CHAPTER 3

Literature Gaps, Research Questions and Hypotheses Development

This Chapter identifies the gap in the literature of service recovery and online complaints and frames important research questions that address the gaps. The chapter details the rationale for hypotheses formulation and presents the hypotheses.

3.1 Literature Gaps

Gap 1: Literature on justice theory discusses customers’ reaction to service recovery mostly in terms of perceived justice and its effect on attitudes and behaviors (Tax et al., 1998; McCollough Berry and Yadav, 2000; Maxham III and Netemeyer, 2002; Ambrose et al., 2007; Liao, 2007). Till date, justice perception has primarily reflected a perspective on customer’s own experience (Maxham III and Netemeyer, 2003; V´azquez-Casielles, Su´arez´Alvarez, & Diaz Martín, 2010). However, sociology theories indicate that despite having strong focus on their own experiences, others’ fairness experiences influence customer’s collective buying behavior (vanDolen, Cremer and Ruyter, 2012) and territorial behavior (Wu, Mattila and Han, 2014). Evidence of social comparison in service failure is limited to downward comparison of outcome fairness of other customers, induced by the service provider, resulting in improved behavioral intentions (Bonifield and Cole, 2008). However, the need to revise the existing models of consumer behavior in light of social comparison process has been stressed by various researchers (Collie et al., 2002; Bonifield and Cole, 2008). Therefore, it is pertinent to investigate the effectiveness of service recovery on focal customers, when they are exposed to other customers’ failure experiences.
**Gap 2:** e-WOM is a powerful marketing tool that has witnessed a plethora of studies focusing on the effectiveness of e-WOM Communication (Duan, Gu and Whinston, 2008; Kozinets et al., 2010; Khare, Labrecque and Asare, 2011). However, studies that have specifically focused on NWOM are sporadic. NWOM has been found to have negative impact on brand equity (Bambauer-Sachse and Mangold, 2011), evaluation of retailer (Chatterjee, 2001) and repurchase intention (Chatterjee, 2001). Studies have suggested that depending on the intensity of frustration associated with the service failure, customers indulge in varied levels of dysfunctional behaviors, complaining on third party websites being one of them (Tuzovic, 2010). In more extreme cases of service failures, disappointed and angry customers often resort to public outrage in the form of blogs and protest websites (Ward and Ostrom, 2006; Tripp and Gregoire, 2011). However, the process through which these online complaints on third party websites impact focal customer’s justice perception has not been examined. Therefore, it is imperative to examine how online complaints of other customers are instrumental in changing focal customer’s justice perception and subsequently their attitude and behavior towards the service provider.

**Gap 3:** The construct, “other customer perception” has gained considerable importance in Customer to Customer Interaction (CCI) literature. “Other Customers Perception” is a multidimensional construct comprising of age, gender, physical appearance, public behavior and attire (Kim and Lee, 2012). Particularly, in service context, some of these attributes are considered as cues for determining similarity between focal customer and other customer (Brocato, Voorhees and Baker, 2012). Similarity between customers in a service setting has positive effect on emotions, patronage intentions and service evaluation of the customers (Brack and Benkenstein, 2014; Wu et al., 2014). In case of service failures encountered by other
customers, focal customers who identify themselves as highly similar to other customers perceive the service quality to be poor (Wan, Chan and Su, 2011). The effect of similarity has not been restricted to observable characteristics alone, but manifested at attitudinal level as well (Byrne, 1971). Studies show that individuals are more influenced by others who share similar attitudes (Jiang et al., 2010). Service failure literature suggests that focal customer’s satisfaction with recovery is higher when he/she knows that other customer with similar service failure has been compensated equally (Morrisson and Huppertz, 2010). Therefore, role of perceived similarity of failures between focal customer and other customers in the context of online complaints would be worthwhile investigating. Since, online complaints are communicated opinions that are likely to persuade its audience, Social Judgment Theory by Sheriff, Sheriff and Negerball (1965) has been used to understand the impact of online complaints on focal customer’s perception of the service recovery. Social Judgment Theory states that in order to incorporate others’ communicated opinion into one’s own judgment, it is important that the communicated opinion is perceived to be relevant to one’s own opinion. Based on these understanding it is important to investigate the process through which similar and dissimilar service failure contexts of other customers’ online complaints affect focal customer’s justice evaluation.

Drawing from the gaps identified by the surveying the literature on service recovery, e-NWOM, online complaints and role of perceived similarity in information processing, the following research questions have been developed:

**RQ1:** To what extent does a focal customer’s justice perception change when his/her own recovery experience (satisfactory/ unsatisfactory) is compared to other customers’ service failure experiences, communicated in online complaints?
**RQ2:** Does focal customer’s change in justice perception, after being exposed to online complaints, differ across complaints in similar service failure context and dissimilar service failure context?

**Gap 4:** Impact of NWOM on customer’s attitude and trust is an established relationship in marketing literature (Ahluwalia, Burnkrant and Unnava 2000; Hajli and Khani, 2013; Hajli et al., 2014). Effect of customer’s justice perceptions on customer’s attitude and trust towards the service provider has also been validated across studies (Tax et al., 1998; Ambrose et al., 2007). Therefore, it is likely that customer’s justice perception on attitude and trust is moderated by other customers’ complaint. However, the moderation might be different for complaints where service failures context is similar to that of focal customer vis-à-vis complaints that are dissimilar. Therefore, the research question that is addressed here is:

**RQ3:** Do focal customer’s change in attitude and trust towards the service provider, after being exposed to online complaints, differ across complaints in similar service failure context and dissimilar service failure context?

**Gap 5:** Effect of justice perception on NWOM and behavioral outcomes has been documented in prior literature (Hu, Liu and Zhang, 2008; Doh, and Hwang, 2009). Literature also ascertains the mediating effect of attitude and trust in the relationship between justice perception and behavioral outcomes such as repurchase intention and NWOM (Morgan and Hunt, 1994; Johnson and Grayson, 2005; Ambrose et al., 2007). However, further empirical investigation is required to unfold the process through which online complaints affect focal customer’s behavioral intentions. Therefore, the current research examines whether focal customer’s attitude and trust mediates the interaction between focal customer’s justice perception
and other customers’ complaints on focal customer’s behavioral intentions. The research question is:

**RQ4:** Does the moderation effect of other customers’ complaints on the relationship between focal customer’s justice perception and behavioral intentions, mediated by focal customer’s change in attitude and trust?

### 3.2 Hypotheses Development

According to Fairness Heuristic Theory (Van den Bos *et al.* 1998), in the absence of information about other people’s outcome, information about procedural fairness is weighed higher than own outcome fairness. However, when information about others’ outcome fairness is available, it is easier for individuals to shape impression of overall justice by virtue of outcomes received by others rather than their own procedural information. Under this assumption, it is possible that justice perceptions of focal customers, formed as an outcome of the service recovery encounter, is likely to change when they have the information of other customer’s service outcomes. However, the extent to which other customers’ experience would influence focal customer’s overall justice perception would depend upon the relevance of the failure contexts of focal customer and other customer. For an effective comparison of service failure and recovery experiences between self and others, it is necessary that the objects of comparisons are least different in terms of background and context (Festinger, 1954). Hence, it is predicted that information of other customers’ service outcomes would alter overall justice perception of focal customer, depending on the perceived similarity of the service failure context of focal customer and other customers.
Based on the understanding of the theories discussed above, the following hypotheses are formulated:

**H1a:** When service failure contexts of focal customer and other customers are perceived to be dissimilar, change in justice perception of focal customers with satisfactory recovery is equal to change in justice perception of focal customer with unsatisfactory recovery.

**H1b:** When service failure contexts of focal customer and other customers are perceived to be similar, change in justice perception of focal customer with satisfactory recovery is greater than change in justice perception of focal customer with unsatisfactory recovery.

**H1c:** When focal customer’s service recovery experience is satisfactory, change in justice perception of focal customer in similar service failure context is greater than change in justice perception in dissimilar service failure context.

**H1d:** When focal customer’s service recovery experience is unsatisfactory, change in justice perception of focal customer in similar service failure context is equal to change in justice perception in dissimilar service failure context.

Justice perception formed as a result of service recovery experience predicts overall attitude of the customers towards the organization (Ambrose et al., 2007). Social Influence Theory by Sridhar and Srnivasan (2012) advocates that individuals tend to conform to others’ attitude and behavior in a social group. Studies on the role of information on customer attitudes suggest that favorable information enhances attitudinal favorability whereas, unfavorable information decreases attitudinal favorability (Kardes, 1994). Therefore, it is predicted that attitude that has been formed as an outcome of perceived justice would change when judged in presence of other customers’ opinions. According to Social Judgment Theory (Sheriff et al.,
1965) people’s prior attitude is distorted by the others’ opinion, presented in persuasive messages. The theory states that one’s own attitude is the judgmental standard, against which the advocated (communicated) opinion in the persuasive message is being placed on a continuum. Communicated opinion that falls within latitude of acceptance of the continuum is assimilated, and if judged to be unbiased and fair will result in change in attitude. Within the limits of latitude of acceptance, greater the difference between initial opinion and communicated opinion, greater is the attitude change. On the contrary, communicated opinion that falls within latitude of rejection, greater the discrepancy between initial opinion and communicated opinion, less is the attitude change. Further, Social Comparison Theory (Festinger, 1954) suggest that an important condition for comparing one’s opinion to others’ is minimum perceived difference between self and other in terms of background or group. Customer to customer interaction literature advocates similarity between focal customer and other customer as a pertinent predictor of focal customer’s service evaluation (Wan, Chan and Su, 2011; Brocato et al., 2012).

Based on the understanding of similarity effects (Byrne, 1971; Brocato et al., 2012; Brack and Benkenstein, 2014), other customers’ complaint in similar service failures contexts are likely to be perceived more relevant for comparison than complaints that report failures in dissimilar context. Attitude of focal customer, with low justice perception, would be re-established by the opinions conveyed in the complaints in similar context, resulting in lower final attitude than focal customer with high justice perception. However, drawing from Theory of Negativity Bias (Cialdini, 1993), if focal customer’s justice perception is high and he/she is exposed to other customers ‘complaints, it would induce a negativity bias that would be more pronounced in similar context than in dissimilar context. In similar context, focal customer would weigh the negative opinions of other customers more heavily than their own satisfactory
recovery experience. Thus, final attitude would be lower in focal customers who are exposed to similar failures than those who are exposed to dissimilar failures. Therefore, the following hypotheses regarding the effect of other customers’ complaints on focal customer’s attitude are formulated:

**H2a:** When service failure contexts of focal customer and other customers are perceived to be dissimilar, final attitude of focal customer with low justice perception will be equal to final attitude of focal customer with high justice perception.

**H2b:** When service failure contexts of focal customer and other customers are perceived to be similar, final attitude of focal customer with low justice perception is lower than final attitude of focal customer with high justice perception.

**H2c:** When justice perception of focal customer is high, focal customer with similar service failure contexts to other customers will have lower final attitude than focal customer with dissimilar service failure contexts.

**H2d:** When justice perception of focal customer is low, focal customer with similar service failure contexts to other customers will have lower final attitude than focal customer with dissimilar service failure contexts.

Further, complaints about similar failures, due to greater relevance fall within latitude of acceptance. Therefore, if these complaints advocate an opinion that is different from focal customer’s own opinion, the change in attitude would be greater than if the complaints are analogous to focal customer’s own opinion. Concurrently, complaints about dissimilar failure context would fall in the latitude of rejection and hence would not be instrumental in changing
the attitude of focal customer. Based on the above understanding the following hypotheses are formulated:

**H3a:** When service failure contexts of focal customer and other customers are perceived to be dissimilar, change in attitude of focal customers with high justice perception is similar to change in attitude of focal customer with low justice perception.

**H3b:** When service failure contexts of focal customer and other customers are perceived to be similar, change in attitude of focal customer with high justice perception is greater than change in attitude of focal customer with low justice perception.

**H3c:** When focal customer’s justice perception is high, change in attitude of focal customer in similar service failure context is similar to change in attitude in dissimilar service failure context.

**H3d:** When focal customer’s justice perception is low, change in attitude of focal customer in similar service failure context is greater than change in attitude in dissimilar service failure context.

Justice perception is an important determinant of trust towards the service provider (Tax *et al.*, 1998; Ambrose *et al.*, 2007). It has been argued that trust is an affective attitude which is more fundamental in nature than overall attitude and hence once formed, more resistant to subsequent evidences (Jones, 1996). Therefore, it is likely that focal customer’s trust would be elicited differently from overall attitude, while evaluating the service in the presence of other customer’s complaints. While attitude formation is proposed to be predominantly determined by social comparisons, trust is believed to be “willfully adopted in the teeth of evidence, once adopted they serve as a filter for how future evidence will be interpreted”, (Jones, 1996, pp. 16). When focal customer’s own recovery experience leads to high justice perception, it restores the
trust in service provider. Customer’s own favorable experience dominates trust evaluation even if subsequent evidences are against the initial opinion. Further, literature suggests that perceived attitudinal similarity affects trust positively (Johnson and Grayson, 2005), as similarity helps individuals to confirm their understanding of the environment (Byrne, 1971). Hence, it is predicted that level of trust in focal customer, who have high justice perception would continue to buffer the negative impact of similar and dissimilar complaints. However, if focal customer’s justice perception is low, subsequent evidences of similar failures would further lower their level of trust than evidences of dissimilar failures. Therefore, the hypotheses propose that,

H4a: When service failure contexts of focal customer and other customers are perceived to be dissimilar, final trust of focal customer with high justice perception is greater than final trust of focal customer with low justice perception.

H4b: When service failure contexts of focal customer and other customers are perceived to be similar, final trust of focal customer with high justice perception is greater than final trust of focal customer with low justice perception.

H4c: When justice perception of focal customer is high, focal customer with similar service failure contexts to other customers will have equal final trust as focal customer with dissimilar service failure contexts.

H4d: When justice perception of focal customer is low, focal customer in similar service failure contexts to other customers will have lower final trust than focal customer with dissimilar service failure contexts.

Considering trust as an affective attitude, it is predicted that the extent to which focal customer’s trust changes on being aware of other customers’ online complaints would reinstate
focal customer’s level of trust evoked by their own experience. Hence, there would be minimal change in focal customers’ level of trust on exposure to other customer’s similar or dissimilar failure experiences. Trust would be predominantly governed by focal customer’s own experience with the service provider. Thus the hypotheses posit that:

**H5a:** When service failure contexts of focal customer and other customers are perceived to be dissimilar, change in trust of focal customer with high justice perception is equal to change in attitude of focal customer with low justice perception

**H5b:** When service failure contexts of focal customer and other customers are perceived to be similar, change in trust of focal customer with high justice perception is equal to change in attitude of focal customer with low justice perception.

**H5c:** When focal customer’s justice perception is high, change in attitude of focal customer in similar service failure context is equal to change in attitude in dissimilar service failure context.

**H5d:** When focal customer’s justice perception is low, change in attitude of focal customer in similar service failure context is equal to change in attitude in dissimilar service failure context.

Ambrose et al., (2007) suggested that justice perceptions of a service recovery episode not only impacts event-related attitude such as satisfaction with complaint handling but also overall attitude of customers. The authors suggested that event-related attitude mediates the impact of justice perception on overall attitude of the customer. Underpinning the role of information on attitude, Ahluwalia et al., (2000), suggested that negative information degrades customer’s attitude, but the degree of attitude change exhibited by the customers depends on their commitment towards the organization. Post recovery dissatisfaction leads to negative behavioral outcomes such as negative WOM (Kim, Wang and Mattila, 2010), but favorable
justice perception about the recovery increases positive WOM (Davidow, 2003). Therefore, it is predicted that focal customer’s attitude would mediate the interaction of focal customer’s justice perception and other customers’ complaints, and focal customer’s behavioral intentions such as repurchase intention and NWOM. The hypotheses are formulated as:

**H6a**: The interaction of focal customer’s justice perception and perceived similarity with other customers’ service failure context on focal customer’s repurchase intention is mediated through final attitude of focal customer.

**H6b**: The interaction of focal customer’s justice perception and perceived similarity with other customers’ service failure context on focal customer’s NWOM is mediated through final attitude of focal customer.

**H7a**: The interaction of focal customer’s justice perception and perceived similarity with other customers’ service failure context on focal customer’s repurchase intention is mediated through change in attitude of focal customer.

**H7b**: The interaction of focal customer’s justice perception and perceived similarity with other customers’ service failure context on focal customer’s NWOM is mediated through change in attitude of focal customer.

Tax *et al.*, (1998) suggested that customers’ satisfaction with complaint handling determines the level of trust towards the service provider. Further, trust is considered as an important relationship variable that protects customer from the negative effects of high severe service failures (Sajtos *et al.*, 2010), and determines future purchase intention (Johnson and Grayson, 2005). Commitment-trust theory of relationship marketing suggests that trust is a key mediating variable between relationship constructs and behavioral outcomes (Morgan and Hunt,
Therefore it is predicted that final trust would mediate the relationship between interaction of focal customer’s justice perception and other customers’ complaints, and focal customer’s behavioral intentions. Hence, the hypotheses proposed are:

**H8a:** The effect of interaction of focal customer’s justice perception and perceived similarity with other customers’ service failure context on focal customer’s repurchase intention is mediated through final trust of focal customer.

**H8b:** The effect of interaction of focal customer’s justice perception and perceived similarity with other customers’ service failure context on focal customer’s NWOM is mediated through final trust of focal customer.

Methodology used to collect the data and analyses conducted to test the hypothesized relationships are discussed in subsequent Chapters.