Service Recovery in a Service Guarantee Context

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Abstract

This study employed a 2 x 2 full-factorial, between-subjects design experiment examining the influence of service failure severity and fix on hotel guests’ satisfaction following invocation of a service guarantee. The study involved a sample of 130 online panel members. As expected, guests are less dissatisfied following a minor (versus a major) service failure while satisfaction is enhanced when the problem is corrected. Surprisingly, fix has a stronger influence on satisfaction when a severe failure occurs, and satisfaction evaluations are approximately equal regardless of the severity of the failure when the problem is fixed.

Literature Review and Hypotheses

Given the high degree of interaction between hotel guests and frontline staff, service failures are common in the hotel industry (Lewis and McCann, 2004). While it is recognised that customer retention is dependant on effective service recovery (e.g., Miller et al., 2000), there is no consensus as to what a “good” recovery entails. Full satisfaction guarantees have been embraced by the hotel industry and operate as a recovery mechanism by fully refunding the room charge to consumers if they are dissatisfied with the service (Hart et al., 1992). However, the guarantee should not be assumed to be the only contributor to recovery (Björlin Lidén and Skålén, 2003); it should be viewed as one tool in an organisation’s overall recovery endeavour. Past guarantee research has not examined the positive influence of service guarantees on customer evaluations following a service experience (Kashyap, 2001). The present study fills this void in part by examining empirically service recovery encounters in a guarantee context.

While past research has focused on financial compensation, Davidow (2003) observed that consumers may prefer that the organisation repairs the offending service product. Many researchers have commented on the crucial nature of fix (correction of the failure) for the customer (e.g., Czepeil et al., 1985; Parasuraman et al., 1985). Fix has been described as possibly the most valuable single recovery strategy (Levesque and McDougall, 2000) and has been found to have a positive influence on customer satisfaction (Bitner et al., 1990; Mohr and Bitner, 1995; Duffy et al., 2006). Critical incident research suggests that hotels offering service guarantees may be relying too heavily on compensating customers, neglecting to fix the problem that lead to invocation of the guarantee (Edvardsson and Strandvik, 2000; Björlin Lidén and Skålén, 2003). Guarantees signal that the organisation is a quality provider (McCollough and Gremler 2004) and will commit resources to fulfil the guarantee promise (Herbig and Milewicz, 1996). If the hotel compensates guests but fails to resolve their problem, they may feel “bought off” and doubt the sincerity of the advertised guarantee. Sarel and Marmorstein (2001, p. 223) observed, “… guarantees are not substitutes for offering reliable service. Most customers are not interested in collecting the compensation.” The outcome of the recovery (i.e., fix) is commonly kept constant in experimental studies (cf., McDougall and Levesque, 2000; Hoffman et al., 1995) and has not been examined in a guarantee context. Davidow (2003) observed that the efficacy of using different types of redress [such as fix] is an area of research requiring further exploration. Thus, the following hypothesis will be examined.
H1: When invoking the service guarantee, there is a positive relationship between whether the problem the guest experienced is fixed and guests’ service encounter satisfaction.

While service failures range from minor through to very severe cases (Gilly and Gelb, 1982; Goodwin and Ross, 1992), research involving service failure/recovery encounters has typically kept the severity of the service failure constant (Weun et al., 2004). More severe service failures narrow a customer’s zone of tolerance, and customer dissatisfaction is, therefore, more likely (Gilly and Gelb, 1982; Hoffman et al., 1995). Research on hassle effects suggests that even when recovery is managed well, severe problems increase the chance the customer will remain dissatisfied (Firnstahl, 1989). The psychological costs, time lost, inconvenience, and frustrations experienced by consumers are more difficult to overcome when a serious failure occurs (Smith et al., 1999). In a recent study involving role-play experiments, Magnini et al., (2007) found that a service recovery paradox is less likely following a major service failure. This discussion gives rise to the following hypothesis.

H2: When invoking the service guarantee, the perceived severity of the failure will have a negative influence on service encounter satisfaction.

Equity theory implies that more severe failures will require larger rewards to restore the equity balance (Adams, 1965; Deutsch, 1975). Mental accounting principles and prospect theory suggest that service recovery will be more effective when the severity of the failure is low, than when it is high, as consumers will weigh losses from service failures more heavily than any gains they receive during the recovery process (Kahneman and Traversky, 1979; Smith et al., 1999; Weun et al., 2004). Therefore, a severe service failure is likely to result in a perceived loss, even when the recovery is managed well (Choong, 2001). It is hypothesised that more severe service failures will result in lower satisfaction evaluations even if the hotel is able to fix the problem.

H3: Fix has a greater (positive) effect on customers’ perceptions of satisfaction when service failure severity is low than when service failure severity is high.

Research Method

The paper reports on a section of a larger, experiment-based study. The study employed a 2 (service failure severity: high, low) x 2 (fix: unsuccessful, successful) between-subjects full-factorial design using role-play scenarios. Scenarios enhance internal validity by offering substantial control over variables, and by limiting noise (e.g., due to differences in personal circumstances) in the dependent variables with a setting common for all subjects (Cook and Campbell, 1979; Churchill, 1995). This allows for more convincing evidence of causal relationships than other designs (Cooper and Emery, 1995). Web-based self-report survey data was collected from online panel members aged 18 years and over who had stayed previously in a hotel. Each subject was randomly assigned to one of the four written scenarios. Subjects were asked to imagine that the situation had actually happened to them, and to think about how they would have felt and what they subsequently would have done. Subjects began by reading an advertisement for a 100% satisfaction guarantee offered by a fictitious hotel that prompts a booking for an overnight stay (see figure 1). The guarantee was adapted from guarantees offered currently by Hampton Inn and Travel Inn.

Figure 1: THE METROPOLITAN HOTEL 100% SATISFACTION GUARANTEE
The staff at all Metropolitan Hotels Nationwide would be proud if you chose us as your host. We make every effort to ensure that our guests' stays are truly enjoyable from the moment they check in. Whether here for business or pleasure, our goal is to provide the facilities, atmosphere, and friendly service you deserve. Employees at more than 180 Metropolitan Hotels nationwide are personally committed to your total satisfaction.

Best of all, The Metropolitan Hotel offers a **100% Satisfaction Guarantee or your stay is free.** We promise that every part of your stay will meet with your expectations.

So, give us a try. Call 1-800-METROPOLITAN to make a reservation.

Subjects then read a scenario in which a service failure (minor or severe) occurs involving the cleanliness of their room. The failure motivates the guest to invoke the 100% satisfaction guarantee. Theory suggests that consumers will be more inclined to complain when a service guarantee is present as guarantees enhance the belief that complaining will result in a positive outcome (e.g., Singh, 1990; Wirtz, 1998). The manipulations for service failure severity and fix were achieved by altering the scenario descriptions in the following ways:

**Low severity:** Crumbs on the floor; and a drink mark on the coffee table.

**High severity:** A drink mark on the coffee table; a large stain on the carpet; food from the previous occupant in the fridge; the bin in the bathroom is full of rubbish; and a bad smell in the kitchen.

**Successful fix:** The receptionist says, “I am afraid that there is no-one available from housekeeping to clean your room today.”

**Unsuccessful fix:** The receptionist says, “Someone from housekeeping is on their way to clean your room. Your room will be ready in 30 minutes.”

The promised guarantee compensation is forthcoming across all four scenarios, with the receptionist stating, “I will credit one night’s stay to your hotel bill right now.” After reading the complete scenario, subjects reported on the realism of the scenarios, responded to manipulation check items and provided satisfaction ratings and demographic data. To reduce order bias in the sequencing of questions (Cavana et al., 2001), half of subjects were presented with the manipulation check items before the dependent variables were measured and the other half were presented with the manipulation check items after the dependent variables were measured. An independent-samples *t*-test revealed that there was not a significant difference in satisfaction scores for the before (*M*=4.82, *SD*=1.85) and after (*M*=4.78, *SD*=1.85; *t*(128)=.12, *p*=.902) groups and the two data sets were, therefore, combined into one. To ensure that the severity manipulation was perceived as intended, subjects rated the severity of the failure on a three-item, seven-point semantic differential scale (Maxham and Netemeyer, 2002). An independent-samples *t*-test revealed a significant difference in scores for the low (*M*=5.25, *SD*=1.73) and high service failure (*M*=3.62, *SD*=1.73; *t*(128)=5.36, *p*<.000) conditions. The fix manipulation was evaluated via a one-item measure, “The hotel arranged for my room to be cleaned promptly” (measured on a 1-7 scale, anchored at “Strongly disagree” to “Strongly agree”). An independent-samples *t*-test revealed a significant difference in scores for the fixed (*M*=5.73, *SD*=1.56) and not fixed (*M*=2.34, *SD*=1.86; *t*(128)=11.21, *p*<.000) conditions.
Experiments that are realistic enhance the generalisability of the resultant theory (Davis et al., 2007), hence, the perceived realism of the scenarios was evaluated using five items developed by Wilson and McNamara (1982). A reported mean of 5.71 (on a five-item, 1-7 scale, anchored at “Disagree strongly” to “Agree strongly”) confirms that subjects found the scenarios to be realistic, and could imagine that the scenario had actually happened to them. Customer satisfaction was measured via the six-item, seven-point semantic differential scale developed by Oliver and Swan (1989a, 1989b). The construct was captured using the statement, “Think about the problem you experienced and the hotel’s handling of the problem. How do you feel about the hotel on this occasion?” The instrument had good internal consistency (Cronbach's alpha =0.99). Inspection of the correlation matrix revealed the presence of significant coefficients of 0.89 and above. The Kaiser-Meyer-Olkin value was 0.934, exceeding the recommended value of .60 (Kaiser, 1970). The Barlett’s Test of Sphericity reached statistical significance ($p=.000$), supporting the factorability of the correlation matrix. The component matrix revealed the presence of one factor comprising of all six items with factor loadings ranging from 0.96 to 0.98 (total variance extracted 93.93%).

**Results and Discussion**

Of the 130 responses, 51.8% were male and 49.2% were female, and 83.1% were aged between 25 and 54. A between-groups ANOVA revealed a statistically significant main effect for fix on satisfaction [$F(1, 130)=43.10$, $p=.000$], providing support for H$_1$. There was also a statistically significant main effect for failure severity on satisfaction [$F(1, 130)=19.52$, $p=.000$], providing support for H$_2$. It is important to note that fix has a larger main effect on satisfaction than does failure severity ($n^2=.26$ versus .13). However, the main effects described above must be interpreted in light of the significant two-way interaction between failure severity and fix on satisfaction [$F(1, 130)=6.18$, $p=.014$, $n^2=.05$] as depicted in figure 2.

Fix has a **stronger** influence on guests’ satisfaction when service failure severity is high, as opposed to when it is low. Hence, while the interaction is significant, it is not in the hypothesised direction. As the severity of the failure increases (i.e., the guest’s loss gets larger), the added value of fixing the problem increases. This finding is in conflict with other studies that have found that for more severe failures, the influence of positive outcomes on evaluations is reduced (e.g., Weun et al., 2004; Levesque and McDougall, 2000) because customers use a non-linear value function to evaluate the recovery outcome (Smith et al., 1999). In this study, guests may have recognised that a severe failure is not easy to rectify and deemed the recovery (full compensation plus correction of the problem) as evidence of the hotel’s genuine commitment to their total satisfaction.

Simple effects analysis indicated that satisfaction evaluations are significantly higher when the problem is fixed, compared to when it is not, under both the low (Ms 5.95 vs. 4.87, $p=.000$) and high severity (Ms 5.44 vs. 3.05, $p=.000$) conditions. Hart et al. (1990, p. 148) observed, “the surest way to recover from service mishaps is for workers on the front line to identify and solve the customer’s problem.” If the organisation does not recover from the service failure, it has failed the customer twice, magnifying any negative perceptions customers may hold (Bittner et al., 1990; Hart et al., 1990; Zemke and Bell, 1990; Boshoff, 1997; Smith and Bolton, 1998). This finding is important as it suggests to management of hotels offering service guarantees that they cannot rely purely on compensation to restore guests’ satisfaction evaluations. Failure to fix the problem is likely to lead guests to conclude that the hotel is unreliable and not to be trusted. How could a hotel that was genuine in its
promise to provide excellent service fail so badly? Was the guarantee simply a marketing ploy to get my business? Past research supports the importance of fixing the problem (e.g., Mohr and Bitner, 1995; Duffy et al., 2006).

As expected, when the hotel is unable to fix the problem, satisfaction is significantly lower for a severe as opposed to a minor service failure (Ms 3.05 vs. 4.87, p=.000). This finding is consistent with studies suggesting that the negative influence of service failure is higher for a high-severity failure compared to a low-severity failure (Keveaney, 1995; Levesque and McDougall, 2000; Weun et al., 2004). An interesting and unexpected finding is that when the problem is fixed, satisfaction evaluations are approximately equal for either a minor or a severe failure (Ms 5.95 vs. 5.44, p=.145). This finding highlights the crucial role of fix and suggests that the combination of full reimbursement and failure correction has the potential to restore satisfaction, even when a major failure has occurred. The finding also questions the long-held belief among prominent guarantee researchers that customers will view full, money-back compensation as being out of proportion with minor problems (Hart et al. 1990).

The study is subject to the following limitations. Reading a scenario may not generate the emotions that an actual encounter would produce (Widmier and Jackson, 2002), resulting in low external validity. While Web-based surveys allow for greater flexibility in systematic scenario presentation (Cavana et al., 2001), generate fast responses (Pope et al., 1997), and facilitate data analysis (Ilieva et al., 2002), a limitation of this sampling procedure is self-selection (Mathwick, 2002). Research findings should not be generalised beyond the hotel context. Future research could manipulate guarantee compensation levels and the degree of effort exerted by employees in attempting to rectify the problem.

Figure 2: Means Scores for the Interaction of Fix and Severity on Customer Satisfaction

References


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