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The role of regulation and financial compensation on trust recovery

Lisiane Santos Gasparotto, Natália Araujo Pacheco, Kenny Basso *, Vitor Francisco Dalla Corte, Gisele Costa Rabello, Shalimar Gallon

IMED Business School, Faculdade Meridional – IMED, Post-Graduate Programme in Management, Senador Pinheiro, 304, Passo Fundo, RS, 99070-220, Brazil

A R T I C L E I N F O

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A B S T R A C T

Although service recovery tactics have been extensively investigated, little is known about what firms should do when service recovery fails (i.e., double deviation). It is primordial to understand whether and how customer trust may be recovered after a double deviation. The results of an experimental study show that it is possible to recover customer trust through improvements in organizational processes (i.e., regulation) and discounts (i.e., financial compensation). Remarkably, regulation and financial compensation lead to similar trust levels, which means that these trust recovery tactics are equally successful. Moreover, attributions of benevolence explain why regulation and financial compensation can recover customer trust after a double deviation.

1. Introduction

The gross domestic product of economies worldwide is largely based on the services sector. Incomputable service transactions occur daily, and in each one of them, certain characteristics of the service can improve or decrease the performance of the service delivery to the customer. For example, variability (Zeithaml et al., 1988) can improve the quality of the customer experience in consuming a service; however, this characteristic can also decrease the service performance and cause a failure to meet the customer's expectations.

A service failure occurs when customers perceive the service performance to be poorer than they had previous expected (Smith et al., 1999). In situations of service failure, a company can use a service recovery process to try to restore the service and consequently the relationship with the customer (Tax et al., 1998). Service recovery can be initiated by a customer complaint or by the company's proactive identification of the failure.

Although service recovery can be effective to restore the service, it is influenced by all the characteristics that also influence the original service delivery. Consequently, the service recovery can be perceived as adequate or inadequate by the client. When the service recovery process is adequate to the client, a service recovery paradox can occur, leading to high customer satisfaction (de Matos et al., 2007). Moreover, through a restoration of the levels of perceived justice (Smith et al., 1999; Tax et al., 1998), an adequate service recovery can positively influence customer trust (Tax et al., 1998). In this way, the literature on service and relationship marketing considers the service recovery efforts of companies as mechanisms by which trust after violations caused by initial service failures can be rebuilt.

On the other hand, when the service recovery is inadequate or the customer's expectations are not fulfilled, it may result in a double deviation. Double deviation occurs when a company fails twice to meet the customer's expectations: first, with a service failure and, second, with an unsuccessful or failed service recovery (Bitner et al., 1990). Both the initial service failure and the double deviation violate customer trust, but double deviations lead to greater trust violation than the initial service failures (Basso and Pizzutti, 2016).

After a trust violation is caused by a double deviation, or else, after all efforts have been made to recover the service and compensate for the negative customer experience, the company can direct the efforts to trust recovery, avoiding online public complaints and negative word of mouth (Tripp and Grégoire, 2011). In this case, when all service recovery efforts are done, attempts to recover customer trust are important tools for company competitiveness because trust violation can lead customers to seek information about competitors (dos Santos and Basso, 2012).

Different tactics may be used to recover customer trust, solve problems, and change customers' negative attitudes, such as regulation (Dirks et al., 2011), financial compensation (Cremer, 2010), apologies (Kim et al., 2004), promises (Basso and Pizzutti, 2016), and reticence (Ferrin et al., 2007). Among these tactics, we choose to understand whether and how regulation and financial compensation can recover trust after a double deviation occurs. Regulation

* Corresponding author.
E-mail address: bassokenny@gmail.com (K. Basso).

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refers to a message about the establishment of a system to ensure future trustworthy behavior and to limit future transgressions (Dirks et al., 2011), while financial compensation refers to an offer to issue financial compensation for renewed trustworthiness (Cremer, 2010).

Additionally, we verify the underlying mechanism that explains the relationship between trust recovery tactics (regulations and financial compensation) and trust. Specifically, we test how attributions of benevolence mediate the effect of these trust recovery tactics on trust after a double deviation occurs. We find that both regulation and financial compensation send cues of benevolence to customers, signaling that the company is putting the customer's goals before its own goals. In other words, customers may perceive that the company is benevolent because it is investing time and money in them rather than trying to preserve the transaction profit.

2. Literature review

2.1. Double deviation and trust violation

After the occurrence of service failures or negative episodes that can violate customer trust in a company, certain actions can be performed to recover the service. Specifically, service recovery refers to the service provider's actions in response to a failure in the service delivery process (Tax et al., 1998). Service recovery constitutes an opportunity for service providers to invest in their relationship with their customers and demonstrate interest in providing good service (Berry, 1999). Moreover, service recovery is an opportunity for service providers to evaluate and improve their service processes.

Customer complaints may be the starting point for service recovery processes (Hsieh, 2011; Jabraeeli and Daryani, 2015). However, the company can also start the service recovery process (Smith et al., 1999). In the airline industry, for example, the service recovery process is usually initiated by the company because it can identify certain failures (e.g., flight delay) before customers complain. Since failures can always occur in service delivery, successful service recoveries are a key step in the customer–company relationship, as they can prevent customers from switching to another service provider (Fornell and Wernerfelt, 1987).

A successful service recovery may lead customers to feel more satisfied after the recovery than they would have felt had there been no service failure at all. That is, sometimes, service recovery may lead to greater post-failure satisfaction levels in comparison to pre-failure satisfaction levels (de Matos et al., 2007). Nevertheless, sometimes, firms may fail in recovering the service, and the results may be negative for the customer. This failure in service recovery is conceived as a double deviation in the marketing literature (Bitner et al., 1990).

According to Bitner et al. (1990), if a service recovery is poor or worse than what the customer expected, it can represent an additional failure, thus intensifying the effects of the initial service failure. Some studies identify that a double deviation has negative consequences for the relationship with customers (e.g., Holloway et al. (2009), Kau and Loh (2006) and Tax et al. (1998)). Kau and Loh (2006) found a significant difference in trust between satisfied and dissatisfied complainers. Specifically, the authors found that the satisfied complainers presented higher levels of trust than dissatisfied ones.

Customer trust is defined as the customer expectation that a service provider is responsible and reliable in fulfilling its promises (Sirdeshmukh et al., 2002). Therefore, a service provider's unfulfilled promises may represent trust violations. Trust violations occur when individuals who trust another party realize that this other party is acting contrary to what was expected (Elangovan et al., 2007; Kim et al., 2004). Both the service failure and the failed service recovery represent acts that were not expected by customers. Thus, both the service failure and the failed service recovery (i.e., the double deviation) should lead to customers' trust violation.

According to Darke et al. (2008), trust violation may occur due to failures in communication between the company and the customer. Moreover, according to Leonidou et al. (2012), trust violation may be caused by unethical behavior by the company, such as defective products and unfulfilled promises. Trust violation may be a consequence of one party's indifference and lack of concern (Kim et al., 2004).

In the services marketing area, Basso and Pizzutti (2016) found that a double deviation can imply a greater customer trust violation than a single deviation (e.g., initial service failure). In other words, service failures have a negative impact on customer trust, and double deviations maximize this negative impact (Basso and Pizzutti, 2016).

2.2. Trust recovery

After a trust violation, a company may use strategies to recover trust. Kim et al. (2004, p. 105) define trust recovery as the "activities directed at making the trust beliefs and trust intentions of an individual more positive after a perceived violation". Webber et al. (2012) mention that trust recovery should restore trust behavior and increase perceived responsibility and commitment levels.

According to Basso and dos Santos (2014), events similar to double deviations have been investigated in the context of social interactions. For instance, Haselhuhn et al. (2010) examine how individuals' implicit beliefs in their relationship partner can affect trust recovery when trust has been violated more than once (i.e., similar to a double deviation context). Also in the context of social interactions, Dirks et al. (2011) investigated trust recovery after several experimental rounds that could impose subsequent trust violations. These authors investigated two trust recovery mechanisms: regulation, through which a partner can demonstrate a system to ensure that future violations will not occur, and penance, in which the transgressor offers monetary compensation to send a signal of credibility to recover trust.

The literature on trust recovery after double deviation is scarce. So far, studies have shown that trust recovery tactics involving apologies and promises that the failure will not recur are more effective in the context of double deviation than in the context of single deviation (Basso and Pizzutti, 2016). The authors also found that a promise is more effective in recovering trust when the failure is based on the lack of competence, while an apology is more effective to recover trust when the failure is based on a lack of integrity.

Companies may adopt several tactics beyond the trust recovery tactics used by Basso and Pizzutti (2016) when trying to recover customer trust (e.g., financial compensation, endorsement of third parties, reinforcement of commitment, recognition or information, regulation, reticence, silence, reputation system). Two of these tactics are investigated in the current manuscript: regulation and financial compensation. Financial compensation is one of the most cited tactics in the literature (Davidow, 2003), which shows how relevant this tactic is. Regulation, to the best of our knowledge, has been unexplored in the context of service failures.

2.2.1. Regulation

The purpose of regulation is to create a system to ensure reliable future behavior and to avoid failures (Dirks et al., 2011). Dirks et al. (2011) investigated regulation as a trust recovery tactic in a work relationship context. In their study, a CEO who had violated employees' trust adopted a system that would restrict his ability to perform the same violation again. This regulation tactic increased employees' trust in the CEO. Sitkin and Roth (1993) also investigated regulation in a work relationship context. The authors argued that formal rules and procedures could be created to increase the protection of employee rights and recover trust after a violation. Since managers may control a company's policies and pro-