions on switching intentions we conducted independent sample t-tests within the process and outcome failure setting. As can be seen in Table 2, when empowerment served as grouping variable, it has a statistically significant impact on consumer switching behaviour in both failure settings. However, the direction of the effect differs in the two settings. Having empowered employee appears to increase switching intentions in process failure situations. This might suggest that when process failure occurs empowered employees are ‘expected’ to react and deal with the problem, prior to it arising, i.e. the problem should have been avoided in the first place. Empowered employees reduce switching intentions in outcome failure settings. This might suggest that consumers see empowerment as more ‘proactive’ in this situation, as employees could not in fact deal with the causes of failure (as might occur in process failure).

<table>
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<th>Table 2: Independent sample t-test results</th>
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<td><strong>Source</strong></td>
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<td>Process</td>
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<td>Outcome</td>
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| **Source** | **t** | **Sig.(2t)** | **Apology** | **No apology** |
| Process | -1.921 | .020 | 4.1708 | 4.3500 |
| Outcome | -5.140 | .000 | 3.4967 | 3.7909 |
Table 2 identifies that having an apology reduces consumer-switching behaviour in both the outcome and process failure situations. This might relate to the fact that the service providers (employee/organisation) acknowledge there was a problem (Zemke and Bell, 1990). This would contribute to an assessment from customer that situation was not fully controllable (Swanson and Kelley 2001) and thus switching intentions are significantly reduced.

**Interpretation and Conclusion**

The results in regards to H1 are mixed. Table 1 identifies that empowerment does impact on switching intentions. This occurs in the hypothesised direction (i.e. negative) in regards to outcome failure, but empowerment increases switching intentions in the process failure. As such empowerment may in fact not necessarily be universally appropriate for dealing with all service failures. While not explored in this study, having empowered employees in process failure might be perceived by customers as service situations where employees did not proactively ensure that failure did not eventuate; as they did have the ability to address the issue of concern (i.e. they were empowered).

Table 1 also indicates that an apology affects switching intentions in both outcome and process failure. Further, Table 2 identifies that an apology reduces switching intentions in both instance. Thus H2 is supported. This finding is identical to past research where failure types were not differentiated (Boshoff and Leong, 1998; Writz and Mattila, 2004). Therefore, this study further strengthened existing research in regards to the positive role of apology in reducing consumer switching intentions.

In regards to H3 the interaction affects reported in Table 1 provide contradictory results. There appears to be statistically significant effect in regards to outcome failure, but no statistically significant effect in regards to process failure. Table 2 might assist in explaining the non-significant results, as the negative impact of an apology could offset the positive impact of empowerment. Therefore, the research highlights the complex interaction of recovery actions on consumer outcomes. While past research has sometimes explored multiple recovery actions, these should be considered in the context of the specific service failure experience. The management of recovery encounters therefore needs to be well planned out (La and Kandampully 2004), as interactions amongst recovery actions will occur and affect consumer responses.

**Future Research**

There are number of opportunities to expand this work in the future. This research is based on hypothetical scenarios in one service setting. Future research could expand the settings considered, as well as explore multiple types of consumers’ responses (such as, future expectation, repurchase and loyalty). Both of which would determine the generalisability of the results. The block method sampling process, while supported in the literature, only had 20 respondents per scenario and could potentially limit the statistical power of the tests. Larger samples could be used in the future. Additional research could also consider the direct effect and interaction effects of alternative types of recover actions (such as, empathy, compensation and assurance), as well as different types of consumer outcomes (loyalty, word of mouth, etc.). The results of the study suggest that each specific recovery encounter will vary based on the failure experiences and thus complex sets of situations need to be explored.
References


