Aug 1st, 9:45 AM - 10:45 AM

Doing Too Little or Too Much to Recover from Product Failure:

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ABSTRACT

This study investigated differences between optimistic and pessimistic customers in their responses to recovery strategies for defective goods and services. We found that optimistic customers are more lenient, stay more loyal; not only when offered replacement of the defective product, but also when provided only a quick fix. When a token gift is added to a replacement, pessimistic but not optimistic customers respond with greater leniency. When a token gift is added to a quick fix, optimistic customers respond with lesser leniency. We suggest that companies can make the error of doing too much, not just the error of doing too little.

Key Words: Product failure, optimistic, pessimistic, replacement, loyalty.

INTRODUCTION

Service providers know that the sale of defective products or the provision of poor service could cause them to lose customers. And replacing a lost customer is very expensive. They have learned that completely removing production defects and totally preventing service failures is not tractable. So they have turned to strategies that can be implemented following failure to recover customer loyalty. Going along with this focus, academic research has compared the impact of alternative recovery strategies (Keaveney 1995). Strategies evaluated for recovery from service failure include compensation, an apology, assistance, a token gift and the opportunity to voice a complaint. Focusing on compensation as a way for recovering from service delays, Mattila (2001) identified a 20% discount on future purchases as a strategic choice frequently made. She differentiated between delays that, in the mind of the customer, have a minor consequence—an appointment with a hair stylist—or a significant consequence—collecting dry-cleaning clothes. She found that a 20% discount is effective only for recovering from delays with a minor consequence; that it falls short with delays with a significant consequence. Cranage and Mattila (2005) concentrated their attention on a service failure with a significant consequence—a long wait in being served at a restaurant—and evaluated the effect of compensation plus a token gift—20% discount and a complementary dessert—as well as an apology. They found that an apology enhances the effect of compensation accompanied by a gift. Without the apology, the strategy of compensation plus gift falls short of effective recovery. McDougall and Levesque (1999) combined compensation with assistance, rather than an apology, and found similar results. Without assistance, compensation falls short of achieving an effective recovery. Adding complexity, Goodwin and Ross (1992) examined the strategies of compensation plus a token gift and an apology plus giving customers the opportunity to voice their complaint. They found that the effect of compensation plus a gift is enhanced by an apology and giving customers the opportunity to voice their complaints. Without an apology and voice, compensation plus a gift falls short of effective recovery.

In the domain of product failure, Kelley, Hoffman and Davis (1993) have identified replacement and fixing the product as the two most commonly used strategies. Replacing the defective product, they argue, is seen as a complete cure, while fixing, or correcting, the defect may or may not be seen as complete cure. Very often a fix falls short of effective recovery. Whether the failure relates to the product sold or to the service provided, evaluations of recovery strategies that are being practiced indicate that companies and service providers prevalently err in the direction of doing too little by way of recovery. This erroneous choice, according to Hart, Heskett and Sasser (1990) stems from a misguided, short-term, cost-control view of management. In only one research study, as best as we have been able to identify, the error of doing too much has been identified. Smith, Bolton and Wagner (1999) compared a 100% discount (one free night) with a 50% discount for being assigned, at check-in at a hotel, to a room type different from the one requested at the time of reservation. They found the 100% discount is less effective as customers feel the hotel is offering more than what is equitable. When the transgression was elevated to telling customers that no room of any type is available and that, notwithstanding a prior reservation, they have to stay at another hotel, they found the 100% discount is more effective.

THE CONTINGENT EFFECT OF THE CUSTOMER'S PERSONALITY

This finding that more by way of recovery is not always better points to the need for a contingency framework for the effectiveness of recovery strategies. Since recovery strategies are a class of selling strategies, the
contingency framework developed by Weitz (1981) for the effectiveness of sales strategies should apply. In his framework, Weitz specifies three categories of contingencies. They are the nature of the seller and the selling task, the nature of the buyer and the buying task and the nature of the relationship between the buyer and the seller. In existing research on recovery effectiveness the contingency that has been focused on is the nature of the recovery (selling) task: the extent and nature of transgression committed. The transgression that has received considerable attention is time delays (e.g., Cranage and Mattila 2005; Mattila 2001); some research has focused on the failure to keep a promise (Smith, Bolton, and Wagner 1999). The customer has not been the focus; either in terms of a relationship with the seller or directly in terms of needs or other personal characteristics. The little research that exists on the contingent effect of the buyer-seller relationship suggests that companies who have developed a relationship with their customers are judged more leniently by them (Priluck 2003). Conversely, when there is a bad relationship it elicits harsher, negative judgments as well as behavior. This applies to judgments and behavior not only by the customer but also by the seller. So, if the customer creates a bad relationship with a company through misbehaving, it has been found that the company reciprocates—the company’s misbehavior thwarts recovery (Bitner, Booms, and Mohr 1994). Only one study, as best as we have been able to identify, has looked at the contingent effect of customer characteristics. Palmer, Beggs and Keown-McMullan (2000) found that younger customers more than older customers, and female customers more than male customers respond to recovery strategies with leniency.

Missing entirely is research that has considered the customer’s personality as a contingency. What makes this omission particularly conspicuous is the tenet that underlies social psychology that the situation (e.g., the type and severity of the customer’s problem) and the responder’s personality interactively determine behavior. Kurt Lewin enunciated this about 70 years ago. The tenet continues as an important guiding principle for questions currently asked by social psychologists (a short review describing the basis of this tenet is in a section labeled “an interactionist perspective” in Taylor 1998).

THE OPTIMISTIC CUSTOMER

Dispositional optimists are people who hold positive expectations for future outcomes, across endeavors and over time. Dispositional pessimists, in contrast, have negative expectations (Scheier and Carver 1985). In health psychology, across a wide variety of treatments, it has been found that dispositional optimists respond better (Scheier and Carver 1992).

Is this always the case? Can optimists sometimes respond less positively? Some customers, those with persuasion knowledge, are better at spotting and managing illicit treatment (Friestad and Wright 1994). If optimistic customers have greater persuasion knowledge then they may respond more negatively to recovery strategies they consider illicit. The perspective that optimism is adaptive, not naively positive (Aspinwall, Richter, and Hoffman 2001; Scheier and Carver 1992), suggests that optimistic customers have better persuasion knowledge. Optimistic customers sometimes respond more leniently and other times more harshly than pessimistic customers do. We evaluated the relative leniency or harshness of customers who are dispositionally optimistic in two studies. First, we looked at the moderating effect of optimism on the strategy of replacing a defective product, the better solution, comparing this with the strategy of providing only a quick fix. We chose a quick fix rather than an effortful fix to create a more distinct contrast between the two solutions. Although an effortful fix is not as complete a solution as a replacement, sometimes customers perceive little difference (Hoffman and Kelley 1996). Through this study we asked whether or not optimistic customers are lenient only when provided with a good solution; does this leniency extend to an inferior solution?Second, we compared the responses of optimistic and pessimistic customers when a token gift is added, to a replacement and a quick fix. We asked if a token gift added to a quick fix, the inferior solution, activates persuasion knowledge among optimistic customers and causes them to respond more harshly than pessimistic customers. We asked too if a token gift added to a replacement, a good solution, increases the leniency of only pessimistic customers.

STUDY 1: DIFFERENCES BETWEEN OPTIMISTIC AND PESSIMISTIC CUSTOMERS’ RESPONSES TO TWO RECOVERY STRATEGIES: A REPLACEMENT AND A QUICK FIX

We used customer loyalty as the principal criterion by which to evaluate the moderating effect of dispositional optimism on the recovery strategies of replacement and a quick fix. We chose this criterion not only because it is prevalently used in research on recovery (e.g., Buttle and Burton 2002; Dube and Maute 1998; Robbins and Miller 2004), but also because the loss of a customer is a major concern for companies as well as service providers (Dowling and Uncles 1997; Keaveney 1998; Winer, Dowling, and Hammond 2003).
Without uncertainty, we anticipated that customers’ loyalty following a replacement is higher than it is following a quick fix. Of question was whether or not optimism biases customers towards greater loyalty with a replacement as well as a quick fix, or only with a replacement? Optimists and pessimists have been found to differ in the strategies they use for coping with problems. Optimists are better at both problem-solving coping and emotional-focused coping. Pessimists deploy escapist coping strategies more than optimists do (Carver, Scheier, and Weintraub 1989). Two specific problem-solving coping strategies that optimists have been found to use more than pessimists are planning and taking action (Brissette, Scheier, and Carver 2002; Carver, Pozo, Harris et al. 1993; Carver, Scheier, and Weintraub 1989). The strategy of offering a replacement for a defective product is likely to be seen by customers as a manifestation of good planning and decisive and competent action. Because optimistic customers would solve their own problems with planning and taking action, they are likely to have greater respect and appreciation for companies and service providers who chose to offer a replacement as a solution to the problem of recovering from product failure.

**H₁:** Optimistic customers are more loyal than pessimistic customers are to a company that offers to replace defective merchandise.

Does the same difference exist following a quick fix? The authority to upgrade from a quick fix to a replacement usually does not lie with the company service person interacting with the customer. It would be adaptive to recognize this and accept that a harsh response is unlikely to lead to an offer of replacement. Since optimists possess the skill to be adaptive more than pessimists do (Aspinwall and Brunhart 1996; Aspinwall, Richter, and Hoffman 2001) and since optimists are better at the emotion-focused coping strategy of positively reframing a situation (Brisette, Scheier, and Carver 2002; Carver, Pozo, Harris et al. 1993; Carver, Scheier, and Weintraub 1989), they should respond with greater leniency.

**H₂:** Optimistic customers are more loyal than pessimistic customers are to a company that offers a quick fix of defective merchandise.

**METHOD**

Ninety-four undergraduate students attending an introductory marketing class at a southern university participated in the study and received 1.5% credit towards their final grade. The study was presented to them as consisting of two independent studies; one that assessed their attitudes towards life and the other their reactions to an experience in a café when they attempted to return a bad product. During debriefing they learned that the two studies were linked. Their participation was anonymous.

**The Measurement of Dispositional Optimism**

The life-orientation test was administered as a part of the “first” study. This test consists of 11 statements; 8 measure dispositional optimism, the remaining 3 are filler items (Scheier and Carver 1985). An example of a measure of optimism is: “I always look on the bright side of things.” Participants used 7-point Strongly Disagree-Strongly Agree scales to indicate the extent to which each statement was a truthful description of their social behavior and attitudes. Although a revised life-orientation test has been made available (Scheier, Carver, and Bridges 1994), the older test continues to be the preferred method for measuring dispositional optimism. In a factor analysis the scale splits into two factors, one with the four positively worded items and the other with the four negatively worded items. Notwithstanding this, based on a high correlation between the two factors, an acceptable fit for a single factor solution in a confirmatory factor analysis, a loading of 0.50 or greater on the first un-rotated factor in an initial principal factor analysis, and the viewpoint that in personality research separate factors for negative and positive worded items are common and arise simply from differences in response style, the creators of the measure argue for a single dimension. Over a large number of studies that have used this measure of optimism, acceptable internal reliability and test-retest reliability of the scale have been found. Convergent validity has been demonstrated by positive correlations with self-esteem and an internal locus of control, and negative correlations with hopelessness, perceived stress, trait anxiety, neuroticism and depression. Discriminant validity has been demonstrated by the absence of correlations with private and public self-consciousness. Discriminant validity has also been demonstrated by showing that the effects of optimism persist even after some of the individual differences it converges with are controlled for, e.g., trait anxiety and neuroticism (Scheier and Carver 1985; Scheier, Carver, and Bridges 1994).

We found high internal reliability, coefficient $\alpha=0.85$ ($n=94$). Consistent with previous research and based on an Eigen-Value cut-off of 1.0, the 8 items divided into two factors—one with the positively worded items and the
other with the negatively worded items. In the un-rotated, initial factor analysis all items loaded 0.50 or greater on the first factor. We tested convergent validity against the one new item created for the revised life-orientation test (Scheier, Carver, and Bridges 1994). This item is an overall measure of optimism: “Overall, I expect more good things to happen to me than bad.” The correlation between the scale and this item was high (r=.70, p<.0001, n=94). We tested discriminant validity against a statement reflecting the proclivity to return purchases: “Quite often, I find it necessary to return some of the things I buy,” and found an insignificant correlation (r=-.16, p=.13, n=94). We divided participants into optimists and pessimists based on a median split; 49 participants scored an average of 5.0 or less on the 8 items and were classified as pessimists and 45 scored an average greater than 5.0 and were classified as optimists. Since the mid-point of the scale was 4 (7=highly optimistic and 1=highly pessimistic), the median cut-off of 5.0 suggests a skew towards optimism in the general population. Taylor (1989) has suggested that in general people hold positive illusions: optimistic expectations of the future is one of these illusions.

**The Manipulation of Replacement and Quick-Fix Recovery Strategies**

In what they considered the second study, participants read a hospitality scenario that described a situation in which they attempted to return a bad product in a café. They had bought an espresso and discovered after sitting at a table and sampling it, that it had a bitter taste. After listening to their explanation of the problem, the server either agreed to replace the espresso with a new one or demonstrated a “trick”, a lemon zest, for neutralizing the bitter taste (quick fix).

**Measures**

After they had read the scenario, participants were asked to consider how they would react had they been the customer. Then they rated statements that measured their loyalty towards the company. The items were anchored by strongly agree (“7”) and strongly disagree (“1”). Company loyalty was measured by two statements that were adapted from Zeithaml, Berry and Parasuraman (1996). The first was a positively worded statement: “I would consider the company a good place to shop;” and the second a negatively worded statement: “I would not shop again at this company.” Coefficient alpha was 0.80 (r=0.68, n=94). The use of ratings scales for attitudinal and behavioral criteria has been argued for in previous research (Smith and Bolton 2002). If correspondence is found across the range of responses, the use of alternative methods dilutes the possibility that convergence is from an attempt by participants to demonstrate consistency.

**RESULTS**

Predicting effects on the principal criterion of company loyalty, hypotheses H₁ and H₂, respectively, proposed that optimistic customers are more company loyal following a replacement as well as a quick fix. To test these hypotheses we ran a 2 (replacement vs. quick fix) x 2 (optimism vs. pessimism) ANOVA with company loyalty as the dependent measure. We found a main effect for replacement (F₁,93)=53.7, p<.0001), a main effect for optimism (F₁,93)=12.1, p<.001) and no interaction (F₁,93)=0.3, n.s.). Supporting H₁, we found optimistic customers are more loyal following a replacement (optimists=5.72, pessimists=4.72, t₄₆=2.79, p<.01); and, supporting H₂, that they are more loyal following a quick fix (optimists=3.75, for pessimists=3.00, t₄₈=2.13, p<.05). As a more stringent test, we evaluated the hypotheses again after co-varying out responses to the statement: “Quite often, I find it necessary to return some of the things I buy.” While discussing the validity of the measure for optimism we had reported an insignificant correlation of -0.16 between responses to this statement and dispositional optimism. If pessimistic customers tend to return merchandize more, as might be suggested by the correlation, then the differences observed could have been from their greater familiarity with the merchandise return scenario. The less familiar optimists are more naïve, so more lenient. The differences found without the covariate stayed significant with it (t₄₆=2.68, p<.01; t₄₈=2.13, p<.05, for a replacement and a quick fix, respectively), refuting such an explanation.

**DISCUSSION**

Our data suggests that optimistic customers are more lenient than pessimistic customers in their evaluations of the company, not only when offered a replacement but also when offered only a quick fix.

**STUDY 2: ADDING A GIFT**

Because a replacement is a good, complete solution, the leniency with which optimistic customers respond to a replacement suggests that they are adaptive. We argued that the leniency with which optimists respond to a quick fix, although an inferior, incomplete solution, is also adaptive because a harsher response is not likely to convert the quick fix into replacement. Even if optimistic customers’ lenient response to a quick fix were accepted...
as adaptive, nothing in the findings of study 1 distinguishes adaptive behavior from naïve behavior: the tendency to see the external world with rose colored lenses. True adaptability must require seeing both sides of the coin. If optimism is adaptive, not just naïve positivism, we should be able to demonstrate greater harshness by optimistic customers under circumstance that merit harshness. Companies and service providers often add a gift to other methods of recovery in the belief that the gift placates their customers and increases their loyalty (Kelley, Hoffman, and Davis 1993). Added to a quick fix, the inferior solution, a gift serves to distract customers from the quality of the solution. Reacting to the gift with greater harshness is adaptive. Reacting with greater leniency, is not.

If the only effect of a gift is an enhancement of the customer’s mood, then the consequence will be a more lenient response (Meloy 2000). If the gift triggers the customer’s persuasion knowledge and through this raises suspicions about the motive for the gift, the result is likely to be a harsher response (Campbell and Kirmani 2000; Friestad and Wright 1994). When a gift is added to a quick fix does it trigger optimistic customers’ persuasion knowledge or simply a positive mood? Should optimistic customers respond with greater harshness, it would suggest the activation of persuasion knowledge and support the adaptive view. Should optimistic customers respond with greater leniency, it would suggest that only a positive mood is triggered and support the naïve view. Optimists are superior at problem-solving coping (Carver, Scheier, and Weintraub 1989). This should imply that they are more sensitive than pessimists to the ability of the company and/or the service provider’s offers to solve their problem. This sensitivity is likely to make them look at a gift tagged on to a quick fix, more readily than pessimists do, as a way to distract them from their main purpose. It should activate their persuasion knowledge and lead them to respond harsher. Since pessimistic customers are less skilled at problem-solving coping they are likely to allow themselves to get distracted—to think less about how a quick fix is an incomplete solution—and not react as harshly to the gift. When a gift is tagged on to a replacement, optimistic customers—who do not need to enhance their mood because of their superior emotion-focused coping and who see no value in the gift for solving the real problem—should not be affected. In contrast, pessimistic customers should become more lenient.

H4: A gift added to a quick fix causes optimistic customers to be less loyal than they are without a gift.
H5: A gift added to a quick fix does not change pessimistic customers’ loyalty.
H6: A gift added to a replacement does not change optimistic customers’ loyalty.
H7: A gift added to a replacement causes pessimistic customers to be more loyal.

There is a literature that suggests that pessimism fosters defensive behavior (Norem 2001). This literature argues that optimists are naïve and pessimists are self-protective. It would be consistent with this literature to hypothesize that pessimists, not optimists, react to a gift tagged on to a quick fix with greater harshness. Our empirical test allows the prediction of the two literatures to be pitted against each other.

**METHOD**

Data was collected similarly to the data for study 1. The 2 x 2 design (optimism vs. pessimism x replacement vs. quick fix) was enhanced to a 2 x 2 x 2 design (no gift vs. gift). One hundred and fifteen additional students attending undergraduate introduction to marketing classes at a southern university provided data for the four with gift cells. Ninety-four students had provided data for the four without gift cells. In each session, participants were randomly assigned to one of the eight cells. Across the sample of 209 participants, internal reliability for the scale that measured dispositional optimism stayed the same (coefficient α=0.85). Splitting participants at the median score, again an average of 5.0 or less, there were 102 optimists and 107 pessimists. Participants in the gift-added conditions read in their scenarios, “She hands you an almond biscotti and says this is a sincere expression of their apology.”

**RESULTS**

Hypotheses H4 and H7, respectively, predicted that a gift added to a quick fix decreases the loyalty of optimistic but does not change the loyalty of pessimistic customers. Hypotheses H5 and H6, respectively, predicted that a gift added to a replacement does not change the loyalty of optimistic customers but increases the loyalty of pessimistic customers. To test these hypotheses we ran a 2 (replacement) x 2 (optimism) x 2 (gift) ANOVA analysis. This analysis revealed a main effect for replacement (F(1,201)=146.6, p<.0001) and an interactive effect of gift x optimism (F(1,201)=13.6, p<.0005). For a quick fix, supporting H4, a gift is found to decrease optimistic customers’ loyalty (3.8 without a gift and 3.0 with a gift, t(50)=2.2, p<.05); and, supporting H7, no change in loyalty is observed for pessimistic customers (3.0 without a gift and 3.4 with a gift, t(53)=1.3, n.s.). For a replacement, supporting H5, no change in loyalty is observed for optimistic customers (5.7 without a gift and 5.3 with a gift, t(53)=1.3, n.s.), and, supporting H6, a gift is found to increase pessimistic customers’ loyalty (4.7 without a gift and 5.6 with a gift, t(50)=1.3, p<.05).
t(51)=2.6, p<.01). A gift added to a quick fix brings the loyalty of optimistic customers down to the level of pessimistic customers without a gift (company loyalty of pessimistic customers without a gift=3.0, of optimistic customers with a gift=3.0, t(54)=0, n.s.). A gift added to a replacement brings the company loyalty of pessimistic customers up to the level of optimistic customers without a gift (company loyalty of optimistic customers without a gift 5.7, of pessimistic customers with a gift 5.6, t(51)=0.4, n.s.).

**DISCUSSION**

A gift, we suggested, affects optimistic and pessimistic customers differently and the effect depends on the strategy chosen for achieving recovery. For pessimistic customers a gift, when added to a replacement, causes them to react more leniently to this recovery strategy. We found evidence to support this with company loyalty as the criterion. As a result of the gift the leniency of optimistic customers in responding to a replacement is matched by pessimistic customers. For optimistic customers, we suggested, when a gift is added to a quick fix, persuasion knowledge is triggered and their judgments become harsher. With company loyalty as the criterion this suggestion received support. As a result of a gift, the leniency of optimistic customers is lost; their evaluations match those of pessimistic customers.

**GENERAL DISCUSSION**

We have pointed out that although the error of doing too little by way of recovery is prevalent, service providers also commit the error of doing too much. A contingency analysis is needed to correct these errors and an important moderator to include in this analysis is personality. In our contingency analysis we chose to examine the moderating influence of dispositional optimism. Considerable evidence exists in health psychology that optimists are more lenient in their response to “treatment.” Because it has been suggested in research on optimism that optimists are more adaptable than pessimists, we proposed that the greater leniency of optimistic customers can be replaced with greater harshness if adaptive. We evaluated first the responses of optimistic and pessimistic customers to the solutions of a replacement or a quick fix of a defective product, and found evidence to support the view that dispositional optimism fosters greater leniency. Company loyalty is higher for optimists not only for a replacement but also for the less than complete, relatively poor solution of a quick fix.

We then included in our analysis the giving of a token gift. Suggesting that because it activates persuasion knowledge, we found that a gift added to a quick fix decreases optimistic customers’ company loyalty and attitudes towards the service person. As a result, it removes their leniency relative to pessimists. A gift added to a replacement increases pessimistic customers company loyalty. These changes cause pessimists to be as positive as optimists.

**IMPLICATIONS FOR THE INDUSTRY**

Driven by urgings in the popular press, fueled by academic research, to do more by way of recovery, and constrained by their own concerns for spending too much, service providers may find themselves opting for a quick fix plus a gift as their preferred recovery strategy. Discovering that some customers respond favorably and others simply do not come back may lead them to offer larger gifts rather than identify the contingent effects of personality. Our research findings help them prevent this error. They suggest that dispositional optimism is an important contingency; a gift tagged onto a quick fix backfires with optimistic customers. To implement this suggestion service providers need a way to know which of their customers are optimistic and which are pessimistic. How can a service provider diagnose this difference?

There are questions that service personnel can ask, the answers to which could allow him or her to diagnose who is an optimistic and who is a pessimistic customer. We had classified these respondents earlier as optimists or pessimists using the life orientations test (Scheier and Carver 1985). Optimists and pessimists differed significantly in their identification with the customer’s response for the eight verbal exchanges. This suggests that there is a way for companies to separate their optimistic customers from their pessimistic customers. And, through this, prevent both the error of doing too little and too much.

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