

# THE EFFECTS OF SERVICE GUARANTEES ON SERVICE EVALUATIONS DURING A VOICED COMPLAINT AND SERVICE RECOVERY

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## ABSTRACT

Service guarantees are widely used in business and industry. They have been proposed as a device to help reduce perceived risk, to encourage dissatisfied customers to complain, and to improve service evaluations and loyalty after a service recovery. This article reports the findings of an empirical investigation into the effects of service guarantees after a voiced complaint and service recovery. Using a 3 x 2 x 3 factorial, between-subjects experimental design, the study compares two types of guarantee (unconditional and conditional), plus no guarantee in a positive and a negative service recovery across three different services for their effects on likelihood to complain, customer satisfaction, perceived service quality and customer loyalty.

The MANOVA-based findings indicate that service guarantees have no significant effects on encouraging dissatisfied customers to complain after a negative service encounter. After the recovery, a conditional service guarantee is found to improve perceptions of service quality for some services. An unconditional service guarantee has no positive effects on service evaluations, the same result as not offering any guarantee at all. Service guarantees used in isolation would appear to have limited benefits as a customer service tool and may need to be used in conjunction with additional tactics to demonstrate an organization's commitment to service recovery.

## INTRODUCTION

Since Hart (1988) first espoused the power of the unconditional service guarantee, the adoption by industry of all types of service guarantees has been widespread. Examples of service guarantees exist across a broad range of service industries such as retailing, real estate, fast food, airline, telecommunication, transport and leisure (Burch, 1993; Fabien, 1997; Henderson, 1997; Lewis, 1993a; Maher, 1991, 1992), as well as professional services (Hart, Schlesinger & Maher, 1992; Raffio, 1992; Reske, 1995), financial services (Berry, 1995) and education (Lawrence and McCollough, 2001; Magnuson, 1996; Maher, 1991; Ostrom and Iacobucci, 1998).

Service guarantees are said to have three main functions: as a quality tool, a marketing tool and a customer service tool (Wirtz, 1996). In relation to their potential as a customer service device, proponents claim that service guarantees encourage dissatisfied customers to complain to the service provider after experiencing service failure, giving the company an opportunity to restore customer satisfaction and maintain loyalty (Hart, 1988; Spreng, Harrell & Mackoy, 1995; Wirtz, 1998). Additionally, when combined with a strong service recovery, service guarantees are said to improve customers' service evaluations by closing the loop between a company's recovery promises and its delivery. Although many companies offering a service guarantee track the number of customers who invoke it, such as Marquette Bank (Maher, 1991), Massachusetts Dental

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Plan (Raffio, 1992), United Weight Control (Lewis, 1993a), Bugs Berger Bug Killer, Federal Express (Kotler, 2000) and Hampton Inn, (Fojt, 1995; Rust, Zahorik and Keiningham, 1996) the effects of the service guarantee during a complaint and recovery situation do not appear to have been tested empirically other than perhaps at a proprietary level.

If such claims concerning the potential of service guarantees as a customer service tool are supported, they would provide a compelling case for their use because many studies have presented evidence supporting the links that translate positive service evaluations into an organization's profits (Anderson, Fornell and Lehmann, 1994; Banwari and Lassar, 1998; Buzzel and Gale, 1987; Heskett et al., 1994; Rapert and Wren, 1998; Rust and Zahorik, 1993; Rust et. al., 1996; Taylor and Baker, 1994; Zahorik and Rust, 1992; Zeithaml, Berry and Parasuraman, 1996; Zeithaml, 2000).

This study addresses a particular gap in the service guarantee, complaint behavior and recovery literature by reporting the findings of an empirical investigation into the effects of service guarantees during a voiced complaint and service recovery situation. The study compares two typical types of guarantee (unconditional and conditional), plus no guarantee after a positive and negative service recovery, across three different services for their effects on likelihood to complain, customer satisfaction, perceived service quality and customer loyalty. The article begins with a description of different types of service guarantees and a review of previous empirical research. Research hypotheses are then proposed followed by the research methodology and data collection methods. Next, the findings are presented together with a discussion of their implications for researchers and practitioners.

## SERVICE GUARANTEES

Service guarantees have been described as 'one of the most innovative and intriguing customer-retention strategies to be developed in recent years' (Bateson, 1995, p. 462). Two main types of guarantees exist – unconditional and conditional. Unconditional guarantees allow the customer to be the judge of quality by offering compensation if s/he is not totally satisfied, such as Radisson Hotel's guarantee of 100% satisfaction. A conditional or specific guarantee spells out certain elements of the service offering that a company chooses to promote. For example, FedEx guarantees delivery by 9:30 am the following day on premium class deliveries and, if failing, makes no charge as long as the customer initiates the claim.

The characteristics of an effective service guarantee include its being unconditional, easy to understand and communicate, heavily promoted, simple and obvious, meaningful to customers, easy to invoke, easy and fast to collect on and credible (Hart, 1988). Where possible, a service guarantee should also specify the payout, avoid complex or legalistic language, use big print and, when a customer invokes the guarantee, staff should not quibble (McDougall, Levesque and Vanderplaat, 1998).

In addition to elements included in their design, service guarantees are considered more effective when certain market conditions apply (Hart, 1988). These include conditions under which the price of the service is high; the customer's ego is on the line; the customer's expertise is low; consequences of failure are high; there is a poor industry image for quality; businesses depend on repeat purchases; where word-of-mouth is critical, operating standards are not seen to be uniformly high; services are customized; brand name recognition is not easily achieved through conventional means; and where buyer resistance is high (Hart, et. al., 1992).

The findings of an exploratory study of Australian organizations who introduced service guarantees indicate that many firms consider a service guarantee's primary benefit to lie in its role as a customer service device to encourage legitimate complaints (McColl and Mattsson, 2003).

### RESEARCH ON SERVICE GUARANTEES

Despite widespread adoption by industry of service guarantees, published empirical studies on the effects of service guarantees have been rare. Unfortunately, this dearth of empirical research confines any theoretical discussion largely to a reliance on anecdotes and industry-based studies. The following brief review of previous empirical studies reveals that the effects of service guarantees as a customer service tool has been particularly neglected.

In one relevant study, customers' reactions to unconditional versus conditional service guarantees in terms of their effect on risk reduction, preference of guarantee and trust in the service provider were evaluated (McDougall, et. al., 1998). Overall, the researchers concluded that respondents preferred an unconditional guarantee, although conditional guarantees were favoured when subjects considered the ease with which they could get their money back. However, Tucci and Talaga (1997) concluded that the presence of a conditional service guarantee was not uniformly desirable in the selection of a table service restaurant, suggesting that service guarantees may play a varying role in the purchase/consumption process and across different services. For example, for firms in industries where there is a greater variance of service quality, positive pre-purchase evaluations of a service firm can increase service evaluations when offering a service guarantee (Ostrom and Iacobucci 1998).

### DEVELOPMENT OF HYPOTHESES

#### Customer Complaint Behavior

Company interest in the potential of service guarantees as a customer service tool has roots in the many studies that confirm that the relationship between the level of customer dissatisfaction and complaint behaviour is *not* particularly strong (Davidow & Dacin, 1997; Day, 1980; Jacoby and Jaccard, 1981; Oliver, 1986). A dissatisfied customer may even engage in multiple forms of complaint behavior ranging from doing nothing to complaining publicly (Blodgett, Wakefield and Barnes, 1995; Colgate and Norris, 2001; Day et al., 1981; Levesque and McDougall, 1993; Morel, Poiesz and Wilke, 1997; Singh, 1988). Customer complaint behavior (CCB) may therefore be defined as 'a multiple set of behavioral and non-behavioral responses, triggered by a dissatisfactory purchase episode' (Singh, 1988).

Dissatisfied customers who do not complain to the service provider can cause market damage through negative word-of-mouth by telling others of their dissatisfaction, thereby precipitating future declining market share (Blodgett et. al., 1995). These non-complainers feel that it is either not worth the effort, or are unsure of how, or to whom they should complain (TARP, 1986; 1995).

Of the possible responses to a negative service encounter, a 'voiced complaint' to the service provider represents the best managerial outcome because it provides an opportunity for service recovery and diagnostic information about service problems (Davidow and Dacin, 1997; Dolinsky, 1994; Fornell and Wernerfelt, 1987; Kendall and Russ, 1975; Mack et al., 2000; Oliver, 1986; Resnik and Harmon, 1983; Spreng et. al., 1995). A customer's complaining, even by itself, can result in increased satisfaction by allowing a dissatisfied customer a chance to express pent-up anger and frustration (Nyer, 2000).

From a theoretical perspective, the idea that a customer's perceived level of dissatisfaction is not effectively translated into complaining actions implies that other variables such as episode-specific factors may have an influence on behavior such as cost/benefit evaluations, attribution of blame and perceptions of equity. In other words, customer dissatisfaction can act as a trigger that *may* result in CCB, but customer dissatisfaction in itself *does not* play a major role in determining CCB (Singh, 1990).

In terms of a customer's cost/benefit evaluations, a dissatisfied customer seeking redress is influenced by his/her estimation of the likelihood of success in complaining (Blodgett et. al., 1995). A service guarantee potentially improves the cost/benefit equation in favor of the customer as the service provider publicly promises to stand behind its promises irrespective of the source of the problem.

A further dimension of episode-specific factors concerns the attribution of blame for service failure. That is, the extent to which the customer believes that s/he or the service provider is at fault. Individuals are said to become more motivated to attribute causality when a negative event occurs. The direction of attribution appears to affect customer satisfaction. When a negative service event is externally attributed, customers tend to be more dissatisfied than if the problem is caused by chance or an action of the customer (Folkes, Koletsky and Graham, 1987). For highly intangible services such as a computer training course, customers are likely to attribute some dissatisfaction with service failure to their own inability to specify or perform their part of the service (Zeithaml, 1981).

A service guarantee may encourage dissatisfied customers to complain directly to the company by giving customers confidence that the company will stand behind its service promises and by suggesting that the company has in place effective complaint handling mechanisms to

ensure a satisfactory resolution to a complaint. An unconditional service guarantee communicates to customers that the service provider takes full responsibility for any service failure, regardless of the cause, therefore potentially increasing the likelihood of a voiced complaint to the supplier.

These factors lead to a more favourable attitude and intention towards complaining behavior and underlie the following research hypothesis:

- H1** A service guarantee will encourage dissatisfied customers to complain to the service provider after a negative service encounter.

### Service Recovery

When a customer complains to a service provider, the company has an opportunity to recover the situation. Service recovery therefore refers to the actions a service provider takes in response to service failure (Grönroos, 1988) or the process of trying to return a complaining customer to a state of satisfaction (Zemke and Bell, 1990).

Although recoveries are precipitated by service failures, such episodes can have a positive influence on overall satisfaction and loyalty if the service recovery is strong, even compared with the situation where no service problems were encountered (Droge and Halstead, 1991; Feinberg et al., 1990; Hart, Heskett and Sasser 1990; McCollough and Bharadwaj 1992; Spreng et. al., 1995; Liu, Sudharshan and Harmer, 2000). Specifically, a positive service recovery has a greater effect on service evaluations than a negative recovery (Spreng et. al., 1995; TARP, 1996).

Failure to ensure customer satisfaction through service recovery can lead to a decline in customer confidence, lost customers, negative word-of-mouth, possible negative publicity and the direct cost of re-performing the service (Berry and Parsuraman, 1991; Sheth and Parvatiyar

1995; Swanson and Kelly, 2001). The importance of a poorly-handled complaint is further evidenced in the findings that complainants who are dissatisfied with the way their complaint is handled tell twice as many people about their negative experience than customers who are satisfied with the complaint handling process (TARP, 1996). In addition, demonstration of an effective service recovery projects an image that the service is 'guaranteed' therefore reducing the perceived risk of purchasing a service (Boshoff, 1997).

A focus of recent research into service recovery strategies has been to identify and evaluate important influences on the recovery process. Hypotheses have been presented concerning the impact of a range of variables in recovering a voiced complaint. Some of these include the gender and personality of the complainer and complaint-handling personnel, the influence of the type of explanations and offers, the impact of the level of staff empowerment and staff communication style. Although many of the findings are inconclusive, a number of studies suggest that an organization needs to make a tangible offer of restitution in the recovery process, such as a free ticket, meal or room upgrade in a hotel, in order to demonstrate that the firm is willing to compensate for poor service (Bitner, Booms and Tetreault, 1990; Boshoff and Leong, 1998; Goodwin and Ross, 1990; Zemke and Bell, 1990).

Equity theory may also be applied to a service recovery situation whereby equity is measured against a continuum ranging from negative equity, that is, under-compensation, to positive equity where outcomes are greater than expected (Oliver, 1997). The level of perceived equity by complainers in the service recovery process is considered an important factor influencing repurchase intentions (Palmer, Beggs and Keown-McMullan, 2000).

This discussion leads to a number of interesting, and as yet unanswered questions concerning when a well publicized service

guarantee is in place during a service recovery. For example, if a service guarantee increases the proportion of customers who complain when dissatisfied, are these positive effects further enhanced when the service is recovered and/or guarantee payouts are made as proposed by Wirtz (1996)? Based on the prior discussion, it is hypothesized that:

**H2a** The presence of a service guarantee will improve service evaluations after a positive recovery compared with no guarantee.

Where a company makes a poor service recovery whilst offering a service guarantee, it is proposed that the guarantee will raise customers' expectations resulting in disconfirmation with the complaint recovery process. It is therefore hypothesized that:

**H2b** After a negative recovery, a service guarantee will decrease service evaluations even more than if no guarantee was offered.

### **Service Quality and Customer Satisfaction**

In considering the effects of service guarantees on specific service evaluations, two evaluations are typically considered: perceived service quality and customer satisfaction. There is still academic debate surrounding the definition and measurement of these two key constructs (Iacobucci, Kent and Ostrom, 1994; Olshavsky, Mackenzie and Spreng, 1996). One issue concerns whether customer satisfaction is best considered as an attitude and therefore a relatively short-term, consumption-specific construct, or should instead be seen as an evaluation or outcome (see review by Yi, 1990).

Despite this discussion, there seems to be general support for perceived service quality to be conceptualized as a general

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attitude based upon past experiences with a service supplier, and to its being multi-dimensional and varying across industries (Cronin and Taylor, 1992; 1994; Parasuraman, Zeithaml and Berry, 1988, 1991, 1994, 1996). Hence, at the higher level of evaluation, service quality is a function of multiple service encounters over a period of time. Perceptions of service quality are therefore more holistic, not necessarily requiring contact with the service company (Oliver, 1997). On the other hand, customer satisfaction is generally seen to be more situation specific than perceptions of service quality (Bitner, 1990; Bolton and Drew, 1991; Carman, 1990; Cronin and Taylor, 1994), requiring interaction with the service organization. On a micro level, the focus of customer satisfaction is on impressions based on a single encounter or transaction such as in a complaint/recovery situation.

Proponents of service guarantees claim that they improve a customer's service evaluations at the recovery - encounter level and also at the global service quality level. A strong service recovery should result in confirmation of recovery expectations and restore customer satisfaction with the complaint handling procedure, as a service guarantee provides customers with clear standards against which to assess service performances (Hart, 1988; Wirtz, 1996). Equally, service customers might assume that only a company with a solid reputation for quality could offer such a written promise. Therefore, it is hypothesized that:

- H3a** A service guarantee will improve perceptions of customer satisfaction and service quality during a service recovery.

In terms of the relative performance of the two main types of service guarantees (unconditional and conditional), the related findings of McDougall, Levesque and Vanderplaat (1998) lead to the hypothesis

that in a complaint situation:

- H3b** A conditional service guarantee will have a greater effect on evaluations of customer satisfaction and service quality than the unconditional type.

### Customer Loyalty

Another post-complaint service evaluation includes customer loyalty intentions. Customer loyalty is conceptualized in a number of ways; however, the majority of authors define loyalty as an intention to repurchase from the same supplier (Söderlund, 1998). As perceived service quality and customer satisfaction are generally described as antecedents of loyalty, it is hypothesized that in a complaint-recovery situation:

- H4** A service guarantee will improve customer loyalty intentions.

## RESEARCH METHODOLOGY AND DATA COLLECTION

It was an objective of this study to evaluate service guarantees under optimal conditions for them to perform well. Therefore, the situational factors described earlier concerning circumstances in which service guarantees work best were incorporated where possible in the study design. The hypotheses were tested using a 3 x 3 x 2 factorial, between-subjects, experimental design. The independent variables included three types of *services* (computer training, hotel accommodation and motor vehicle insurance), three *guarantee* treatments (conditional, unconditional and none) and two *service recoveries* (positive and negative), resulting in a total of 18 separate treatment cells.

All three services were characteristic of industries where a service guarantee could be expected to do well. The services were also sufficiently different across a number of characteristics (for example, high

and low contact, membership and non-membership relationship and customized services versus standardized services) in order to allow for the generalization of the results beyond a single type of service setting. Hotel accommodation and motor vehicle insurance may be considered examples of low contact services. Hotel accommodation may be customized at the various service encounters, perhaps even more so than training programs and certainly more than for insurance. Both of these services could also be described as being relatively standardized in their delivery. Insurance companies typically have a 'membership' relationship with their customers, as opposed to training programs and accommodation, which often provide their services on a one-off basis. The services were also selected to ensure that respondents would be likely to have had either personal experience or general knowledge of them. Experience with a service improves the validity of the results.

The service guarantees reflected the two main types found in the service sector, *conditional* and *unconditional*, and were modified from examples currently available in industry. These were then pre-tested using a convenience sample of 58 post-graduate students who rated them on a multiple item, Likert-type rating scale to ensure that they met the characteristics of an effective service guarantee as proposed by Kendall and Russ (1975) and Hart (1988). An example of both types of service guarantees used in the study is presented in Appendix 1. The core service breakdowns depicted in the role-plays were written specifically to match the promises made in the conditional guarantees, in order to amplify their potential effects.

The service recoveries were operationalized as one of two levels of atonement. A positive service recovery was simulated through an apology plus compensation to result in a high level of satisfaction. The negative service recovery was operationalized to simulate a low level

of satisfaction through under-benefiting an inadequate apology. The scenarios depicted each complaint as being recovered quickly, as suggested by Droge and Halstead (1991).

The experimental stimuli were operationalized using role-plays of service scenarios. Scenarios were developed around each of the three services, differing only in terms of the two service recovery efforts, resulting in six separate role-play scenarios. Two professional actors were used in all six scenarios to ensure internal consistency between the scenarios. The role plays lasted between 90 and 120 seconds in duration as scenarios of 60 seconds have been found to be adequate for respondents to form views, without them becoming too disinterested (Lemmink and Mattsson, 1998). Filming and editing took place in a professional film studio. A brief pause in the tape was inserted between the depiction of the service complaint and the recovery.

#### **DEVELOPMENT OF SERVICE SCENARIOS**

In operationalizing the independent variables, pilot scripts were prepared around some 'typical' service complaints for each service, based on the typology of a 'voiced' complaint. The scenarios were designed to depict breakdowns in the core service, considered to be the most likely to result in customers feeling aggrieved (Keaveney, 1995). The causes of each of the complaints were clearly attributable to the service provider rather than the customer as attribution of blame is more likely to result in a voiced complaint (Folkes et. al., 1987).

The scripts were pilot tested on a convenience sample of 73 undergraduate students. Survey questions ascertained whether respondents thought the service scenarios were a) believable, b) showed breakdowns in the core service, and c) whether the service recovery was positive or negative. Survey questions were rated on five-point, Likert scales, anchored by 5=strongly agree and 1=strongly disagree. Average scores of at least 4.5 were achieved

for each of the criteria tested which were considered acceptable based on the guidelines for pre-testing suggested by Shamdasini and Sheth (1995).

#### DEVELOPMENT OF MEASUREMENT INSTRUMENT

The dependent variables represent key service evaluations consisting of the four constructs described earlier – intention to complain, customer satisfaction, service quality and intention to re-purchase (a customer loyalty measure). Measurement of the dependent variables was performed using a survey. The specific items were

developed from previously tested scales reported in published empirical studies but were modified for the purposes of this study. These are shown in the last column of Table 1. The scale items measure the ‘intention to complain’ as communication to the organization and the immediate environment of the individual. The ‘service quality’ scale was captured at a global level of evaluation and ‘satisfaction’ at the encounter-specific level. The ‘loyalty’ items were designed to measure ‘re-purchase intentions’. All questions were rated on five-point Likert scales, anchored by 5=strongly agree and 1=strongly disagree.

**Table 1: Summary of constructs, scale items and sources**

Constructs	Scale Items	Source of Scale
<b>Customer Satisfaction</b>	'The customer has the right to be dissatisfied with this service experience.'	Adapted from Bitner (1990); Oliver and Desarbo (1988) and Sparks and Callan (1995)
	'I would be pleased with how this problem was handled by the staff member.'	
	'I would be completely satisfied with the organization's staff behavior in this situation.'	
<b>Perceived Service Quality</b>	'This organization looks after its customers.'	Adapted from Bitner (1990); Oliver and Desarbo (1988) and Sparks and Callan (1995)
	'Employees at this organization provide competent and professional service.'	
	'I could place trust in this organization.'	
	'Service quality seemed high.'	
<b>Re-purchase intentions</b>	'I would continue to use this organization in the future.'	Adapted from Maute and Forrester (1993)
	'I would recommend this organization to friends and associates if they asked my opinion.'	
<b>Complaint Intentions</b>	'I would complain to this organization about this problem.'	Adapted from Blodgett, Granbois & Walters (1993); Sparks & Callan (1995) and Singh (1991)
	'I would tell other people what I know about this organization.'	

Source: Adapted from various sources as shown in last column of the table



## RELIABILITY AND VALIDITY OF THE RESEARCH INSTRUMENT

Since the constructs were modified from previously tested scales, it was decided to purify the measures using the guidelines offered by Churchill (1991) and Coolican (1994). The Cronbach alpha scores ranged between 0.77- 0.95 exceeding the 0.6 limit suggested by Malhotra (1996) as acceptable.

Three types of validity are relevant to this study: internal, external and construct validity. Internal validity was maximized by ensuring that each of the respondents experienced the same stimuli, without distortion, in a manner that was both ethically and practically feasible as proposed by Coolican (1994). External validity refers to the 'generalizability' of the experiment's results. Care has been taken throughout the design process to ensure that the results of the study may be generalized beyond a single service experience. This was enhanced, for example, by choosing a field experiment rather than a laboratory setting, by incorporating more than one type of service as an independent variable and by using actual shoppers as respondents.

Two tests were undertaken for construct validity. Firstly, content validity was conducted and maximized by ensuring face validity through a review of other scales used for the four constructs and through a discussion of the scale items with students in the pre-test exercise. Factor analysis using Principal Axis Factoring was conducted to evaluate the construct validity which confirmed the four factors which emerged from the literature.

## SAMPLING AND EXPERIMENTAL PROCEDURE

A sample of 540 respondents was taken at a shopping mall using convenience sampling and allocated to one of the 18 treatments until a quota of 30 respondents for each cell was attained as suggested by Tabachnik and Fidell (1989). Convenience

samples are frequently used in experiments, but have a drawback that certain members of the population are automatically eliminated from selection resulting in sample selection error (Burns and Busch, 1998). Sample selection error was minimized by instigating a quota based on gender. The sample resulted in 50.6% males and 49.4% females. The age breakdown was as follows. Those aged 18 – 24 years (27%), 25 – 34 (30%), 35 – 44 (20%), 45 – 54 (12%) and those 55 years plus accounted for 11% of the sample. In terms of the age distribution, the sample did not match the general population as indicated by the high chi-square value of 65.42 ( $\chi^2_{(4)} = 65.42, p < 0.001$ ). Specifically, the younger age group (18-24) and those in the 45-54 age group were over-sampled. As demographics are generally weak predictors of service evaluations, particularly of complaint behavior (Söderlund, 1998), demographic information was subsequently excluded from any further analysis and discussion.

Respondents were recruited at a major metropolitan shopping mall by professionally trained market research interviewers. Potential respondents were asked if they would participate in a small study but without revealing the true nature of the experiment. Respondents were then randomly allocated to one of the 18 treatments until the quota of 30 respondents (15 males and 15 females) for that treatment was reached.

After obtaining their verbal consent to participate in the study, respondents were handed a folder to read before viewing the video-tape. The folder contained a brief outline of the company depicted in the scenario, plus one type of service guarantee (other than the 'no guarantee' treatments). Based on earlier pre-tests, respondents would have clearly understood which companies in the role-plays were offering a service guarantee. When viewing the service scenarios, respondents were asked to imagine that they were the customer depicted in the role play. This statement was

also printed in the introduction to the questionnaire. Then, one of the scenarios was presented, combining one of the options of *service type* (computer training, hotel accommodation and motor vehicle insurance), *guarantee type* (conditional, unconditional and none) and *recovery type* (good and poor).

The video-tape was paused at the end of the service breakdown, before the recovery to enable respondents to complete the first section of the questionnaire relating to complaint intentions. Each of the two components of the scenarios (complaint and recovery) were shown twice to respondents.

The impact of the experimental manipulations on responses to the questionnaire was investigated using Multivariate Analysis of Variance (MANOVA) available in SPSS Version 10. Prior to running the MANOVA procedure four assumptions were tested. These included adequate cell size, univariate and multivariate normality, linearity and homogeneity of variance-covariance matrices.

Tests conducted for establishing univariate and multivariate normality indicated that the data set had some outliers. Although these outliers amounted to just six cases, they were deleted from the data set for subsequent analysis. Despite the removal of outliers, the assumption of adequate cell size wasn't violated. Linearity was confirmed using a correlation matrix, which showed each of the dependent variables to be significantly correlated at a Type I alpha level of  $< 0.01$  on a two-tailed test. Levene's test for homogeneity for each of the dependent measures indicated that homogeneity of variance had also not been violated.

## FINDINGS

Overall, the results indicate that the type of *recovery* and the type of *service* significantly influence service evaluations, but that the type of *guarantee* on its own

does not. The two-way interaction between the type of service and the type of guarantee almost achieved a significant multivariate effect. There were significant univariate effects between the type of service when the guarantee was *conditional*. The relative effects of these three independent variables on the service evaluations indicate that the type of recovery had the largest influence on service evaluation scores. Specifically, 61% of the variation in the service evaluation scores was explained by the type of recovery, 2.4% by the type of service and 1.2% by the two-way interaction between the type of service and guarantee. The results for Wilks' Lambda, Pillai's and Hotelling's Trace, and Roy's Largest Root were also calculated and gave similar results.

## Effects of Service Guarantees

The main effect of the service guarantee was not statistically significant ( $F_{[8, 1028]} = 1.52, p = 0.146$ ). In particular, there were no significant differences on the 'intention to complain' scores when a service guarantee was in place, compared with no guarantee. There is therefore no support for H1, that service guarantees encourage dissatisfied customers to complain after a service breakdown. The interaction between type of service and type of guarantee just failed to attain statistical significance ( $F_{[8, 1026]} = 1.56, p = 0.07$ ). However, it did demonstrate a significant univariate effect on evaluations of *service quality* ( $F_{[2, 179]} = 3.17, p = 0.014$ ) for the *training* service with a *conditional* service guarantee ( $F_{[2, 177]} = 5.77, p < 0.01$ ) providing partial support for H3a, concerning the effects of service guarantees on perceptions of customer satisfaction and service quality and H3b concerning the relative performance of conditional guarantees. There was no support for H4, that a service guarantee increases loyalty intentions after a customer complaint.

Table 2: Multivariate tests(c)

Effect	Value	F	Hypothesis df	Error df	Sig.	Partial Eta Squared
Intercept	0.013	9505.946(a)	4.000	513.000	.000	.987
SERVICE	.952	3.218(a)	8.000	1026.000	.001	.024
GUARANTEE	.977	1.519(a)	8.000	1026.000	.146	.012
RECOVERY	.387	203.469(a)	4.000	513.000	.000	.613
SERVICE*GUARANTEE	.953	1.555	16.000	1567.879	.073	.012
SERVICE*RECOVERY	.959	2.695(a)	8.000	1026.000	.006	.021
GUARANTEE*RECOVERY	.991	.550(a)	8.000	1026.000	.819	.004
SERVICE*GUARANTEE*RECOVERY	.969	1.028	16.000	1567.879	.423	.008

a Exact statistic

b The statistic is an upper bound on F that yields a lower bound on the significance level.

c Design: Intercept+SERVICE+GUARAN+RECOVERY+SERVICE \* GUARAN+SERVICE \* RECOVERY+GUARAN \* RECOVERY+SERVICE \* GUARAN \* RECOVERY

### Effects of Service Recovery

As hypothesized, the findings revealed significant multivariate effects for the type of recovery ( $F_{[4, 513]} = 203.47, p < 0.001$ ) for all four evaluations. A simple main effects analysis indicated differences between the services when the recoveries were *positive* ( $F_{[2, 266]} = 8.66, p = 0.001$ ), but no differences for *negative* recoveries ( $F_{[2, 262]} = 0.32, p = 0.724$ ). There was also a significant interaction between the type of service and the type of recovery at the multivariate level ( $F_{[16, 1028]} = 2.67, p < 0.01$ ). The scores for the *training* service after a good recovery were significantly higher than those obtained for both *accommodation* ( $p < 0.01$ ) and *insurance* ( $p < 0.01$ ). Therefore, there is support for H2a that a service guarantee can improve some service after a good recovery. On the other hand, there was no support for H2b which posits that having a service guarantee in place during a poor recovery will reduce evaluations compared with no guarantee.

The descriptive statistics showed a mean average score for 'intention to complain' of 3.28 on the 5-point scale, supporting previous studies that indicate that customers are generally not strongly motivated to complain to a company after experiencing poor service. The higher mean average of 3.96 for the scale item 'intention to tell others,' also reinforces findings from similar studies which suggest that disgruntled customers prefer to spread negative word-of mouth rather than complain to the company.

### Effects of Service Type

Differential effects of different service types were not stated as a specific research hypothesis. However, an examination of the univariate F-tests indicated that the type of service had a significant impact on service quality and loyalty intentions. The results of a post-hoc LSD test indicated that the scores on the *service quality* scale for *computer training*

were significantly higher than those for both accommodation ( $p < 0.01$ ) and insurance ( $p < 0.01$ ). These findings suggest that in high-contact services at least, even if the service recovery and subsequent customer satisfaction is unsatisfactory, perceptions of service quality may still be reasonable.

## DISCUSSION

Based on the views of practitioners and researchers, service guarantees were expected to perform well in this experiment. It is intuitively appealing to imagine that a well-publicized service guarantee provides confidence to complainers that a company will stand behind its service promises, resulting in increased legitimate complaints after a service breakdown. It also seems reasonable to expect that service guarantees improve service evaluations after a complaint and a subsequent strong, positive company reaction.

The poor showing of both types of service guarantees was disappointing, particularly as the conditions were conducive for a strong showing. Service guarantees do not appear to be the powerful customer service tool that was expected. Certainly, this appears to be the case when it is used in isolation of other supporting evidence concerning the company's commitment to service recovery. Awareness only of the existence of a service guarantee appears to be inadequate. In summary our findings are unable to validate the propositions of Hart (1993), Ostrom and Iacobucci (1998) and Wirtz (1998), who each argued that service guarantees encourage dissatisfied customers to complain.

A conditional service guarantee seems to be preferred in a complaint situation as it is more specific about which service promises the company is prepared to honour and in that sense perhaps is more credible than the broader, unconditional guarantee. This study supports the conclusions of McDougall, Levesque &

Vanderplaat (1998) in which they stated that *any* guarantee is better than *no* guarantee, as this study indicates that a *conditional* guarantee performs better than no guarantee. However, it should be remembered that the service breakdowns depicted in this experimental study revolved around the specific promises enshrined in the conditional service guarantees. It is doubtful that the results would have been as positive if the promises in the guarantee did not match the conditions depicted in the service breakdowns.

A strong conditional guarantee may contain few promises; however, care needs to be taken in designing such a guarantee to include appropriate promises. These might include service aspects which are valued by customers or frequently result in service errors. Companies might alternatively be encouraged to consider the introduction of a more detailed list of service promises such as that one Australian insurance company does with its Customer Service Charter where 18 service promises are spelled out. Each promise is publicly audited with the annual results communicated to all of its customers.

As expected, the findings demonstrate that for each of the three services, a positive recovery had a significantly greater effect on service evaluations than a negative recovery, supporting the findings of Spreng, Harrell & Mackoy (1995) and TARP (1996). Even in circumstances where a customer has experienced a service problem, a strong service recovery can restore perceptions at the service encounter, perceived quality and loyalty levels.

The findings also confirmed that customers who are dissatisfied with a service experience are more likely to vent their frustrations by taking their business elsewhere (reduced loyalty) than by complaining. This reinforces the challenges facing organizations in encouraging dissatisfied customers to voice complaints directly to the company.

The results for the different service types were interesting. After a positive service recovery, the evaluation scores for computer training were higher on all measures than those achieved for both accommodation and insurance at the 1% type I error level of significance. The extant literature suggests that service failures are more likely to occur in high-contact services where there are a greater number of encounters (Boulding et al., 1993; Palmer, Beggs and Keown-McMullan, 2000). However, it appears that when a company makes a strong service recovery in a high-contact service it will have a greater effect on evaluations of the service than for the other types of services in the study. Customers of high-contact services appear to be both more forgiving of service failure and more delighted when it leads to a strong attempt at recovery than for other service types.

### CONCLUSIONS

Results from this study lead to the conclusion that a service guarantee is not an effective customer-service management tool that will encourage dissatisfied customers to complain to the service provider after a negative service encounter, particularly when used in isolation of other supporting cues about a company's commitment to its customers. In this context, a service provider might provide tangible evidence to communicate how its service guarantee makes it easier for customers to complain and obtain satisfaction in the recovery. For some customers a service guarantee without supporting tangible cues may raise the prospect that total service failure is a real possibility.

A service guarantee presented in isolation of additional supporting evidence appears to be more closely linked to a company's advertising efforts rather than its attitude about customer service. It may be that a service guarantee would be more powerful if it were linked to

communications from the service provider as to how its service guarantee is related to the company's performance, or vice versa, that as a result of service improvements the company can now offer a guarantee of superior service quality. It appears that customers do not naturally make the connection between the service guarantee and superior performance in the absence of other supporting cues.

Characteristics of an effective service guarantee should now include not simply awareness of its existence but an understanding of how it fits with the company's position on quality and customer service.

### LIMITATIONS OF THE STUDY

As with most empirical studies, there are several limitations that warrant consideration and threaten the generalizability of the results. There is always a risk in using a video-taped role-play to operationalize a service scenario that it may not produce the same emotions as a real-life service choice or decision. As service guarantees seem to be more effective at a global level of evaluation rather than at the encounter-specific level, the service guarantee may play a different role in real life where a service complaint is usually played out over a longer timeframe. This reduction in external validity is a disadvantage of virtually all one-shot experimental designs. Accordingly, a repeated measures design might be worthy of consideration. A second limitation concerns the matching of the service breakdowns to the exact promises made in the conditional service guarantees. This would have had the effect of improving their relative performance. A question remains concerning their effectiveness when the conditions do not match the service breakdown.

A final limitation of the study is that it considers only three services. Although care was taken to allow for these services to represent broader service types, caution is

advised in extrapolating the results beyond the sectors that were studied. Whilst these limitations are acknowledged, they do not detract from the importance of the findings but hopefully provide a platform for future research.

#### **SUGGESTIONS FOR FURTHER RESEARCH**

In relation to the study of service guarantees, the authors have identified a number of potential issues that might warrant further investigation. If successful service guarantees are closely linked to overall perceptions about the company, testing different guarantees with varying types of company information would be worthwhile. Such studies might also consider additional types of service providers to those selected in this study to build on our understanding of the effects of different service types on service evaluations.

Whilst recent academic interest has been focused on implementing an effective service recovery, the area of encouraging complaints represents a substantial deficiency in the academic and professional literature and deserves further investigation.

In summary, the literature suggests that service guarantees positively affect service evaluations and in a complaint situation increase the likelihood of a customer complaining to the service provider. This study found that service guarantees appear to have no significant effects on encouraging dissatisfied customers to complain after experiencing a negative service encounter. A conditional service guarantee, however, may improve perceptions of service quality but not evaluations of satisfaction, intentions to complain or intentions to re-purchase and when the service breakdown matches the conditions of the guarantee. An unconditional service guarantee appears to have no positive effects on service evaluations in a complaint situation. The type of service has a significant effect on service evaluations and service guarantees appear to be generally more effective in computer training, as an example of a high-contact service.

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## APPENDIX 1

### The Conditional Guarantee

# *Hotel Service Guarantee*

15 minutes. The maximum amount of time we give ourselves to offer you a solution to any problems you have which is our responsibility. Contact us directly, at any hour of the day or night and our team will be at your service to ensure that you are entirely satisfied. If we are unable to fulfill this contract within the allotted 15 minutes you will be our guest.

### The Unconditional Guarantee



**100% Customer Satisfaction Guarantee!**

**Our goal is 100% customer satisfaction.**

**If you aren't satisfied with something, please let us know, and we'll make it right or you won't pay.**

**Call our head office at xxx xxx xxxx.**

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