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**The effects of harm directions and service recovery strategies on customer forgiveness and
negative word-of-mouth intentions**

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Abstract

This study aims to investigate the direction of harm and the role of service recovery strategies on customer positive (i.e., forgiveness) and negative (i.e., word-of-mouth) intentions. We found that customer intentions are stronger among those who are directly affected by the service failure than indirectly affected customers. Further, we assess the role of service recovery in customer intentions after the service failure. The study findings contribute to the development of theory on the “other customers” effect by comparing the consequences of service failure directed at the focal customer and other customers and provide solutions to practitioners to reduce this damaging effect.

Keywords

Service recovery; forgiveness; word-of-mouth; service failure; compensation; justice theories.

1. Introduction

Many service encounters occur in public places in the presence of other customers. Therefore, it is common for service failures to be witnessed by other customers, especially in high-traffic locations such as retail stores, hotels, airports, and restaurants. The idea that other customers are a significant part of a focal customer's service experience traces back to the early services literature. For example, Belk (1975) viewed other customers as social surroundings in his concept of situational dimensions, and Gronroos (1978, p.596) acknowledged that other customers "are part of the service itself." In addition, the Servuction model postulated by Langeard et al. (1981) explicitly labeled other customers who may be present in the visible area as "Customer B." Recent empirical studies have also found that the presence and action of other customers can affect the focal customer's attitude and behavioral intention relating to the service experience (Huang and Wang, 2014; Wu et al., 2014). While there has been extensive research on the effect of service failure and recovery on the focal customer (Mattila and Cranage, 2005; Smith et al., 1999; Wirtz and Mattila, 2004), there are very few studies of how customers react to service failures and recovery strategies given to other customers (Zhang et al., 2010). From the service provider's perspective, the relevant question therefore is whether the effect of service recovery strategies on consumer attitude and intention is identical across direct-harm (focal customers) and indirect-harm (other customers) situations. Furthermore, how service recovery strategies can be designed to induce positive and reduce negative responses among direct-harm and indirect-harm situations should be investigated.

In this paper, we consider two types of harm directions (direct harm and indirect harm) as well as four types of service recovery strategies: none, apology, compensation, and apology and compensation (hybrid). The objective of this study is twofold. First, we aim to investigate whether significant differences exist between consumers who are directly affected and indirectly affected

by service failure in terms of their positive (i.e., forgiveness) and negative (i.e., NWOM) intentions within each recovery strategy treatment. Second, we examine whether the effect of the direction of harm on consumer forgiveness and NWOM is moderated by service recovery strategies. The study hypotheses are tested using a scenario-based experiment in a service context.

2. Theoretical Framework and Literature Review

2.1 Directions of Harm

Prior studies in the psychology literature have demonstrated that witnessing unfair treatment of others may trigger certain emotional, behavioral, and attitudinal reactions even when the witnesses are not directly affected by the treatment (Colquitt, 2004; Van den Bos and Allan, 2001). A number of earlier studies have implicitly or explicitly integrated other customers into their service encounter frameworks (e.g., Belk (1975); Gronroos (1978); Langeard et al. (1981)). However, none of these studies specifically focused on the influence of other customers' service failure observed by the focal customer. In service settings, studies on the role of "other customers" have largely focused on the impact of other customers' misbehavior (Grove and Fisk, 1997; Huang, 2010; Huang et al., 2010) or the presence of other customers themselves as part of the physical service environment such as in crowding situations (Tombs and McColl-Kennedy, 2003) and their effects on the customer service experience. To the best of our knowledge, only one study has attempted to investigate how customers respond to service failures that affect other customers. Based on *third-party justice theory* (Skarlicki et al., 1998) and *deontic principles of fairness*, Cropanzano et al. (2003) and Mattila et al. (2014) argue that witnessing other customers receiving unfair treatment results in a negative evaluation of fairness which ultimately affects the focal customer's own service evaluation. Mattila et al. (2014) also found that focal customers who witnessed other customers receiving unfair treatment experienced negative emotions, provided lower fairness

scores, and indicated lower levels of re-patronage intentions, even though the focal customers received fair treatment themselves.

The deontic principles of fairness theory suggests that people respond to misconduct not because of their own self-interest but because of their moral obligations to do what is right (Cropanzano et al., 2003). Mistreatment can infringe on norms of moral conduct, resulting in negative emotions that drive third parties to seek retribution toward offenders for their wrongdoings. Third parties might experience strong emotions and revenge intentions even in situations when they are not closely identified with victims or are unharmed by the wrongdoings (Turillo et al., 2002). For example, in two experimental studies involving student respondents, Van den Bos and Allan (2001) found that the unfair treatment experienced by others is as powerful a consideration in the perception of justice as if the participants themselves experienced the unfair treatment.

2.2 Service Recovery Strategies

Effective service recovery strategies have been identified as a key element to retain customers following service failure incidents (Stauss and Friege, 1999). The actions taken by service providers to respond to service failures could drive positive customer behavior such as re-patronage intention (Smith and Bolton, 2002; Wirtz and Mattila, 2004) and WOM (Maxham, 2001), but could also lead to customer retaliatory behavior such as patronage reduction and NWOM (Grégoire and Fisher, 2006; Strizhakova et al., 2012).

The existing body of literature on consumer reactions to service failure and recovery strategies has been dominated by the application of *justice theories*, introduced in the late 1990s by multiple scholars (e.g., Clemmer and Schneider (1996); Smith et al. (1999); Sparks and McColl-Kennedy

(1998); Tax et al. (1998)). The central tenet of the theory is that customers evaluate the fairness of a service recovery based on three elements of justice: distributive, procedural, and interactional fairness (McColl-Kennedy and Sparks, 2003). Distributive fairness refers to the perceived outcome following a service failure, procedural fairness refers to the process involved in making the recovery effort, and interactional fairness refers to the way the service failure is handled by the service provider (Wirtz and Mattila, 2004). Past studies have linked apologies and compensation with consumers' perceived distributive and interactional fairness (Mattila and Cranage, 2005; Smith et al., 1999; Wirtz and Mattila, 2004). In addition, a combination of apology and compensation is also positively linked with procedural fairness (Mattila, 2001a).

In line with previous studies (Mattila, 2001b; Roschk and Gelbrich, 2014), this study integrates apology, compensation, and apology and compensation (hybrid) recovery strategies in the scenario to reflect elements of distributive, procedural, and interactional fairness. Past studies have found that the absence of apology and compensation is significantly linked with consumer grudge (Bunker and Ball, 2008), revenge intentions, and retaliatory behavior which includes patronage reduction and NWOM (Bambauer-Sachse and Rabeson, 2015; Grégoire and Fisher, 2006; Grégoire et al., 2010; Grégoire et al., 2009). However, despite the numerous studies on the utilization of apologies and compensation, there is very little examination of the effects of apologies and compensation on consumer forgiveness intentions (Joireman et al., 2013). The present study contributes to the body of literature by examining the effects of service recovery strategies on consumer forgiveness intentions.

2.3 Forgiveness: Consumer Positive Reactions to Service Failure

A service failure occurs when the delivery of a service offering does not meet the customer's expectations (Sivakumar et al., 2014). While past studies have comprehensively examined

customer coping methods following service failure incidents (Bose and Ye, 2015; Duhachek, 2005; Gelbrich, 2010; Sengupta et al., 2015), consumer forgiveness as a coping strategy has been overlooked in service settings (Tsarenko and Tojib, 2011). Forgiveness is a well-developed notion grounded in Judeo-Christian tradition, where it is used to refer to the removal of reprisal for transgressions (Richardson, 1962). To forgive can be defined as to “no longer feel angry about or wish to punish” something or someone (Oxford Dictionaries, 2014).

Forgiveness as a research subject has received significant attention mainly within the literature of psychology (Thompson et al., 2005; Worthington Jr and Wade, 1999) and philosophy (Derrida, 2000; Hughes, 1995; North, 1987). Recently, however, the concept of forgiveness has received increasing interest within the marketing literature (Beverland et al., 2009; Tsarenko and Tojib, 2012; Xie and Peng, 2009; Zourrig et al., 2015), with particular attention to how consumers use forgiveness as a coping mechanism following corporate wrongdoings or product failures. Despite these recent developments, there are extant gaps in the literature on the influence of service recovery strategies on consumer forgiveness (Grégoire et al., 2009; Strizhakova et al., 2012). In particular, there is a call for research to “offer a more complete examination of the forgiveness construct by examining its positive constituents... [since] it is important to understand what leads customers to seek reconciliation or forgive after service failure episodes.”(Grégoire et al., 2009, p.29). Moreover, to the best of our knowledge, no studies have examined the effect of harm directions (i.e., direct vs. indirect) on forgiveness. Some important questions thus remain unanswered. Are customers more likely to forgive service providers if the failure does not directly affect them? Which type of service recovery is effective in influencing customer forgiveness following service failure? The present study aims to fill this research gap by addressing these questions.

2.4 Consumer Negative Reactions to Service Failure: NWOM

WOM communication involves consumers sharing their evaluation following their service experience. For example, failure incidents such as overbooking are common problems within the airline and accommodation sectors. In a three-month period between July and September 2014, 117,976 customers were denied boarding in the U.S. due to airline overbooking practices (U.S Department of Transportation, 2014). The overbooking issue within the airline sector has been found to trigger NWOM among affected customers (Noone and Lee, 2011; Wangenheim and Bayón, 2007). Past studies have linked NWOM with fewer purchases from new customers (Dolinsky, 1994), reduced organizational ability to retain customers, damaged organizational reputation (Brown et al., 2007; Williams and Buttle, 2011), and diluted brand equity (Bambauer-Sachse and Mangold, 2011). Given the vital role that NWOM plays in affecting company reputations, it is essential for service marketers to understand effective strategies to refute NWOM behavior (Noone, 2012).

Several studies have examined the role of service recovery strategies in buffering the effect of service failure on NWOM and have found that NWOM can be diminished with a recovery attempt (e.g., Blodgett et al. (1997); Ro and Olson (2014); Wirtz and Mattila (2004)). However, the impact of service recovery strategies on NWOM has yet to be investigated in a direct versus indirect harm context. Customer's NWOM behavior reflects an aggressive form of fight against the firm, driven from a desire for revenge which is associated with punishment and for causing harm directed at firms (Grégoire and Fisher, 2006; Grégoire et al., 2009). As customers generally have a stronger reaction when unfair treatment is imposed on them as opposed to others (Caporael et al., 1989; Tyler and Dawes, 1993), customers who experience service failure at first hand will be more likely

to engage in retaliatory behaviors such as NWOM than those who experience service failure at second hand. In particular, we investigate whether service recovery strategies such as apologies and compensation are more effective to discourage NWOM among directly affected consumers than indirectly affected consumers. Our findings contribute to theory by suggesting the influence of harm direction on triggering NWOM intentions toward a firm and the role of service recovery on discouraging such intentions. Thus, our study will generate useful managerial insights to refute NWOM intention among consumers who are directly affected and indirectly affected by service failure incidents.

2.5 Research Hypotheses

While the deontic principles of fairness theory is useful in explaining how customers feel and act with regard to the unfair treatment of other customers, it does not take into account customers' *self-centeredness*. Self-centeredness refers to "the increased degree with which the individual considers that his own condition is more important than that of others and this takes unquestionable priority" (Dambrun and Ricard, 2011, p.140). While the extent of self-centeredness may vary between individuals, people generally have a stronger reaction when unfair treatment is directed at them, rather than at others (Caporael et al., 1989; Tyler and Dawes, 1993). The *bystander apathy theory* (Darley and Latane, 1968; Latané and Darley, 1969) and *diffusion of responsibility theory* (Bickman, 1972; Wallach et al., 1964) suggest that although people may be emotionally affected when others are treated unfairly, they may exhibit a natural tendency to avoid direct actions due to fear, doubt, or anxiety associated with direct involvement. With this theoretical backdrop, we expect that customers who are directly affected by the service failure will have more negative post-failure reactions than indirectly affected customers. In the present study, these reactions are manifested by the lack of forgiveness towards the service provider and a strong intention to spread

NWOM about the service provider for vindictive reasons. The following hypotheses are thus proposed:

Hypothesis 1: Consumers who are directly affected by the service failure will demonstrate a lower level of forgiveness than indirectly affected consumers.

Hypothesis 2: Consumers who are directly affected by the service failure will demonstrate higher NWOM than indirectly affected consumers.

Customers form judgments about the fairness of service recovery based on their own perception of the severity of service failure and recovery locus attribution, which in turn affects future behavioral intentions towards the service provider (Swanson and Hsu, 2011). The way people judge the fairness of a service recovery following service failure tends to be egocentric (Finkel, 2001) and is generally biased toward fulfilling their own self-interest (Xia and Kukar-Kinney, 2013). Therefore, we expect that the effect of service recovery will be stronger on customers who are directly affected than customers who are indirectly affected by the service failure. In particular, the directly affected customers will react to no service recovery more negatively than high service recovery (hybrid) in comparison to the indirectly affected customers, as it is in their interest to receive the best outcomes following a service failure that directly harms them. If no service recovery is offered, coupled with the damaging effect of service failure, directly affected customers will be less forgiving and more likely to spread NWOM than indirectly affected customers. Indirectly affected customers, however, may avoid direct involvement with a firm as the negative consequences of service failure have little or no influence on them (Darley and Latane, 1968). On the other hand, when service recovery is present, evaluating the fairness of the service recovery is instantly viable to both directly and

indirectly affected customers. Therefore, both directly and indirectly affected customers will equally evaluate the service recovery positively and show a stronger intention to forgive and less intention to spread NWOM. Formally:

Hypothesis 3: The influence of service recovery on forgiveness is stronger for directly affected than indirectly affected customers, such that when no recovery in comparison to both apologies and compensations are offered, directly affected consumers will demonstrate lower forgiveness than indirectly affected consumers.

Hypothesis 4: The influence of service recovery on NWOM is stronger for directly affected than indirectly affected customers, such that when no recovery in comparison to both apologies and compensations are offered, directly affected consumers will demonstrate higher NWOM than indirectly affected consumers.

3. Methodology

This study utilizes a 2 (harm direction: direct, indirect) X 4 (service recovery strategies: none, apology, compensation, hybrid) factorial experimental design. Given that forgiving traits influence individuals' forgiving behavior tendency (McCullough and Witvliet, 2002), we also controlled for the participants' forgiving traits. We conducted a two-way analysis of covariance (ANCOVA) with harm direction and service recovery strategies as between-subjects factors and forgiving trait as a covariate.

3.1 Respondent Profile

A total of 332 people participated in the survey and were randomly assigned to one of the eight experimental conditions. Undergraduate students enrolled in several marketing classes at a large state university in the U.S. were invited to participate in this study. We further asked each of these students to recruit two of their non-student acquaintances as participants in exchange for extra course credit. This technique has been adopted in prior service marketing research (Barat et al., 2013; Watson, 2012). Thirty-five percent of the surveys were completed by students themselves and the rest was completed by non-student respondents. The demographic characteristics of the sample are outlined in Table 1.

3.2 Scenarios and Manipulations

Before the scenario was presented, the respondents read an introductory statement that asked them to imagine themselves in the role of the customer described in the scenario and to then answer the questions that followed. Respondents were provided with general information about the study such as that they would be asked about their attitudes toward airline marketing strategy. However, to mitigate demand effects, the true nature and purpose of the study were disguised. For the research context, this study employed an airline service failure caused by overbooking because of its relatively frequent occurrence in reality (U.S Department of Transportation, 2014)

The scenario begins by explaining the situational context. Respondents are asked to imagine that they have not been home for the past 6 months due to a busy work schedule, and with the Christmas holiday season approaching, the whole family is preparing a large family get-together for that night. Next, the scenario describes the specific service failure in an airline boarding situation at the airport.

The plane is about to begin boarding when the airline attendant announces that the flight is overbooked by six people. In the direct harm condition, the respondent was one of those told that they will have to fly out the next morning. The respondent sought help but was told that there is nothing that could be done. As a result, the respondent finds himself or herself in the predicament of missing a pre-planned family get-together. In the indirect harm condition, while waiting to board, the respondent is speaking to a couple and subsequently observes that they would be selected to miss the flight due to overbooking of their scheduled flight. The couple also seeks help, is denied, and will miss their own family get-together. Other elements in the scenario were identical.

Following the presentation of the scenario, the service recovery strategies were presented. In all conditions, the senior attendant referred to as “Alex” issued a new boarding pass for the flight the next morning. In the no recovery condition, the airline offered no apology nor compensation. In the apology condition, Alex apologized and provided an explanation for the flight being overbooked. In the compensation condition, Alex offered a \$300 voucher for the next trip along with 5-star overnight hotel accommodation and meal vouchers. In the hybrid apology and compensation condition, Alex provided both an apology and compensation. The scenarios and manipulations for the experiment are detailed in the Appendix.

3.3 Measurement items

After reading one of the eight scenarios, respondents answered various questions to capture forgiveness, NWOM intention, and a control variable (forgiving traits). Multiple items anchored on a 7-point Likert scale were utilized for all constructs. Forgiveness and NWOM were each measured using a three-item scale adapted from Aquino et al. (2001) and Grégoire et al. (2009)

respectively. Forgiving traits were measured via a five-item scale adopted from Berry et al. (2005). Table 2 outlines the measurement properties of the focal constructs in this study.

Next, respondents were asked questions to check for demand, realism, manipulation, and basic demographic characteristics such as gender and ethnicity. The manipulation check for harm direction was measured on a four-item scale (e.g., “You are the victim of the airline service failure”). The manipulation check for the perceived fairness of service recovery strategies was measured using a three-item perceived fairness scale adapted from Blodgett et al. (1997)(e.g., “Given the circumstances, I feel that the airline offered adequate compensation”).

[Insert Table 2 Here]

3.4 Demand, Scenario, and Manipulation Checks

For the demand check, seven participants mentioned a purpose of the study related to the hypotheses. However, findings with and without these respondents show no difference. Therefore, all reported analyses draw upon the full sample. Participants evidently evaluated the scenario as believable ($M = 5.74$ vs. 3.50 [the midpoint]: $t = 33.50$, $p < 0.01$) and realistic ($M = 5.76$ vs. 3.50 [the midpoint]: $t = 34.90$, $p < 0.01$) and reported that they were able to adopt the role of the airline passenger in the scenario ($M = 5.72$ vs. 3.50 [the midpoint]: $t = 33.41$, $p < 0.01$). Therefore, we proceeded to the manipulation checks.

For the manipulation checks, the measures checking harm direction (direct vs. indirect) and service recovery strategies (none vs. apology vs. compensation vs. hybrid) were subjected to a two-way analysis of variance (ANOVA). The results show that (a) the main effect of the target manipulation

on the manipulation check was significant, but (b) no other main effects or interactions were significant. The mean for harm direction is significantly higher in the direct harm than the indirect harm condition ($M_{\text{Direct}} = 5.68 > M_{\text{Indirect}} = 4.09$, $F = 30.04$, $p < 0.01$). Moreover, perceived fairness was perceived significantly higher in the order of hybrid, compensation, apology, and control conditions ($M_{\text{Control}} < 3.22 < M_{\text{Apology}} = 3.31 < M_{\text{Compensation}} = 5.12 < M_{\text{Hybrid}} = 5.25$, $F = 43.40$, $p < 0.01$). Bonferroni pairwise comparisons of the service recovery groups confirms that a hybrid condition resulted in significantly higher perceived fairness than in the control and apology only conditions respectively (both $p < 0.01$). Similarly, offering compensation generated significantly higher perceived fairness than the control and apology only conditions (both $p < 0.01$). However, the mean differences between hybrid and compensation conditions and between control and apology only conditions were not significant ($p > 0.05$). Taken together, these results suggest that our manipulations were perceived as intended.

4. Results

4.1 Forgiveness

We conducted a two-way ANCOVA with forgiveness as the dependent variable, harm directions (direct, indirect) and service recovery strategies (none, apology, compensation, hybrid) as between-subjects fixed factors, and forgiving traits as a covariate. The results, shown in Table 3, revealed significant main effects of harm direction ($F(1, 323) = 4.39$, $p < 0.05$, partial $\eta^2 = 0.013$) and service recovery strategies ($F(3, 323) = 8.04$, $p < 0.001$, partial $\eta^2 = 0.070$) when controlling for forgiving traits ($F(1, 323) = 60.07$, $p < 0.001$, partial $\eta^2 = 0.157$). Bonferroni pairwise comparisons of the harm directions groups revealed that participants exposed to the direct harm scenario had lower forgiveness intention ($M_{\text{Direct}} = 4.19$) than indirectly affected participants ($M_{\text{Indirect}} = 4.47$, $p < 0.05$), thereby confirming H1. The interaction effect between harm direction

and service recovery on forgiveness, however, was not significant ($F = 1.45, p > 0.05$). Therefore, H3 is not supported.

[Insert Table 3 Here]

Bonferroni pairwise comparisons of the service recovery groups revealed that participants in the control group had lower forgiveness intentions ($M_{\text{Control}} = 3.92$) than those exposed to compensation ($M_{\text{Compensation}} = 4.55, p < 0.01$) and hybrid recovery treatment ($M_{\text{Hybrid}} = 4.74, p < 0.001$) respectively, regardless of the harm direction. Though not formally hypothesized, this result shows that compensation and hybrid recovery strategies have more positive effects on forgiveness intentions compared to no service recovery.

4.2 NWOM

We conducted a two-way ANCOVA with NWOM as the dependent variable, harm directions (direct, indirect) and service recovery strategies (none, apology, compensation, hybrid) as between-subjects fixed factors, and forgiving traits as a covariate. The results, shown in Table 4, revealed significant main effects of harm directions ($F(1, 323) = 7.73, p < 0.01, \text{partial } \eta^2 = 0.023$) and service recovery strategies ($F(3, 323) = 6.52, p < 0.001, \text{partial } \eta^2 = 0.057$) when controlling for forgiving traits ($F(1, 323) = 10.82, p < 0.001, \text{partial } \eta^2 = 0.032$). Bonferroni pairwise comparisons of the harm directions groups revealed that participants exposed to the direct harm scenario had higher intentions to engage in NWOM ($M_{\text{Direct}} = 4.26$) than indirectly affected participants ($M_{\text{Indirect}} = 3.81, p < 0.01$), thereby confirming H2.

[Insert Table 4 Here]

Moreover, the interaction between harm direction and service recovery was significant ($F(3, 323) = 3.96, p < 0.01, \text{partial } \eta^2 = 0.035$). Figure 1 shows the pattern of interaction between direct versus indirect harm and service recovery strategies on NWOM. Both Figure 1 and the follow-up pairwise comparisons analysis (Table 5) revealed that there are significant differences in the effects of “no recovery” on NWOM intentions across direct and indirect harm context ($MD = 0.949, p < 0.01$), with directly affected customers exhibiting a higher level of NWOM intention ($M_{\text{Direct}} = 5.01$) than indirectly affected customers ($M_{\text{Indirect}} = 4.06$) when neither apologies nor compensation were offered following a service failure incident. Thus, H4 is supported.

A similar pattern was found on the effects of apology on NWOM intentions across direct and indirect harm contexts ($MD = 1.02, p < 0.001$), with directly affected customers exhibiting a higher level of NWOM intention ($M_{\text{Direct}} = 4.63$) than indirectly affected customers ($M_{\text{Indirect}} = 3.61$) when only apology was offered following a service failure incident. On the other hand, as expected, no significant mean difference was found on NWOM intention in the compensation and hybrid strategy condition across direct and indirect harm contexts.

[Insert Figure 1 Here]

[Insert Table 5 Here]

A further follow-up pairwise comparison analysis based on service recovery strategies (Table 6) revealed that for directly affected consumers, hybrid recovery strategy ($M_{\text{Hybrid}} = 3.57$) led to significantly lower NWOM intentions than apology recovery strategy ($M_{\text{Apology}} = 4.63, p < 0.001$) and no recovery strategy ($M_{\text{Control}} = 5.01, p < 0.001$) respectively. Similarly, compensation recovery

strategy ($M_{\text{Compensation}} = 3.82$) led to significantly lower NWOM intentions than apology recovery strategy ($M_{\text{Apology}} = 4.63$, $p < 0.01$) and no recovery strategy ($M_{\text{Control}} = 5.01$, $p < 0.001$). No significant differences were found between the service recovery groups on their NWOM intentions among indirectly affected consumers. This result shows that compensation and hybrid recovery strategies have more positive effects than no service recovery strategies on reducing NWOM intentions only within the direct harm contexts.

[Insert Table 6 Here]

5. Discussions and Conclusion

This research employs a 2 (harm direction: direct, indirect) by 4 (service recovery strategies: none, apology, compensation, hybrid) between-subjects factorial design experiment with 332 U.S. participants. The results provide support for all hypotheses with the exception of H3 as no interaction effect was found between harm direction and service recovery on forgiveness. This section summarizes the findings of this study along with significant theoretical implications.

First, this study found that directly affected consumers are less forgiving and more inclined to engage in NWOM than indirectly affected consumers subsequent to service failure incidents. This finding is consistent with the self-centeredness paradigm (Caporael et al., 1989; Tyler and Dawes, 1993), as customers in the direct harm condition demonstrated a stronger negative behavioral intention when they were treated unfairly than customers in the indirect harm condition. Nevertheless, our findings highlight that the role of other customers goes beyond the previous conceptualization of other customers as a mere component of the servicescape (Belk, 1975; Tombs

and McColl-Kennedy, 2003) or service encounters (Gronroos, 1978; Langeard et al., 1981). Rather, other customers are active participants in focal customers' service experiences. Therefore, the firm's ability to proactively manage the influence of other customers is regarded as a major differentiator in competitive service environments (Zhang et al., 2010). We extend previous research that examines the customer response to service failure experienced by other customers (Mattila et al., 2014). The robust findings that unfair treatment experienced by others is an important consideration in perceived justice perception as if the participants themselves experienced the unfair treatment in our analyses further reinforces the findings reported in studies by Van den Bos and Allan (2001), Turillo et al. (2002), and Colquitt (2004). Second, the significant interaction between harm direction and recovery strategies on NWOM indicates that when no recovery (in comparison to apologies and compensation) is offered, directly affected consumers show stronger intentions to engage in NWOM than indirectly affected consumers do. However, presence of service recovery leads to a lower NWOM intention across direct- and indirect-harm service contexts. This result is consistent with the premise that customers' perceived fairness of service recovery effort tends to be egocentric in nature (Finkel, 2001) and biased toward customers' self-interest (Xia and Kukar-Kinney, 2013). In addition, this result lends support to the diffusion of responsibility theory (Bickman, 1972; Wallach et al., 1964). Indirectly affected customers may feel that it is not their responsibility to take revenge on the firm when the service failure does not directly affect them.

Our results lend further support to the application of the deontic principle of fairness theory within service settings (Cropanzano et al., 2003), demonstrating that even when customers are not directly affected by the service failure, the unfair treatment experienced by other customers could lead the non-affected customers to engage in NWOM. The low intention to forgive the service provider

following indirect-harm failure is also congruent with the argument that witnessing unfair treatment of others leads to retaliating behaviors (Porath et al., 2011). By comparing customers' reactions within direct and indirect harm contexts, our research has made a theoretical contribution to the emerging paradigms on the observation of "other customers" within service settings, which to date have received limited attention in the literature (Mattila et al., 2014).

This study also contributes to the body of knowledge on consumer forgiveness, a topic which has been largely overlooked in the service literature (Tsarenko and Tojib, 2011). In particular, this study addressed a call for research in this area (Grégoire et al., 2009) by explaining the role of service recovery strategies in affecting consumer forgiveness. Our findings highlight that the presence of service recovery leads to a stronger intention to forgive across direct- and indirect-harm service contexts. As the first study that has examined the consumer forgiveness phenomenon within direct-harm and indirect-harm service failure, this research contributes to the service literature by presenting service recovery as a viable strategy for a service provider to employ in order to encourage customers to "forgive after service failure episodes" (Grégoire et al., 2009, p.29)

5.1 Managerial Implications

The indirect harm scenario presented in this study, in which a customer witnesses a service failure happening to other customers who then receive fair or unfair treatment, happens quite frequently in the service environment. Customers are keen observers and often use the experience of other customers as a benchmark in making their own evaluations and decisions (Miao, 2014). For example, if a customer witnesses an event similar to that described in this study's scenario, the manner in which the customer is served and the type of compensation he or she receives would have implications for the observer's emotional responses and behavioral intentions. Our results

reveal that customers' observation of unfair firm intervention to other customers following a service failure would lead to low intention to forgive and strong intention to engage in NWOM among the observing customers, even when they are not directly affected by the failure. Service marketers can use this information to tailor effective service recovery strategies, encouraging front-line employees to be aware of the manner in which the compensation and/or apologies are communicated. For instance, a service employee could be trained to take the customer who experiences the service failure away from observers when communicating the service outcomes so that other customers' experiences are kept intact (Mattila et al., 2014).

This study found that service recovery strategies have significant main effects on forgiveness and NWOM intentions. In particular, in comparison to participants exposed to compensation and hybrid recovery treatment, participants in the no recovery group demonstrated lower forgiving intention and higher NWOM intentions. However, no significant differences in forgiveness and NWOM intentions were found between the no recovery and apology only conditions. Congruent with past studies (de Coverly et al., 2002; Duffy et al., 2006), this study confirms that apologies alone are not enough to induce positive intentions and reduce negative intentions following a service failure. The practical implication for service providers is that a combination of apology and compensation is essential to effectively drive consumer forgiveness and lower NWOM intention. The results corroborate the recent trend in managerial practices to offer combined benefits of apologies and compensation to reduce customers' negative reactions following service failure (Gelbrich et al., 2015; Noone and Lee, 2011).

Ultimately, marketers in service organizations can benefit from the findings of this study by getting a clearer perspective on the fact that service failures and unfair recovery effort affecting other

customers could have adverse effects not only on the recipients, but on other customers around them. As such, this possibility should be circumvented or alleviated as much as possible.

5.2 Limitations and future research directions

There are several limitations in this study that could be addressed in future research. First, we examined a single context – airline services – and thus generalization to other service sectors should be undertaken cautiously. As flight overbooking and offers of compensation and apology to avert service failure are common in the airline context, factors such as who is affected and what is being offered as a result of service failure may not be as critical as in other service contexts. Second, the consequence of service failure in our scenario may not be too detrimental as the customers “only” missed a casual family reunion. Scenarios involving more serious incidents, such as missing a wedding ceremony of a family member or an important surgical procedure, may lead to stronger reactions across directly affected and indirectly affected customers (e.g., Weun et al. (2004)). Consequently, future researchers could replicate the present study in a more “severe” service failure scenario and use diverse methods such as field studies across other service settings including hotel, restaurant, and retail stores. Furthermore, our scenario describes the “other customers” who are affected by incident as a couple whom the respondent has just met and has been speaking with while waiting to board. However, there is considerable evidence that similarity across individuals is an important factor in interpersonal attraction, social integration, and cohesion, a phenomenon often termed the similarity-attraction effect (Baron and Pfeffer, 1994). Therefore, future researchers should take into account how perceived similarity between the focal customer and other customers who are affected by the negative incident plays into the relationship between harm direction and service recovery strategies. In addition, our scenarios describe the typical service recovery mode in which the affected customer is contacted by the service employee and given a service recovery.

However, a number of executional factors, such as a different recovery mode (public vs. private recovery; Zhou et al. (2013)), response speed after failure (immediate vs. delayed; Boshoff (1997); Smith and Bolton (2002)), and who initiates the service recovery (service employee vs. customer; Smith and Bolton (2002)), may influence the effect of service recovery. Future researchers should investigate how these variables affect the customer's perception of recovery benefits. Third, although we control for "forgiving traits" in this study, there are other important variables which could be taken into consideration for future studies. For example, individuals' empathy towards others in general (Hampes, 2010) might affect respondents' intentions within the indirect harm failure condition and should be included as a control variable. Culture could also have a significant effect on customers' reactions to indirect harm failure. Consumers in a collectivist culture may be more empathic towards others (Duan et al., 2008) and thus might have stronger reactions when witnessing unfair treatment to other customers than those in an individualistic culture. Consequently, a replication of this study in a cross-cultural context will generate interesting insights for researchers and practitioners alike.

Finally, the current research used sample of undergraduate students as survey participants and recruiters for nonstudent survey participants. Although the use of a homogeneous student sample may not be ideal, we contend that the majority of participants in the current study have experienced various service failures themselves, as well as observing other customers' experiences of service failures. In addition, using students as recruiters for nonstudent survey participants has been effectively utilized in prior service marketing research (e.g., Barat et al. (2013); Watson (2012)). Nonetheless, future researchers may consider testing our proposal using a broad range of customers to strengthen the generalizability of the findings.

Appendix: Scenarios and manipulations used in experiment

Scenarios for harm direction

Condition	Manipulation
Direct Harm	<p>Imagine that you booked a flight months in advance to fly out and visit your family for the upcoming Christmas holiday. Since you have not been home for the last 6 months due to your busy work schedule, your entire family is anxious to see you. They even planned a large family get-together tonight to celebrate once you arrive.</p> <p>As the plane is about to begin boarding, the airline attendant at the gate announces that the flight is overbooked by six people. You, along with a few other people, are informed that you will not receive a seat until boarding begins. Soon you are told you will have to fly out the next morning. You tell the attendant, “I paid for my ticket months ago, checked in early and got here way in advance. I have my confirmation right here.” When you ask why you were chosen and ask to be directed to the person in authority who made this decision, you are simply told, “The airline decides. There is nothing I can do for you. Please step away.” You know that you need to travel today, otherwise you will miss the family get-together tonight that was planned around you.</p>
Indirect Harm	<p>Imagine that you booked a flight months in advance to fly out and visit your family for the upcoming Christmas holiday. Since you have not been home for the last 6 months due to your busy work schedule, your entire family is anxious to see you. They even planned a large family get-together tonight to celebrate once you arrive.</p> <p>As the plane is about to begin boarding, the airline attendant at the gate announces that the flight is overbooked by six people. The couple you have been speaking with while you were waiting to board, along with a few other people, are informed that they will not receive seats until boarding begins. Soon the couple are told that they will have to fly out the next morning. They tell the attendant, “We paid for our tickets months ago, checked in early and got here way in advance. We have our confirmation right here.” When they ask why they were chosen and ask to be directed to the person in authority who made this decision, they are simply told, “The airline decides. There’s nothing I can do for you. Please step away.” You know that the couple need to travel today as much as you do, otherwise they will miss their family get-together tonight that was planned around them.</p>

Scenarios for Service Recovery Strategies

Condition	Manipulation
None	Following the incident, the airline did not offer any apology or compensation. However, the senior attendant, who introduced himself as Alex, approaches you [the couple], issues a new boarding pass for your flight [their flights] the next morning, and walks away.
Apology	Following this incident, the senior attendant, who introduced himself as Alex, approaches you [the couple] and says, “I am so sorry about this situation. I sincerely apologize on behalf of the airline staff and the airline. I feel terrible that you are unable to travel as scheduled.” He then kindly provides an explanation of the reason why the flight is overbooked, issues a new boarding pass for your flight [their flights] the next morning, and walks away.
Compensation	Following this incident, the senior attendant, who introduced himself as Alex, approaches you [the couple] and provides you [them] with a \$300 voucher for your [their] next trip, which is almost equivalent to what you [they] paid for your ticket [their tickets]. He then issues a new boarding pass for your flight [their flights] the next morning, additionally provides you [them] with a 5-star overnight hotel accommodation close to the airport along with meal vouchers, and walks away.
Apology and compensation	Following this incident, the senior attendant, who introduced himself as Alex, approaches you [the couple] and says, “I am so sorry about this situation. I sincerely apologize on behalf of the airline staff and the airline. I feel terrible that you are not able to travel as scheduled.” He then kindly provides an explanation of the reason why the flight is overbooked and provides you [them] with a \$300 voucher for your [their] next trip, which is almost equivalent to what you paid for your ticket [their tickets]. He then issues a new boarding pass for your flight the next morning, additionally provides you [them] with a 5-star overnight hotel accommodation close to the airport along with meal vouchers, and walks away.

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Table 1. Characteristics of respondents

Demographic Characteristics (<i>N</i> = 332)	
<i>Age</i>	
18-25	59.6%
26-35	10.5%
36-49	16.3%
50-65	13.0%
Over 65	0.6%
<i>Gender</i>	
Male	43.7%
Female	56.3%
<i>Marital Status</i>	
Single	63.3%
Married	30.7%
Divorced	3.9%
Other	2.1%
<i>Ethnicity</i>	
African-American	13.0%
Asian	13.9%
Caucasian	66.9%
Hispanic	1.5%
Multi-racial	1.8%
Other	3.0%
<i>Household Annual Income</i>	
Below \$20,000	40.4%
\$20,000 - \$39,999	11.1%
\$40,000 - \$59,999	8.2%
\$60,000 - \$79,999	7.2%
\$80,000 or more	10.5%
Don't know/Prefer not to answer	22.6%

Table 2. Measurement properties

Constructs	Items	Standardized Factor Loadings	Cronbach's α
Forgiveness	I will give the firm an opportunity to make it up to me.	0.84	0.80
	I will make an effort to be more friendly in my future interactions with this firm.	0.78	
	I will continue my relationship with this firm.	0.75	
NWOM	I would talk to other people to spread negative word of mouth about the company.	0.93	0.91
	I would talk to other people to bad-mouth this company.	0.91	
	I would talk to other people to warn them not to use this company.	0.82	
Forgiving Trait	I am a forgiving person.	0.86	0.90
	I have always forgiven those who have hurt me.	0.85	
	I try to forgive others even when they don't feel guilty for what they did.	0.85	
	I can usually forgive and forget an insult.	0.82	
	I can forgive a friend for almost anything.	0.81	

Table 3. ANCOVA results for forgiveness

Source	Type III sum of squares	df	Mean square	<i>F</i>	Sig.
Corrected Model	137.771 ^a	8	17.221	11.648	0.001
Intercept	119.317	1	119.317	80.700	0.001
HARM	6.484	1	6.484	4.386	0.037
TYPES	35.677	3	11.892	8.043	0.001
FORGTRA	88.810	1	88.810	60.067	0.001
HARM * TYPES	6.412	3	2.137	1.446	0.229

NOTE: HARM = Harm Direction; TYPES = Service Recovery Strategies;

FORGTRA = Forgiving Trait

^a. R Squared = 0.22 (Adjusted R Squared = 0.21)

Table 4. ANCOVA results for NWOM

Source	Type III sum of squares	df	Mean square	<i>F</i>	Sig.
Corrected Model	103.927 ^a	8	12.991	6.210	0.001
Intercept	541.636	1	541.636	258.931	0.001
HARM	16.177	1	16.177	7.733	0.006
TYPES	40.900	3	13.633	6.517	0.001
FORGTRA	22.637	1	22.637	10.822	0.001
HARM * TYPES	24.830	3	8.277	3.957	0.009

NOTE: HARM = Harm Direction; TYPES = Service Recovery Strategies;
FORGTRA = Forgiving Trait

^a. *R* Squared = 0.13 (Adjusted *R* Squared = 0.11)

Table 5. Pairwise comparison based on harm directions

DV	Service recovery	Harm direction	<i>MD</i>
NWOM	None	Direct vs. Indirect	0.949*
	Apology	Direct vs. Indirect	1.020**
	Compensation	Direct vs. Indirect	-0.213
	Hybrid	Direct vs. Indirect	0.017

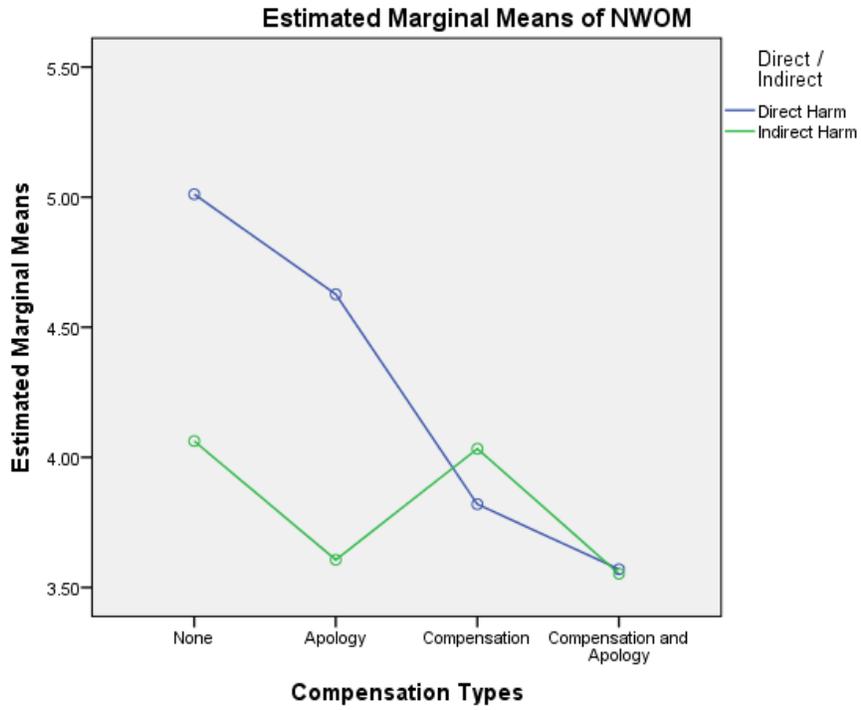
MD = Mean Differences; *significant at 0.01 level **0.001 level

Table 6. Pairwise comparison based on service recovery

DV	Harm direction	Service recovery	<i>MD</i>
NWOM	Direct	None vs. Apology	0.385
		None vs. Compensation	1.191**
		None vs. Hybrid	1.441**
		Apology vs. None	-0.385
		Apology vs. Compensation	0.807*
		Apology vs. Hybrid	1.056**
	Indirect	None vs. Apology	0.456
		None vs. Compensation	0.03
		None vs. Hybrid	0.51
		Apology vs. None	-0.456
		Apology vs. Compensation	-0.427
		Apology vs. Hybrid	0.053

MD = Mean Differences; *significant at 0.01 level **0.001 level

Figure 1. Interaction effect on NWOM



Covariates appearing in the model are evaluated at the following values: FORGTRA = 4.9422