

# ORGANIZATIONAL RESPONSES TO CONSUMER COMPLAINTS: A RE-EXAMINATION OF THE IMPACT OF ORGANIZATIONAL MESSAGES IN RESPONSE TO SERVICE AND PRODUCT-BASED FAILURES

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## ABSTRACT

In a recent investigation of consumer complaining, Bolkan and Daly (2007) found that consumer complaints were mitigated by organizational response types (excuses, justifications, and apologies) and their components (believability, appropriateness, consideration, and accepting responsibility). What remained to be explained was if organizations' remediation tactics differed in the minds of consumers of *services* and *products*. The current study sought to determine if consumers of services and products differ in their perceptions of organizational remediation messages. Results showed two major patterns reoccurred throughout. First, assuming responsibility was less important for service-based failures than it was for product-based failures. Second, alleviating negativity was easier to do for service-based failures than it was for product-based failures.

## INTRODUCTION

Like people, businesses are not perfect and they make mistakes. In fact, failures are common in business encounters (Babakus, Yavas, Karatepe, and Avci, 2003; Bitner, Booms, and Tetreault, 1990; Hart, Heskett, and Sasser, 1990) and can lead to negative repercussions for organizations. (Blodgett, Hill, and Tax, 1997; Etzel and Silverman, 1981; Hoffman and Kelley, 2000; Keaveney, 1995; Zemke, 1994). The actions organizations take in response to organizational failures are known as organizational recovery efforts (Lewis and Spyropoulos, 2001) and are defined as attempts at "returning

aggrieved customers to a state of satisfaction with the organization after a service or product has failed to live up to expectations" (Zemke and Bell, 1990, p. 43). Organizational recovery has a significant impact on overall consumer satisfaction following a failure (Boshoff, 1997) and effective complaint handling has been linked to consumer satisfaction, brand loyalty, favorable word of mouth behaviors, and decreased instances of litigation (Gilly and Hansen, 1992).

## Explanations

Of the many remediation tactics to choose from, organizations often benefit from the use of explanations for their failures. According to Baer and Hill (1994), customers who receive explanations from organizations following failures are significantly more likely to be satisfied with the response, are more likely to see the initial failure as less negative, and are likely to perceive the company as more credible than customers who do not receive an explanation.

Results from a study on organizational remediation and third party perceptions help frame why explanations may benefit organizations. According to Bradford and Garrett (1995), organizations that fail consumers may be subject to the fundamental attribution error (Jones and Nisbett, 1971). That is, when companies engage in negative actions, consumers are likely to attribute these negative actions to stable dispositions such as irresponsibility and selfishness. However, using the discounting principle (Kelley, 1973), Bradford and Garrett argue that companies can provide explanations for their actions that may help frame themselves in a

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positive (or at least not negative) light. Negative events can be reframed if a business's blameworthy behavior can be explained in an acceptable manner that reduces the apparent undesirability of an event, an organization's apparent responsibility for an event, or both (Greenberg, 1990; Schlenker, 1980).

The explanations organizations have at their disposal can vary greatly. However, most studies on organizational responses to business failures typically examine three main types: excuses (messages that attempt to alleviate responsibility for an event), justifications (messages that attempt to alleviate the undesirability of an event), and apologies (messages containing both acknowledgments of blameworthiness for a negative event and attempts to obtain a pardon and mitigate the negative repercussions for the event). Researchers who study the types of explanations usually examine the differences between the explanation types to determine which is the more effective recovery tactic (e.g., Conlon and Murray, 1996; Hill and Baer, 1994). However, some scholars assert that the investigating one type of explanation as it compares to another is misguided as no specific type of explanation should be superior to another based simply on its form (e.g., Hareli, 2005). Instead, these scholars argue, the effectiveness of explanations comes from their content as opposed to their form.

In a recent investigation of consumer complaining and organizational explanations, Bolkan and Daly (2007) found that consumer complaints can be mitigated by *both* organizational response types and their components. Bolkan and Daly showed that, as remediation tactics, each of these types of messages have different effects on consumers. For example, excuses were found to mitigate perceptions of perceived company control over a failure situation, justifications led to decreased negativity, and apologies led to a

greater future intent to do business with an organization, less negativity with a failure situation, and more satisfaction with a remedial response (Bolkan and Daly, 2007).

In addition, Bolkan and Daly (2007) found that various components of organizations' explanations helped mitigate the negative consequences of company failures. In line with predictions from previous researchers (Hareli, 2005; Scott and Lyman, 1968; Schlenker, 1980), the authors found that responses to consumers featuring messages perceived to be believable, appropriate, considerate, and accepting of responsibility led to more positive outcomes for organizations than messages that were perceived to be absent of these features.

What remains to be explained in the literature is if (and how) organizations' remediation tactics differ in the minds of consumers of services when compared to consumers of products. The current study sought to determine if (and how) consumers of services and products differ in their perceptions of organizations following complaints and subsequent remediation messages. Specifically, we examined consumer perceptions of organizations after a failure as they related to organizations' message types (excuses, justifications, and apologies) and components (believable, appropriate, considerate, and responsible).

## **Research Questions**

Many investigations of consumer-based organizational explanations examine failures without differentiating between, or manipulating, product and service failures. Researchers often mix results of product and service mistakes together and fail to examine if there are any differences between the two types of organizational failures as they relate to remediation tactics. Although a few scholars have roughly studied this notion (e.g., Gilly and Gelb, 1982 – monetary versus non-monetary losses; Mattila, 2001 –

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hairstyling versus restaurant and dry cleaning services), the literature on organizational recovery would benefit from more research in this area. Therefore, the current study examines companies' communication with customers following organizational failures (for both service and product related failures) to understand how organizational explanations work to alleviate consumer dissatisfaction.

In this study, we examined service-based failures as they compared to product-based failures. Four characteristics distinguish the two (Zeithaml, Parasuraman, and Berry, 1985): intangibility, services are performances that cannot be possessed - products can be felt, tasted, and touched; inseparability, the production of services cannot be separated from their consumption - products are first produced, then sold, then consumed; heterogeneity, service quality and consistency are subject to variability because they are delivered by people and human behavior is difficult to control - products can be produced in a relatively consistent manner; and perishability, services cannot be stored for future use - products can be stored for future use.

Research shows that these four characteristics influence marketing techniques (Zeithaml et al., 1985) and television advertisements (Zinkhan, Johnson, and Zinkhan, 1992) such that service-based organizations attempt to sell their deliverables differently than do product-based organizations. This research essentially suggests that organizations treat consumers and business operations differently for service- and product-based deliverables; because this is the case it makes sense that the different types of organizations might approach complaint remediation in different ways as well.

In their paper, Zeithaml et al. (1985) discuss a variety of issues that demand consideration when service- and product-based companies market their services. Three

of these issues also seem particularly important to keep in mind when responding to failures as well. First, the authors state that it is difficult for companies to put a price on services. Relative to products, the authors argue, tangible materials are less likely to be consumed during the production of services. Therefore, it is harder to associate services with a firm, objective value. The same may be true for service *failures*. Once a service failure occurs, it may be hard for individuals to put a value on the predicament. That is, unless a company wholly fails a consumer, it may be hard for consumers to put a price on value of the inadequate service. For example, if a plumbing company does a poor job in the delivery of their service – the service is done but only with mediocre results – how should a person be reimbursed (Nothing at all? For the total cost? For a part of the cost? If so, how much?)? The value of the failure in this case is difficult to determine in an objective sense and dealing with this issue might pose problems for service-based organizations. This problem becomes even more difficult to handle when the service failure is related to a product offering. For example, when waiters are rude (but the food is good) or when retail employees are unhelpful (but the clothes are fine), the value of the service failure may become even more difficult to measure.

Second, services are often difficult to examine after they have been performed. Some exceptions include services that result in a product that can be scrutinized (e.g., a haircut) or services that are recorded (e.g., a videotaped seminar). Since many services cannot be examined after they have been performed, complaints about service failures may be more difficult to verify than complaints about product failures. Complaints about service failures can become a matter of hearsay and dealing with these issues may pose problems for service-based organizations.

Third, and related to the second idea, is the notion that consumers are tied to the

delivery process in a special way for services. Unlike products – which are typically produced, purchased, and consumed – people consuming services are often present and interactive in the production of services. That being said, service failures are liable to be more easily influenced by peoples' perceptions of that process than are products. For example, a product may work like it is supposed to or not, but when a retail employee is having a bad day what is considered rude behavior to one customer might not be considered rude to the next. In addition, due to the personal nature of being a part of the production of the deliverable, people may take service failures more personally than they would product failures. That is, people may not perceive a broken cell-phone as being as much of a personal affront as they would a rude waiter. Organizations dealing with services failures may therefore have these added aspects of interaction to negotiate.

With respect to the ideas mentioned above, the following research questions are offered:

**R1:** Do messages that are believable, appropriate, considerate, and that accept responsibility affect consumers' perceptions of organizations following failures differently for product- and service-based complaints?

**R2:** Do excuses, justifications, and apologies affect consumers' perceptions of organizations following failures differently for product- and service-based complaints?

Additionally, several researchers argue that the provision of tangible rewards has the ability to affect organizational recovery efforts. For example, Tax et al. (1998) suggest that one of the most important factors consumers consider when evaluating organizational remediation tactics is the

fairness of the distributive outcomes. They state that distributive outcomes are based on equity relevant to complainants' situations and, after organizations have failed consumers, consumers expect to be compensated for their losses. The authors note that several service quality leaders (companies that are committed to excellent customer service) know this and are concerned about providing appropriate compensation to consumers following a failure episode.

Wirtz and Matilla (2004) also found that providing tangible compensation for a failure can help organizations in their recovery efforts. Their study showed that if an organization's service recovery effort was mediocre, adding compensation to the remediation attempt could make up for minor shortfalls. In addition, Conlon and Murray (1996) suggest that one of the major ways companies can enhance their positive perceptions following a failure is through the provision of tangible compensation. The authors note that companies can use tangible compensation as both an economic and a symbolic investment into their relationships with consumers. Moreover, the authors state that the provision of tangible compensation leads to increased positive affect and increased positive perceptions of organizational responses for consumers.

Because tangible rewards have been demonstrated to affect consumers' perceptions of organizations following a failure episode in previous investigations, the current study also seeks to investigate their impact on organizational remediation as it applies to both service and product-based failures. For these reasons we propose the following research question:

**R3:** Do tangible rewards affect consumers' perceptions of organizations following failures differently for product- and service-based complaints?

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## METHODOLOGY AND PROCEDURE

Subjects were recruited to write letters to companies regarding genuine complaints they had with services or products. One hundred and thirty four participants took part in the study and were used in the data analysis. The participants had a mean age of 20 ( $Mdn=19$ ,  $SD=4$ ) and the sample was comprised of 39 males and 95 females.

We asked people who decided to participate to think of a recent experience where they were dissatisfied with an organization's service or product and asked them to write a complaint letter to the organization expressing their dissatisfaction. Subjects were told to include in the letter the brand name of the service or product, when and where they purchased the service or product, and the reason for their dissatisfaction. Subjects turned in their complaint letters after marking the return address of the envelopes to the residence of the primary investigator.

In addition, we used a questionnaire to gather some initial information from subjects. This information included demographic information (sex and age), information regarding the complaint (monetary value of the service/product and name of the company), and information regarding the nature of the complaint (service or product).

Once organizations sent letters back to individuals, we contacted subjects who came in, read their responses, and filled out a second questionnaire measuring the independent and dependent variables.

### Independent Variables: Components of Explanations

We measured participants' perceptions of believability ( $r=.64$ ) (e.g., How honest is the organization's response?), appropriateness ( $\alpha=.90$ ) (e.g., How much sense does the organizational response make considering your situation?), consideration ( $\alpha=.91$ ) (e.g.,

How understanding is the organization of your problem?), and responsibility ( $\alpha=.81$ ) (e.g., did the organization take ownership of the problem?) present in each response. To do this we asked subjects to fill out a short questionnaire referring to these ideas. The questionnaire asked subjects to respond to items by choosing numbers ranging from 1 (*strongly disagree*) to 7 (*strongly agree*). A confirmatory factor analysis (using AMOS) indicated that the data fit the predicted four-factor solution ( $X^2=45.56$ ,  $df = 36$ ,  $p=.13$ ;  $RMSEA<.05$ ;  $CFI=.99$ ) with all items loading on their respective factors at an appropriate level of significance ( $p<.01$ ).

### Dependent Variables

We also measured five dependent variables including participants' future intent to do business with a company ( $\alpha=.94$ ) (e.g., What is the likelihood that you consider this company as your first choice when buying a similar product?), perceived company credibility ( $\alpha=.90$ ) (e.g., How competent is this company?) satisfaction with the organizational response ( $\alpha=.92$ ) (e.g., Was an adequate explanation offered to you regarding your complaint?), perceived negativity with the failure ( $r=.52$ ) (e.g., How unpleasant was this experience), and perceived company control over the failure ( $\alpha=.72$ ) (e.g., To what extent is the problem beyond the company's control?). To test the goodness of fit for the dependent variables we conducted a confirmatory factor analysis (using AMOS); the data fit the five-factor model with all items loading on their respective factors ( $X^2=126.07$ ,  $df=106$ ,  $p=.09$ ;  $RMSEA<.05$ ;  $CFI=.99$ ) at an appropriate significance level ( $p<.01$ ).

## RESULTS

### Response Characteristics

Three hundred and seventy-three letters were sent out. One hundred and thirty-

nine (38%) letters came back from their respective organizations within an eight-week period. Letters came back in a range from between 4 and 49 days ( $M=18.32$ ,  $Mdn=16$ ,  $SD=9.52$ ). One hundred and thirty-four subjects came in to read their letters and fill out the measures of the explanation components and dependent variables – five subjects did not. The data used in this study were drawn from a larger project (Bolkan and Daly, 2007); however the results reported in the current article address very different research questions.

Of the 134 letters analyzed, a total of 68 were complaints about service, 63 were complaints about products, two were complaints about both, and one subject did not provide this information (see Table 1). Subjects coded their own complaints as either

service related or product related. However, we examined each letter to determine if the categorization was done correctly. There were very few instances where we thought there was a misclassification of the data by participants. In these instances the primary investigator determined the appropriate complaint category. Complaints were classified as service related if they reflected: the delivery of goods (e.g., complaints about waiters bringing food), the performance of a service (e.g., service for a person – transportation, or service on a product – fixing a car), or poor staff attitude (e.g., rude sales representatives). Complaints were categorized as product related when they referred to physical and/or tangible goods (e.g., products in a store or food at a restaurant).

**TABLE 1**

**Types of Organizations Analyzed**

Type of Organization	Frequency
<u>High Tech. Manufacturer</u>	<u>25</u>
Service	2
Product	22
Missing Data	1
<u>Dine in Restaurant</u>	<u>21</u>
Service	18
Product	2
Both	1
<u>Vacations/Airlines</u>	<u>15</u>
Service	14
Product	1
<u>Cell Phone</u>	<u>13</u>
Service	4
Product	9
<u>Consumer Goods</u>	<u>13</u>
Service	3
Product	10

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<u>Food and Drug Manufacturers</u>	<u>10</u>	
Service	1	
Product	9	
<u>Fast Food</u>	<u>9</u>	
Service	6	
Product	2	
Both	1	
<u>Clothing/Accessories</u>	<u>7</u>	
Service	2	
Product	5	
<u>Electronics Stores</u>	<u>4</u>	
Service	3	
Product	1	
<u>Super Stores (e.g., Target/Wal-Mart)</u>		<u>3</u>
Service	2	
Product	1	
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<u>University Offices</u> (all service related)	<u>3</u>	
<u>Cable/Internet</u> (service related)	<u>1</u>	
<u>Public Transportation</u> (all service related)	<u>2</u>	
<u>Coffee</u> (all service related)	<u>2</u>	
<u>Car Dealerships</u> (product related)	<u>1</u>	
<u>Postal Service</u> (all service related)	<u>2</u>	
<u>Other</u> (all service related)	<u>3</u>	

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### Content Analysis of Explanation Types

In order to determine the impact of the various explanations on consumer satisfaction, two coders (the first author and a research assistant) examined the organ-

izational responses for their use of excuses, justifications, and apologies. Excuses were coded as communication that included references to an external locus of control (an event was caused by forces other than the company), a lack of control (no authority,

ability, or capacity to act otherwise), or a lack of stability. Justifications were coded as explanations that included information attempting to diminish the negative consequences of a predicament. Apologies were coded as communication that admitted fault or expressed sympathy (e.g., I am sorry to hear about your negative experience).

Results, calculated with Scott's Pi (Scott, 1955), indicated that the coders had

acceptable agreement rates for the different types of explanations (Excuses, .89; Justifications, .79; Apologies, 1.0) (see Table 2 for a descriptive table showing the various types of responses offered for products and services). In addition, we coded organizational responses for the inclusion of tangible rewards.

**TABLE 2**

**Types of Organizational Explanations**

Type of Explanation	Frequency	
	Service	Product
Excuse	5	4
Justification	3	3
Apology	31	14
Excuse and Justification	1	2
Excuse and Apology	12	12
Justification and Apology	2	5
Excuse and Justification and Apology	3	0
Nothing	11	23
Total	68	63

*Note:* One subject did not mark whether they filed a service or product complaint. Two subjects marked both product and service. These subjects were not included in the data analysis. Additionally, "type of explanation" indicates that at least one of these types of explanations was present in a letter.

**RQ1: Components of Effective Explanations**

The first research question asked if messages that are believable, appropriate, considerate, and that accept responsibility affect consumers' perceptions of organizations following failures differently for service- and product-based complaints. To

answer this question we looked for differences in the associations between all of the explanation components (believability, appropriateness, consideration, and responsibility) and all of the dependent variables (future intent to do business with a company, company credibility, satisfaction with a company response, negativity, and perceived company control).



The results of the analysis are reflected in Table 3. The only differences between the associations of explanation components and the dependent variables are

as follows: responsibility was significantly associated with future intent to do business with a company for products but not for services and consideration was inversely

TABLE 3

## Associations between the Components of Explanations and Dependent Variables

	Service Failures				Product Failures			
	B	A	C	R	B	A	C	R
1. <i>R</i>	.38	.31	.39	<u>.18</u>	.46	.45	.55	<u>.27</u>
<i>p</i> <	.01	.01	.01	<u>ns</u>	.01	.01	.01	<u>.05</u>
<i>N</i>	64	64	64	<u>64</u>	60	61	61	<u>60</u>
2. <i>R</i>	.35	.28	.54	.24	.38	.39	.61	.31
<i>p</i> <	.01	.05	.01	.05	.01	.01	.01	.01
<i>N</i>	67	67	67	67	59	60	60	59
3. <i>R</i>	.72	.75	.67	.43	.61	.69	.70	.50
<i>p</i> <	.01	.01	.01	.01	.01	.01	.01	.01
<i>N</i>	66	66	66	66	60	61	61	60
4. <i>R</i>	-.14	<u>-.12</u>	<u>-.28</u>	<u>-.19</u>	-.12	<u>-.40</u>	<u>-.17</u>	<u>-.26</u>
<i>p</i> <	<i>ns</i>	<u>ns</u>	<u>.01</u>	<u>ns</u>	<i>ns</i>	<u>.01</u>	<u>ns</u>	<u>.05</u>
<i>N</i>	67	<u>67</u>	<u>67</u>	<u>67</u>	60	<u>61</u>	<u>61</u>	<u>60</u>
5. <i>R</i>	<u>-.23</u>	<u>-.21</u>	-.09	-.19	<u>-.09</u>	<u>.04</u>	.08	.16
<i>p</i> <	<u>.05</u>	<u>.05</u>	<i>ns</i>	<i>ns</i>	<u>ns</u>	<u>ns</u>	<i>ns</i>	<i>ns</i>
<i>N</i>	<u>66</u>	<u>66</u>	66	66	<u>60</u>	<u>61</u>	61	60

*Note:* Rows represent dependent variables: 1= Future intent to do business with a company; 2= Company credibility; 3= Satisfaction with the organizational response; 4= Negativity; 5= Perceived company control. Columns represent explanation components: B= Believability; A= Appropriateness; R= Responsibility; C= Consideration.

associated with perceived negativity for services but not for products. In addition, appropriateness and assuming responsibility were inversely and significantly associated with perceived levels of negativity for products whereas these relationships were non-significant for services. Finally, believability and appropriateness were significantly and negatively related to perceived

company control for services but not for products.

## RQ 2: Explanation Types

As was mentioned earlier, a total of 134 subjects received letters back from their organizations and subsequently filled out the second portion of the questionnaire. After subjects completed this stage of the study,

letters were content analyzed and coded for the presence of excuses, justifications, and/or apologies. We conducted two analyses with the coded explanation types. In the first analysis we examined the *presence* of the various explanation types to determine their effects on subjects' perceptions of explanation components and the dependent variables. Subjects who received no explanation type were given a score of zero while subjects who received at least one excuse, justification, or apology received a score of one (each type of explanation was analyzed separately). Using this categorization we conducted t-tests to look for significant differences in the means of the explanation components and the dependent variables when grouped by the presence or absence of excuses, justifications, or apologies. In the next analysis, we examined the impact of the *proportion* of explanation types in a response. That is, each

type of explanation (excuse, justification, and apology) was coded as a percentage of the total sum of explanations present in a response.

### Presence and Explanation Components

*Excuses.* For services, t-tests of explanation components grouped by the *presence* of excuses revealed that subjects perceived letters with excuses to indicate that companies assumed less responsibility for their actions when compared to letters without excuses. For products, t-tests revealed that subjects' perceived letters with excuses as less appropriate than letters without excuses. For products, subjects also perceived letters with excuses to indicate that companies assumed less responsibility for their actions when compared to letters without excuses. See Table 4 for results.

TABLE 4

Explanation Components Grouped by the Presence of Excuses

<u>Service</u>									
Explanation Component	<i>M1</i>	<i>M2</i>	<i>SD1</i>	<i>SD2</i>	<i>t</i>	<i>df</i>	<i>p</i>	<i>d</i>	<i>r</i>
Believable	5.76	5.23	1.49	1.37	1.44	65	<i>ns</i>	.37	--
Appropriate	5.51	5.27	1.57	1.39	.63	65	<i>ns</i>	.16	--
Considerate	6.27	6.28	1.37	.89	-.05	65	<i>ns</i>	.01	--
Responsible	4.84	5.75	1.62	1.30	-2.44	65	<.05	.62	.30
<u>Product</u>									
Explanation Component	<i>M1</i>	<i>M2</i>	<i>SD1</i>	<i>SD2</i>	<i>t</i>	<i>df</i>	<i>p</i>	<i>d</i>	<i>r</i>
Believable	5.39	5.72	1.09	1.20	-1.01	59	<i>ns</i>	.29	--
Appropriate	4.74	5.76	1.59	1.16	-2.45	60	<.01	.73	.34
Considerate	5.69	5.96	1.49	1.32	-.72	60	<i>ns</i>	.19	--
Responsible	3.98	5.60	1.85	1.54	-3.51	59	<.01	.95	.43

*Note:* M1= Mean for letters with excuses; M2= Mean for letters without excuses; SD1= Standard deviation for letters with excuses; SD2= Standard deviation for letters without excuses; d= Cohen's d; r= effect size.

*Justifications.* The analysis of the components of explanations grouped by the *presence* of justifications revealed no significant differences for *services*, or *products*.

*Apologies.* For *services*, t-tests of the components of explanations grouped by the *presence* of apologies revealed that, compared to subjects who did not receive apologies,

those who did perceived their organizational responses to be more believable and appropriate. For *products*, t-tests of the components of explanations grouped by the presence of apologies revealed that, compared to subjects who did not receive apologies, those who did perceived their organizational responses to be more believable and considerate. See Table 5 for results.

TABLE 5

## Explanation Components Grouped by the Presence of Apologies

<u>Service</u>									
Explanation Component	<i>M1</i>	<i>M2</i>	<i>SD1</i>	<i>SD2</i>	<i>t</i>	<i>df</i>	<i>p</i>	<i>d</i>	<i>r</i>
Believable	5.75	4.50	1.13	1.68	3.52	65	<.01	.87	.40
Appropriate	5.72	4.40	1.14	1.71	3.08	65	<.01	.91	.41
Considerate	6.39	6.00	.93	1.31	1.37	65	<i>ns</i>	.34	--
Responsible	5.63	5.04	1.37	1.63	1.52	65	<i>ns</i>	.39	--
<u>Product</u>									
Explanation Component	<i>M1</i>	<i>M2</i>	<i>SD1</i>	<i>SD2</i>	<i>t</i>	<i>df</i>	<i>p</i>	<i>d</i>	<i>r</i>
Believable	6.15	5.08	.85	1.22	3.92	59	<.01	1.02	.45
Appropriate	5.71	5.22	1.24	1.47	1.43	60	<i>ns</i>	.36	--
Considerate	6.44	5.32	.86	1.55	3.51	60	<.01	.89	.41
Responsible	5.23	5.01	1.72	1.87	.47	59	<i>ns</i>	.12	--

*Note:* M1= Mean for letters with apologies; M2= Mean for letters without apologies; SD1= Standard deviation for letters with apologies; SD2= Standard deviation for letters without apologies; d= Cohen's d; r= effect size.

## Presence and Dependent Variables

*Excuses.* We also conducted t-tests to examine the difference between providing an excuse and not providing an excuse for the dependent variables. For *services*, there were no differences between providing an excuse

compared to providing no excuse. For *products*, the only difference between providing an excuse compared to providing no excuse was that subjects receiving them were significantly more likely to perceive the situation as negative. See Table 6.

TABLE 6

## Dependent Variables Grouped by the Presence of Excuses (Product)

Dependent Variable	<i>M1</i>	<i>M2</i>	<i>SD1</i>	<i>SD2</i>	<i>t</i>	<i>df</i>	<i>p</i>	<i>d</i>	<i>r</i>
Future Intent	4.15	4.41	1.78	1.84	-.50	60	<i>ns</i>	.14	--
Credibility	5.28	5.47	1.36	1.17	-.54	59	<i>ns</i>	.15	--
Satisfaction	4.31	4.55	1.67	1.46	-.58	60	<i>ns</i>	.15	--
Negativity	4.31	3.43	1.52	1.43	2.15	60	<.05	.60	.29
Company Control	4.99	5.31	.99	1.07	-1.09	60	<i>ns</i>	.31	--

*Note:* M1= Mean for letters with excuses; M2= Mean for letters without excuses; SD1= Standard deviation for letters with excuses; SD2= Standard deviation for letters without excuses; d= Cohen's d; r= effect size.

*Justifications.* For services, t-tests of the dependent variables grouped by the presence of justifications revealed no significant differences. For products, t-tests

revealed that subjects who received justifications perceived their situations to be less negative than subjects who did not receive justifications (see Table 7).

TABLE 7

## Dependent Variables Grouped by the Presence of Justifications (Product)

Dependent Variable	<i>M1</i>	<i>M2</i>	<i>SD1</i>	<i>SD2</i>	<i>t</i>	<i>df</i>	<i>p</i>	<i>d</i>	<i>r</i>
Future Intent	4.52	4.30	1.75	1.84	.36	60	<i>ns</i>	.12	--
Credibility	5.80	5.33	1.02	1.25	1.11	59	<i>ns</i>	.41	--
Satisfaction	4.45	4.49	1.27	1.57	-.07	60	<i>ns</i>	.03	--
Negativity	3.05	3.81	.98	1.55	-2.00	60	<.05	.59	.28
Company Control	5.35	5.19	1.16	1.04	.44	60	<i>ns</i>	.15	--

*Note:* M1= Mean for letters with justifications; M2= Mean for letters without justifications; SD1= Standard deviation for letters with justifications; SD2= Standard deviation for letters without justifications; d= Cohen's d; r= effect size.

*Apologies.* The data indicated that for services, subjects who received apologies were significantly more likely to be satisfied with an organizational response compared to subjects who did not receive apologies. For products, subjects were more likely to intend to do business in the future with organizations that provided apologies than with org-

anizations that did not. Moreover, for products subjects were likely to see companies as more credible and were more likely to be satisfied with an organizational response when an apology was offered compared to when one was not. (See Table 8 for details.)

**TABLE 8**  
**Dependent Variables Grouped by the Presence of Apologies**

<u>Service</u>									
Dependent Variable	<i>M1</i>	<i>M2</i>	<i>SD1</i>	<i>SD2</i>	<i>t</i>	<i>df</i>	<i>p</i>	<i>d</i>	<i>r</i>
Future Intent	4.61	4.74	1.71	1.71	-.28	63	<i>ns</i>	.08	--
Credibility	5.35	5.59	1.20	1.32	-.74	66	<i>ns</i>	.19	--
Satisfaction	5.00	3.97	1.53	1.48	2.49	65	<.01	.68	.32
Negativity	4.01	3.30	1.43	1.98	1.46	66	<i>ns</i>	.41	--
Company Control	4.95	5.09	1.21	.97	-.44	65	<i>ns</i>	.13	--
<u>Product</u>									
Dependent Variable	<i>M1</i>	<i>M2</i>	<i>SD1</i>	<i>SD2</i>	<i>t</i>	<i>df</i>	<i>p</i>	<i>d</i>	<i>r</i>
Future Intent	5.01	3.70	1.57	1.82	3.01	60	<.01	.77	.36
Credibility	5.87	4.97	.92	1.33	3.06	59	<.01	.79	.37
Satisfaction	5.19	3.81	1.28	1.43	4.00	60	<.01	1.02	.45
Negativity	3.78	3.59	1.66	1.34	.50	60	<i>ns</i>	.13	--
Company Control	5.26	5.17	1.02	1.09	.32	60	<i>ns</i>	.09	--

*Note:* M1= Mean for letters with apologies; M2= Mean for letters without apologies; SD1= Standard deviation for letters with apologies; SD2= Standard deviation for letters without apologies; d= Cohen's d; r= effect size.

### Proportion and Explanation Components

*Excuses.* For service failures, the proportion of excuses was negatively associated with only one of the components of explanations. Specifically, the larger the percentage of excuses present in an organizational explanation, the more likely a person was to perceive that explanation as significantly less assuming of responsibility ( $r(57)=-.36, p<.01$ ). For product failures, the *proportion* of excuses in an explanation was negatively related to all of the components of explanations including believability ( $r(40)=-$

.33,  $p<.05$ ), appropriateness ( $r(40)=-.53, p<.01$ ), consideration ( $r(40)=-.52, p<.01$ ), and responsibility ( $r(40)=-.55, p<.01$ ).

*Justifications.* For organizational responses to complaints about services, the proportion of justifications was not significantly associated with any of the components of explanations. For product failures, the proportion of justifications in a letter was significantly and negatively associated with believability ( $r(40)=-.42, p<.01$ ).

*Apologies.* For services, the proportion of apologies in an explanation was significantly associated with responsibility ( $r(57)=.33$ ,  $p<.01$ ). For products, the proportion of apologies in an explanation was also associated with all of the components of explanations. Apologies were significantly and positively associated with believability ( $r(40)=.64$ ,  $p<.01$ ), appropriateness ( $r(40)=.51$ ,  $p<.01$ ), consideration ( $r(40)=.49$ ,  $p<.01$ ), and responsibility ( $r(40)=.41$ ,  $p<.01$ ).

### Proportion and Dependent Variables

*Excuses.* For services, the proportion of excuses to other types of explanations was not significantly associated with any of the dependent variables. For products, the proportion of excuses to other types of explanations was significantly and negatively associated with all of the dependent variables including subjects' future intent to do business with a company ( $r(39)=-.34$ ,  $p<.05$ ), perceptions of company credibility, ( $r(39)=-.43$ ,  $p<.01$ ), satisfaction with an organizational response ( $r(39)=-.42$ ,  $p<.01$ ), and perceived company control ( $r(39)=-.32$ ,  $p=.05$ ). Moreover, the proportion of excuses was significantly and positively associated with negativity ( $r(39)=.32$ ,  $p<.05$ ).

*Justifications.* For services the proportion of justifications present in an explanation was inversely and significantly

associated with negativity ( $r(57)=-.40$ ,  $p<.01$ ). The proportion of justifications in a letter was not associated with any of the dependent variables for products.

*Apologies.* For services, the proportion of apologies present in an explanation was not significantly associated with any of the dependent variables. For products, the proportion of apologies present in a letter was positively and significantly associated with subjects' future intent to do business with a company ( $r(39)=.42$ ,  $p<.01$ ), perceptions of company credibility ( $r(39)=.35$ ,  $p<.05$ ), and satisfaction with an organizational response ( $r(39)=.55$ ,  $p<.01$ ).

### RQ3: Tangibles

To examine the impact of the presence of tangible rewards on the components of explanations and the dependent variables we conducted t-tests between subjects who received tangible compensation and subjects who did not for service failures and for product failures. Results from the tests for services indicated that the presence of tangible rewards made a difference in the way subjects perceived company messages for each of the components of explanations. Compared to not getting a tangible reward, getting a tangible reward to compensate for product failures was related only to higher perceptions of believability and appropriateness (for results see Table 9).

**TABLE 9**  
**Explanation Components Grouped by the Presence of Tangible Compensation**

<u>Service</u>									
Explanation Component	<i>M1</i>	<i>M2</i>	<i>SD1</i>	<i>SD2</i>	<i>t</i>	<i>df</i>	<i>p</i>	<i>d</i>	<i>r</i>
Believable	4.87	5.97	1.53	1.03	-3.47	65	<.01	.84	.39
Appropriate	4.69	6.05	1.59	.81	-4.45	65	<.01	1.08	.47
Considerate	5.91	6.68	1.27	.53	-3.25	65	<.01	.79	.37
Responsible	4.97	6.00	1.42	1.33	-3.06	65	<.01	.75	.35
<u>Product</u>									
Explanation Component	<i>M1</i>	<i>M2</i>	<i>SD1</i>	<i>SD2</i>	<i>t</i>	<i>df</i>	<i>p</i>	<i>d</i>	<i>r</i>
Believable	5.38	6.16	1.10	1.17	-2.50	59	<.01	.69	.32
Appropriate	5.18	6.05	1.46	.93	-2.82	60	<.01	.71	.33
Considerate	5.71	6.25	1.37	1.32	-1.48	60	<i>ns</i>	.40	--
Responsible	4.90	5.61	1.81	1.67	-1.47	59	<i>ns</i>	.41	--

*Note:* M1= Mean for subjects who received no compensation; M2= Mean for subjects who received some compensation; SD1= Standard deviation for subjects who received no compensation; SD2= Standard deviation for subjects who received some compensation; d= Cohen's d; r= effect size.

The results of the tests for service failures and the dependent variables are provided in Table 10. With the exception of perceived company control, the presence of tangible rewards made a difference in the way subjects perceived organizations following remedial attempts for each of the dependent variables. The results for the t-tests of depen-

dent variables grouped by the presence of tangible compensation for products are also available in Table 10. Compared to not getting a tangible reward, getting a tangible reward to compensate for product related failures was only related to higher future intentions to do business with a company.

**TABLE 10**  
**Dependent Variables Grouped by the Presence of Tangible Compensation**

<u>Service</u>									
Dependent Variable	<i>M1</i>	<i>M2</i>	<i>SD1</i>	<i>SD2</i>	<i>t</i>	<i>df</i>	<i>p</i>	<i>d</i>	<i>r</i>
Future Intent	4.14	5.16	1.71	1.55	-2.52	63	<.01	.63	.30
Credibility	5.17	5.68	1.36	1.05	-1.74	66	<.05	.42	.21
Satisfaction	3.91	5.59	1.47	1.19	-5.11	65	<.01	1.26	.53
Negativity	4.13	3.45	1.79	1.37	1.75	66	<.05	.43	.21
Company Control	5.02	4.95	1.33	.91	.79	65	<i>ns</i>	.06	--
<u>Product</u>									
Dependent Variable	<i>M1</i>	<i>M2</i>	<i>SD1</i>	<i>SD2</i>	<i>t</i>	<i>df</i>	<i>p</i>	<i>d</i>	<i>r</i>
Future Intent	4.03	4.98	1.77	1.77	-1.96	60	<.05	.54	.26
Credibility	5.23	5.73	1.22	1.21	-1.42	59	<i>ns</i>	.41	--
Satisfaction	4.27	4.91	1.46	1.57	-1.57	60	<i>ns</i>	.42	--
Negativity	3.87	3.30	1.43	1.59	1.41	60	<i>ns</i>	.38	--
Company Control	5.13	5.40	1.04	1.07	-.96	60	<i>ns</i>	.26	--

*Note:* M1= Mean for subjects who received no compensation; M2= Mean for subjects who received some compensation; SD1= Standard deviation for subjects who received no compensation; SD2= Standard deviation for subjects who received some compensation; d= Cohen's d; r= effect size.

## DISCUSSION

### RQ1: Explanation Components

The data from this study offer some preliminary findings that suggest consumers react differently to organizational remediation tactics regarding service- and product-based failures. First, assuming responsibility for an organizational failure was not significantly related to subjects' future intent to do

business with an organization for service failures. However, assuming responsibility for a failure was significantly associated with subjects' future intent to do business with companies experiencing product failures. This finding may be explained by the organizational structure inherent in the complaint response process. In most of the organizational replies concerning service failures, some type of manager or owner typically responded to aggrieved consumers.



In these types of failure situations the person responding to the complaint was usually removed from the initial harmful situation and, if the fault for bad service was placed on the individual delivering the service, may have been considered blameless. On the other hand, the connection between fault for the failure and the organization as an agent may be more easily defined with product failures. Instead of blaming the failure on individuals (e.g., a waiter at a restaurant), consumers facing product failures may blame organizations as a whole. Because the delivery of services is inseparable from their consumption (Zeithaml et al., 1985), consumers may place more importance on organizational responsibility for product-based failures and more importance on personal/individual responsibility for service-based failures. If this is the case, it makes sense that when organizations take responsibility for service-based failures these messages have little impact on consumers' future intent to do business compared to similar messages from product-based organizations.

Second, a person's perceived experience of negativity was only associated with consideration for service failures. On the other hand, negativity was only associated with appropriateness and responsibility for product failures. These findings may be explained by the nature of the organizational offering. Because service organizations are uniquely tied to their method of delivery (Zeithaml et al., 1985), consumers may be more likely to see business with these types of organizations as reflective of interpersonal relationships. If this is the case it makes sense that treating a consumer with consideration would make them feel less negative about the relationship. Product-based organizations on the other hand may foster a more transactional relationship identity and subjects may therefore perceive this relationship as more professional than personal. As such, accepting responsibility and providing an appropriate explanation for the circumstances may be

more valuable to a person facing a product failure than how she feels the company is treating her personally.

## **RQ2: Explanation Types**

*Excuses.* T-tests of the components of explanations grouped by the presence of excuses revealed that responsibility was significantly affected by excuses. Specifically, for service failures and for product failures, the presence of excuses led to lower perceptions of assumed responsibility. For product failures, the presence of excuses also led to lower perceptions of appropriateness.

For service failures, the proportion of excuses was only associated with lower levels of perceived responsibility while for products the proportion of excuses was significantly and negatively associated with all the components of explanations. The presence of excuses also led to increased perceptions of negativity for product-based failures. For products, the proportion of excuses worked to lower subjects' future intent to do business with an organization, perceptions of company credibility, satisfaction with a company response, perceptions of organizational control over a failure, and increase subjects' perceptions of negativity about a failure episode.

Again, the discrepancy between service and product failures can be seen in the results above: excuses had a more negative impact on products than they did on services. One reason for this finding may be based on the nature of who responded to consumers' complaint letters. As was stated earlier, most service-based complaints were answered by somebody other than the person who caused the failure in the first place (e.g., managers at restaurants answered complaint letters about bad waiters). Because these people were removed from the situation, consumers of services might have seen the use of excuses as less damaging than consumers of products. That is, consumers of services might have interpreted excuses as simple attempts to

explain the circumstances compared to consumers of products who might have interpreted excuses as denials of accountability.

*Justifications.* The presence of justifications did little to influence subjects' perceptions of any of the components of explanations for service-based failures. However, the proportion of justifications worked to lower subjects' perceptions of organizations' believability for products.

On the other hand, for product-based failures the presence of justifications worked as the literature suggested for the dependent variables. That is, results indicated that the presence of justifications led to a decrease in subjects' perceived negativity about a failure. The proportion of justifications worked as the literature suggested as well. Compared to explanations without low percentages of justifications, those with high percentages of justifications were more likely to lead to lower perceptions of negativity for services. These findings suggest that using justifications can be beneficial for organizations that want to reduce the perceived negativity of a failure.

*Apologies.* For services, the presence of apologies in an explanation was associated with believability and appropriateness. For products, the presence of apologies in an explanation was positively associated with believability, and consideration. The proportion of apologies was positively and significantly associated with believability, appropriateness, consideration, and responsibility for products. For services, the proportion of apologies was positively associated with responsibility.

For services, the presence of apologies led to an increase in subjects' satisfaction with an organizational response. For products, the data indicated that the presence of apologies led to higher intentions to do business with an organization in the future, higher perceptions of company credibility,

and higher levels of satisfaction with an organizational response.

For product-based failures, the proportion of apologies present in a letter was positively and significantly associated with subjects' future intent to do business, perceived company credibility, and satisfaction. Finally, apologies were more likely to be given out by service-based organizations than product-based organizations. In addition, service-based organizations were more likely to give out a higher proportion of excuses than product-based organizations.

Apologies seem to be more beneficial to product-based organizations than they are to service-based organizations. Again, this may be the case because of who responds to complaint letters. Because the people answering complaints about service failures are not typically involved in the original failures, these people may not be connected to the failures in the same way that employees are with product failures. Because people facing service failures may blame individuals, when managers provide an apology they may be perceived as simply apologizing for the behavior of others. This surrogate apology might not make as large an impact on consumers' subsequent perceptions of organizations and their explanations as does an apology for a product failure.

### **RQ3: Tangibles**

Providing some type of tangible compensation was beneficial for organizations facing complaining consumers. However, the provision of tangible compensation was more likely to lead to positive changes in subjects' perceptions of organizations following service failures compared to product failures. This may be the case because levels of satisfaction are usually defined as the amount a person receives compared to that which is expected (Adams, 1965), and – in contrast to product failures – subjects experiencing service failures may not

desire or expect tangible compensation. That is, when a product malfunctions, people may *expect* to be financially or tangibly reimbursed. Therefore, when subjects *are* reimbursed for product failures they may not perceive the remediation as satisfying compared to not expecting reimbursement. After enduring a service failure, subjects may feel differently though. For example, after experiencing bad service at a restaurant subjects may not expect to receive a free meal; after all, the quality of the food was good, it was just that the delivery and the wait staff needed improvement. The two dimensions of the restaurant (service and product) may be considered separate in subjects' minds and therefore receiving a coupon for a free meal – after complaining about the service – may lead to higher levels of satisfaction because the compensation was not expected.

## CONCLUSIONS

The few differences in the data among services and products for most of the analyses can be codified into two major patterns. These patterns concern the differences between the relative importance of assuming responsibility for service- and product-based failures and the differences in alleviating negativity for service- and product-based failures.

First, accepting responsibility made a larger difference in the outcome variables for product-based organizations than for service-based organizations. Whereas accepting responsibility for failure episodes increased consumers' future intent to do business with organizations and decreased consumers' perceptions of negativity for product-based companies, these results were non-significant for service-based companies. This result suggests that accepting responsibility for a failure may be more important for product-based organizations than it is for service-based organizations. The same pattern of results is clear in the analysis of excuses as well. With service-based organizations, the

presence and proportion of excuses were not related to any of the dependent variables and were only related to lower subject perceptions of responsibility. On the other hand with product-based organizations, the presence and proportion of excuses led to lower perceptions of believability, appropriateness, consideration, and responsibility in a letter. Moreover, the presence and proportion of excuses led to lower intentions to do business with an organization in the future, lower perceptions of a company's credibility, lower perceptions of satisfaction with an organization's response, and more negativity about a failure episode. These findings suggest that the use of excuses and the acceptance of responsibility have a small effect on people's perceptions of organizations and organizational explanations following service failures and a large effect following product failures.

Second, when examining the results it became apparent that product-based organizations had difficulty diminishing subjects' perceptions about the negativity of the failure event. This result was so strong that receiving a letter did little to alleviate subjects' level of perceived negativity about the situation. That is, subjects who did not receive a letter and subjects who did receive a letter from product-based organizations indicated a similar amount of negativity regarding failure episodes.

The combination of the results presented above makes the case for the differential impact of taking accountability for a failure and the differential impact of showing consideration for a failure for service- and product-based companies. Being accountable was more important for product-based organizations facing a complaint than it was for service-based organizations facing a complaint. On the other hand, being considerate was more important for service-based organizations facing a failure than it was for product-based organizations facing a complaint.

So what's going on? Recall that Zeithaml et al. (1985) presented four categories upon which services and products differed (inseparability, intangibility, perishability, and heterogeneity). It is along these same categories that services and products seem to differ in relation to failure episodes as well. To begin, the person who responded to complaint letters may have made a difference in the way consumers interpret responsibility. When complaint letters were sent to service-based companies, the people who perpetrated the failures were not the people who wrote back. More often, some type of manager or other (e.g., customer relations) employee wrote letters back to the respondents. Because this is the case, consumers may see the responses to service-based complaints as less connected to the failure situation than consumers with product-based complaints. Therefore, taking responsibility may be more important to consumers of products than it is to consumers of services. Stated differently, consumers experiencing product failures may see whole organizations at fault whereas consumers experiencing service failures may be more likely to see individuals at fault. This notion stems from the argument that with service failures the person who provided poor service is *inseparable* from the fault. Therefore, assigning responsibility to the organization as a whole may be more difficult for service-based failures than it is for product-based failures. That being said, consumers of services may not put such a heavy emphasis on taking responsibility as do consumers of products; and taking responsibility for the actions of others (as was often the case for service-based failures) may not be as important to consumers' perceptions of negativity as is taking responsibility for one's self (as may be the case for product-based organizations).

Furthermore, because services are *intangible* it may be difficult for consumers to determine to what extent the service failed them. As was mentioned earlier, even if

people are dissatisfied with the level of service provided at a restaurant, it may prove difficult to determine just *how much* the failure upset the meal (after all, the food was just fine). If this is true then the presence of tangible compensation may help make up for the failure for service-based organizations because its receipt is not expected. Consumers who experience a product failure on the other hand may expect to be reimbursed and thus the receipt of tangible rewards for product-based failures may do little to diminish a sense of negativity.

Also, with services, once the failure is over it is literally gone. Due to the *perishable* nature of services consumers may be likely to forget about these types of failures sooner than they forget product failures - which, by nature of their physical presence, are always there to serve as a reminder. Therefore, the presence of consideration may create a recency effect with service failures (the last thing people remember is being treated with respect and courtesy) but not with product failures. In addition, service-based failures may be seen as more relational than transactional. That is, failures in services (rude employees) may be seen as more of a personal affront than failures with products. With these two possibilities in mind it makes sense that although consideration may be important for consumers experiencing product failures, the positive effect of showing respect and courtesy may be more important for consumers experiencing service failures.

Finally, with service failures, consumers may be more likely to expect some type of human error in their deliver than they do for products. This notion is based on the idea of *heterogeneity* that states that service quality and consistency are subject to variability since human behavior is difficult to control. On the other hand, durable goods can be produced in a relatively consistent manner and their failure may therefore pose a more serious threat to organizations' relationships with consumers. Because humans are

delivering services, subjects may be more forgiving with this type of failure than they are for product failures. Therefore, the ability to reduce consumers' perceived negativity with failure episodes may be easier for service-based organizations than it is for product-based organizations.

### LIMITATIONS AND FUTURE DIRECTIONS

This investigation used a convenience sample of college students for data collection. Still, like the rest of us, the subjects recruited to take part in this study live in a society that requires consumption and undoubtedly these students were familiar with both positive and negative organizational relationships. That being said, there is no reason to believe that subjects' responses in this study should be considered invalid due to a lack of experience or knowledge. Subjects were asked to write to companies regarding real, experienced dissatisfaction and the responses reported in this study therefore reflect the true sentiments of genuinely dissatisfied consumers.

Future research may consider further investigating the differences between service and product-based organizations. The findings presented in this paper are an initial indication that this may be a fruitful avenue of research and scholars may want to continue investigating potential differences between the two types of organizations as they apply to remedial strategies and tactics.

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