Managing novice and experienced customers: an evaluability-based perspective on service recovery

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Abstract

Evaluability theory (Hsee, 1996) elucidates the explanatory power of incorporating the knowledge-based aspect of prior experience to explain individuals' evaluations. However, evaluability theory has been largely neglected within service recovery literature in favour of relational approaches to the study of prior experience. We utilise evaluability theory to explain how the emphasis placed by customers on recovery tactics changes as consumption unfolds. We conduct 20 in-depth qualitative interviews in the hotel context, followed by a scenario-based experiment. Study 1 explores how novice and experienced customers recall service failure and recovery experiences. Study 2 tests whether prior experience moderates the effects of monetary overcompensation and empathy of apology. Our findings indicate that the revenge desires of more experienced customers are more responsive to empathy of apology and overcompensation. The theoretical and practical insights of these findings are presented.

Keywords: overcompensation, empathy, evaluability

Intended Track: Relationship Marketing

1. Introduction

Service recovery researchers forward the notion that service providers should adopt 'adaptive strategies' to service recovery, which are sensitive to the idiosyncrasies of loyal and novice customers (e.g., Lee, Kim, Hwang, and Cui, 2021). Underpinned by social psychological and economic theories including, social exchange theory (Homans, 1961) and attachment theory (Bowlby, 1979), relational studies have elucidated why relational customers appear to be particularly likely to hold a grudge following repeated failures by the firm (Grégoire, Tripp, and Legoux, 2009). Similarly, customers who have a strong service provider relationship may appreciate high levels of compensation, as relational customers invest a higher level of social resources into the relationship with the firm prior to failure (Gelbrich, Gäthke, and Grégoire, 2016). However, scholars also provide evidence that following relational failures customers are more appreciative of psychological or symbolic recovery efforts, rather than tangible, utilitarian recovery tactics (e.g., monetary compensation, replacement goods, De Cremer, 2010). This notion is further reinforced by the matching hypothesis (Roshck and Gelbrich, 2014), which implies that recovery tactics should match the nature of the failure. Thus, studies present disparate findings concerning the influence of prior experience on the effectiveness of utilitarian and psychological recovery tactics. Therefore, there is an exigent need to consider whether an alternative theoretical perspective exists that can explain the influence of prior experience in service recovery responses. Accordingly, we turn to the role that the evaluability hypothesis (Hsee, 1996) has played in the decision-making literature to provide a valuable theoretical explanation of recovery tactic effects.

2. Conceptual Background

Hsee and Zhang's (2010) general evaluability theory (GET) captures the notion that attributes vary in terms of their evaluability and three dimensions can inform the extent of evaluability of an attribute: 'nature', 'knowledge', and 'mode'. 'Nature' captures how an attribute can be innately easy to evaluate because there is a scale for rating the attribute with a clearly described distribution. 'Knowledge' captures the notion that people acquire knowledge about the meaning of an attribute through learning, whereas 'mode' encompasses the *way* in which evaluations are conducted (e.g., evaluating the attributes of a product in isolation vs. comparing two products). Theoretical support for the notion that individuals evaluate

offerings differently with increased familiarity is also provided by the literature into 'search', 'experience', and 'credence' qualities (Nelson, 1970; Darby and Karni, 1973).

Dagger and Sweeney (2007) apply the concept of evaluability to explain differences in the importance placed on service attributes by novice and experienced customers. However, service recovery researchers predominantly view prior experience through the lens of customer loyalty, rather than customers' cumulative experiences within a service type which can shape their knowledge, regardless of their loyalty status. Thus, evaluability theory provides a promising theoretical perspective to contribute to ongoing debate into differences in novice and experienced customers' responsiveness to service recovery attributes.

3. Study 1: Exploratory Study

To explore the explanatory potential of evaluability theory, we conducted 20 in-depth interviews with customers of hotel services. This facilitated the exploration of points of divergence in the retrospective accounts and evaluative processes of novice and experienced customers, while providing further support for the mechanism of the moderating effect of prior experience. For parsimony, the full details of the exploratory study are not presented in this paper, rather we present a summary of the study outcomes. Study 1 indicated that less experienced customers (i.e., those who visited hotels approximately once or twice per year) appeared to value any effort by the firm to remediate the failure and displayed little discernment concerning the extent of remediation. In contrast, more experienced service customers (i.e., those who visit hotels approximately 6 or more times per year) appeared to perceive the mere usage of a tactic (e.g., apology) as insufficient. For these individuals, such tactics appeared to act as points of departure, from which a recovery process would ensue. Thus, the outcomes of Study 1 included a deeper understanding of the emphasis placed by novice and experienced customers on different recovery attributes. We observed a higher level of complexity and nuance in the recovery expectations of more experienced customers (vs. less experienced customers). Therefore, Study 1 indicated the potential disparity in the evaluations of novice and experienced customers, thereby motivating the scenario-based experiment.

4. Hypothesis Development

Evaluability theory indicates that the outcomes of service will be more important to more experienced service customers, as these customers have gained more service-relevant and

specialist knowledge, which facilitates the evaluability of service outcomes (Dagger and Sweeney, 2007). Hsee, Loewenstein, Blount and Bazerman (1999) contend that customers are more likely to consider service prices to be difficult to evaluate if there are few other similar services with prices attached that can act as reference points for their evaluation. Moreover, our qualitative study indicated ambivalence amongst less experienced customers concerning the appropriate level of remedy. Therefore, it is expected that less experienced customers of a service will be less able to distinguish between simple and overcompensation, and therefore, will be less responsive to overcompensation than more experienced customers. Given that prior research links compensation with lower levels of anger and revenge desires following double deviations (Joireman, Grégoire, Devezer and Tripp, 2013), we expect that the interaction between monetary overcompensation and prior experience will shape customers' anger and revenge desires. Therefore:

H_1: *Prior experience with the service type moderates the effect of overcompensation, such that the anger of more experienced customers (Vs. less experienced customers) is more strongly influenced by overcompensation.*

H_2: *Prior experience with the service type moderates the effect of overcompensation, such that the revenge desires of more experienced customers (Vs. less experienced customers) are more strongly influenced by overcompensation.*

Empirical studies of the effects of apology in service recovery generate divergent findings, as some researchers find that simple, brief apologies can remediate failure (You, Yang, Wang and Deng, 2020), whereas other studies imply that apologies require dimensions, such as empathy, to generate a recovery effect (e.g., Roschk and Kaiser, 2013). Service recovery studies indicate that empathy involves placing oneself in the position of another and can be communicated by showing warmth, understanding of another person's negative experience and remorse (Roschk and Kaiser, 2013), through linguistic and non-verbal cues (Herhausen et al., 2023). Hsee and Zhang (2010) contend that dichotomous variables are easier to evaluate than continuous variables. Within the context of the current research, the empathy could be viewed as a qualifier of the apology provided and therefore, a more subtle and continuous variable. Thus, it would be expected that the evaluation of the level of empathy conveyed through an apology would represent a difficult-to-evaluate attribute. Similarly, Dagger and O'Brien (2010) contend that more experienced service users have prior experiences of interactional treatment within the service context, which can be utilized to form comparisons and evaluative judgements as to what constitutes high-quality interactional treatment. Therefore:

H_3: *Prior experience with the service type moderates the effect of empathy of apology such that the anger of more experienced customers (Vs. less experienced customers) is more strongly influenced by empathy of apology.*

H_4: *Prior experience with the service type moderates the effect of empathy of apology such that the revenge desires of more experienced customers (Vs. less experienced customers) are more strongly influenced by empathy of apology.*

5. Study 2

The hypotheses were tested in an online, scenario-based experiment, using scenarios adapted from prior research (Basso and Pizzutti 2016). The between-subjects factor was the recovery strategy (control vs. monetary overcompensation vs. high empathy apology). Prior experience was measured by the item: "*how many times have you bought hotel trips in the past 5 years*". For parsimony, we provide a summary of the study design and findings. If this paper is accepted for presentation, the conference presentation will include the written scenarios, measures, confirmatory factor analysis (CFA) results and PROCESS models (Hayes, 2017).

5.1 Sample, stimuli and measures

233 participants were recruited through Prolific Academic (https://www.prolific.ac). Participants were required to have English as a primary language and have purchased hotel trips before. 24 participants were excluded because they failed to meet inclusion criteria (e.g., the passing of attention checks). The analysable sample included 209 participants (20.1% male, 79.9% female) of a range of ages, including 19.6% aged 18-24, 21.1% aged 25-29, 37.3% aged 30-39, 13.9% aged 40-49, and 8.1% aged 50 or over.

The hypothetical scenario concerned a delay in access to a pre-booked hotel room for a one-night stay, followed by a failed service recovery and a subsequent, double deviation recovery attempt. We refined the hypothetical scenarios utilising a pilot study. In the control condition, the manager apologizes and provides simple monetary compensation. The simple compensation condition included a $71 voucher and was developed following the approach of Roschk and Gelbrich (2017). The monetary overcompensation condition featured an extra $63 voucher. The high empathy of apology condition included sentences to indicate that the apologiser expressed empathy (adapted from Roschk and Kaiser, 2013).

We included a compensation manipulation check asking participants to report the compensation provided (Gelbrich, Gäthke, and Grégoire, 2015), as well as a measure of how many times the manager apologized (Antonetti Crisafulli, and Maklan, 2018) and a multi-item manipulation check of empathy of apology (1 = strongly disagree, 7 = strongly agree;

Cronbach's alpha = .95; M = 3.41; SD = 1.54; adapted from Fehr and Gelfand, 2010). Participants were also required to respond to a set of attention and realism checks. Analysis of the manipulation checks indicated that the manipulations were effective. For example, an independent samples t-test indicated that perceived empathy of apology ratings were higher in the high empathy (HE) condition than the control (C) condition (M(C) = 2.73, SD = 1.47, M(HE) = 4.51, SD = 1.20, t (138) = 7.84, p < .001).

Likert-type measures (1 = strongly disagree, 7 = strongly agree) of anger (α = .90, AVE = .69, M = 4.88, Std. Dev. = 1.33) and revenge desires (α = .94, AVE = .75, M = 2.32, Std. Dev. = 1.31) were included (adapted from Grégoire et al., 2010). Control measures of perceived double deviation severity (α = .90, AVE = .75, M = 5.44, Std. Dev. = 1.19; Joireman et al., 2013), blame (α = .77, AVE = .54, M = 6.12, Std. Dev. = 1.05; Joireman et al., 2013), stability (M = 3.90, Std. Dev. = 1.16; Grewal, Roggeveen and Tsiros, 2008) and gender (Harrison, Grant and Herman, 2012) were also included. A CFA of the perceptual measures that were utilised in the hypothesis testing phase indicated measurement reliability.

5.2 Results

We ran a PROCESS analysis (PROCESS model 8) with 10,000 sub-samples (overcompensation = X, coded as '0' in the control condition and '1' in the overcompensation condition; anger = M and revenge desires = Y). We included covariates of severity, blame, stability and gender in the model. The results did not indicate a significant, conditional, direct effect of monetary overcompensation on anger (b = -.24, SE = .59, P = .906) and also did not indicate a significant, conditional, direct effect of the level of the customer's prior experience on anger (b = .01, SE = .02, P = .677) The conditional, direct effect of the interaction between overcompensation and prior experience on anger was not significant (b = -.00, SE = .02, P = .879), which did not provide support for H_1. Our findings indicated a significant, conditional, direct effect of prior experience on revenge desires (b = .06, SE = .02, P < .001), whereas we found no evidence of a significant, conditional, direct effect of monetary overcompensation on revenge desires (b = .42, SE = .26, P = .110). However, our results indicate a significant direct effect of the interaction between overcompensation and prior experience on revenge desires (b = -.06, SE = .03, P < .05). The results also indicate that anger exerted a significant, direct influence on revenge desires (b = .35, SE = .10, P < .001). The test of highest order interaction effects for revenge desires was significant (F (1, 132) = 5.38, P < .05). The index of moderated mediation did not support moderated mediation (Index of moderated mediation = -.00, Boot SE = .01, Bootstrapped confidence interval = -.024 to .015). The Johnson-

Neyman technique indicated that as prior experience increases, the overcompensation-revenge desires relationship changes from being insignificant (Prior experience = 0 effect = .42, SE = .26, P = .11) to being negative and significant (threshold of significance reached at prior experience = 23.97, effect = -1.01, SE = .51, P = .05), thereby supporting H_2.

The PROCESS model 8 was replicated with empathy of apology included as the independent variable (low empathy apology coded as '0' and high empathy apology coded as '1') and compensation held at the simple compensation level. The model showed a significant, conditional, direct effect of empathy of apology on anger (b = -.81, SE = .25, P < .01) but the conditional, direct effect of prior experience (b = .00, SE = .02, P = .85) and the effect of the interaction (b = .03, SE = .03, P = .33) on anger were not significant. Thus, H_3 was not supported. There was a significant conditional, direct effect of prior experience on revenge desires (b = .06, SE = .02, P < .01) but we did not find a significant, conditional, direct effect of empathy on revenge desires (b = .38, SE = .29, P = .188). There was, however, a significant direct effect of anger on revenge desires (b = .35, SE = .10, P < .001). Moreover, there was a significant, direct effect of the interaction between prior experience and empathy on revenge desires (b = -.07, SE = .03, P < .05). The Johnson-Neyman technique indicated that the empathy-revenge desires relationship became negative and significant at higher levels of experience (prior experience = 0, effect = .38, SE = .29, P = .19; threshold of significance reached at prior experience = 17.25, effect = -.84, SE = .43, P = .05), thereby supporting H_4.

6. Discussion

Our findings provide three core contributions to service recovery literature. First, while prior studies focus on how customer-service provider relationships may buffer or intensify the effects of service failure and recovery on more experienced customers (e.g., Hess, Ganesan and Klein, 2003), we present a knowledge-based theorisation of service recovery issues. Thus, we extend evaluability theory to explain shifts in the emphasis placed on monetary overcompensation and empathy of apology as consumption unfolds, thereby clarifying the factors that moderate utilitarian and psychological recovery tactic outcomes.

Second, we highlight a further potential moderating variable of customers' knowledge of service recovery, which may extend to other aspects of recovery. More experienced customers appear to display a higher appreciation of the distinction between acceptable and excellent recoveries, which may have implications for their interpretation of other tactics (e.g., explanations). Thus, we highlight the importance of considering the impact of learning

on customers' perceptions, which can lead to contrasting theoretical and managerial implications to those of relational studies. Indeed, while some studies indicate that relational customers are more responsive to psychological resources, this study indicates that relational customers' extensive service knowledge may drive their responsiveness to compensation.

Third, our findings highlight how the concepts of evaluability theory can be applied to re-consider the outcomes of failure and service provider characteristics. Indeed, educational research has highlighted how less experienced individuals place more emphasis on superficial qualities of education providers (Marsh 1984). Thus, evaluability theory could be leveraged to understand which customers are susceptible to formulating recovery evaluations based on more superficial features (e.g., physical appearance) of services and service providers.

7. Limitations and Future Research Directions

Our study included both in-depth interviews with hotel customers to understand their reflections on real service recovery experiences and a scenario-based experiment to test moderation effects. The combination of real accounts and experimental data provides further empirical support for the importance of learning within the service recovery context and the generalisability of the evaluability theory. Nevertheless, the generalisability of our findings is constrained by the utilisation of the hotel context and the absence of field study data. Further field studies could be conducted into the relationships considered. Moreover, future research could consider the impact of knowledge on the outcomes of other tactics (e.g., explanations). Indeed, customers' prior knowledge of the service type may also play a pivotal role in driving the believability of firms' promises that the failure will not reoccur in the future.

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