Why bank customers dissatisfied with service recovery remain loyal:

An Affect Control Theory approach

by

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Abstract

An empirical study of bank customers, who complained about service and who were more or less dis/satisfied with service recovery, was undertaken. Based on the *Affect Control Theory* (ACT), the mediating effects of emotions between dis/satisfaction with recovery and exit/loyalty, were tested. In addition we tested the moderating effects of switching costs. Most hypotheses were supported. In particular, while anger was shown to be the main mediator leading to exit, the effects of anger could be significantly reduced if switching costs were high, meaning paradoxically that service customers could be both "loyal" and angry. Managerial implications are proposed.

Introduction

An important aspect of dis/satisfaction with services providers is related to services recovery. In particular, failed service recoveries are a major source of switching (Smith & Bolton, 2002). When customers complain and do not get an adequate response from service providers, what are their cognitive, emotional and behavioral responses?

Even though adequate service recovery is an important aspect of keeping the customers loyal (e.g., Levesque & McDougall, 2000; Tax & Brown, 1998) and in some cases even more loyal than the customers who had not experienced service failure (e.g., Mattila, 2001), this question has not received as much attention as service failure itself.

In the existing literature, the consequences of dis/satisfaction are assessed in terms of disconfirmation theory, that is, mostly in terms of cognitive assessment of the cognitive discrepancy between what was expected and what was received (e.g., deRuyter, Bloemer & Peters, 1997). However, when customers are dissatisfied, they also generate emotions (e.g., Chebat and Slusarczyk, 2005), such as anger (Bougie, Pieters & Zeelenberg, 2003).

The first basic tenet of our model, based upon *Affect Control Theory* and developed below, is that emotions mediate the effects of dis/satisfaction on exit/loyalty. The second tenet of our model is related to the moderating effects of switching costs on the relations between the three basic concepts, i.e., dis/satisfaction with service recovery, emotions and exit/loyalty. Switching costs could be so high that dissatisfied customers may stay with the service provider. This paradoxical behavior is all the more important to study since it is a very common aspect of services marketing (Ranaweera & Prabhu, 2003).

In this paper, we report the empirical findings of a study related to actual customers who complained to their banks for service failure and were more or less satisfied with the service recovery they were offered. In the following sections, we elaborate a theoretical model of the effects of dis/satisfaction specifically with service recovery. The main elements of the model are borrowed from a well established psychological model, the *Affect Control Theory*, developed below. First we explain why the usual disconfirmation theory is inappropriate in the specific case of dis/satisfaction with service recovery; then we develop the ACT-based tenets of our model, to which we added the moderating effects of switching costs.

Affect Control Theory

Affect Control Theory (ACT) predicts that people act in such a way that the impressions generated by events confirm their sentiments. (Heise, 1979, 1989a, b; MacKinnon, 1994). Contrary to disconfirmation theory, which suggests that consumers react to a cognitive evaluation (i.e., the discrepancy between expected and real service), individuals are not assumed to calculate dis/satisfaction with service recovery (Scher and Heise, 1993); they rather experience dis/satisfaction-related emotions and react to their emotions. Individuals are assumed by ACT to behave in such a way that they create events that confirm the sentiments about themselves and others in the current situation. For instance, consumers, who have not been offered a satisfactory service recovery may quit the company in order to maintain their sentiments about themselves; conversely, should they have to stay, their self image would be negatively affected.

Emotions “reflect how the meaning of the self fares in encounters with others” (Parkinson, 1996, p. 673) and consequently help customers cope with stressing situations, such as that of complaints, where they have to face service employees, and assess their relative status and power (Kemper, 1978 and Kemper, 1981). Consumers’ choice between loyalty and exit stems from the sentiment attached to their own identity, i.e., consumers stay loyal after a service failure as long as his/her self-identity is not affected by the service recovery proposed by the service provider.

ACT first stipulates that emotions guide behaviours: in the context of service failure. For instance, if consumers are proposed an unsatisfactory service recovery, they may express emotions (e.g., frustration), which would shape future behavior. Individuals unable to express the appropriate emotions are assumed to change their perception of the situation. On the occasion of a birthday party, in a restaurant, where consumers dissatisfied with the waiter’s response to their complaints about a cold steak, may refrain from expressing their anger in order not to spoil the atmosphere. More generally, consumers who fear the negative consequences of expressing their feelings (e.g., anger) are expected to downplay the importance of the unsatisfactory service recovery. Consequently, emotions are hypothesized to mediate the relationship between dis/satisfaction with service recovery and exit/loyalty.

However, ACT does not take into account economic constraints. Consumers may well be dissatisfied, feel and even express emotions that should eventually lead them to quit the services provider, but still remain “loyal”. In order to understand this paradoxical and frequent behavior, we introduce the concept of switching costs into our model.

The Effects of Switching Costs on Dissatisfied Customers

Switching to a competitor involves effort, time and money, which constrains the consumers to remain "loyal". Switching costs (SC) may be perceived or real. They constitute barriers which prevent customers from moving from a competitor to the next. Switching costs are regarded as a powerful marketing tool meant to constrain consumers' behavior (e.g., Klemperer 1995), in the sense that they induce repeat purchase (Weiss and Heide 1993). Since SC enhance price inelasticity, they have been considered as a tool to generate profits (Farrell and Shapiro 1988). These effects have made them a popular strategy among marketing managers.

We expect switching costs to play a key moderating role on the three relations between satisfaction, emotions and exit/loyalty. First, if SC are so high that consumers cannot quit, consumers' emotions may guide their behavior in the following way: they may try to lower their discontent in order not to lower their self-image (H1').

Second, the effects of negative emotions on exit can be reduced or even cancelled if the SC are high enough (H2'). Negative emotions that would lead to exit the corporation could be reduced in intensity or changed in nature (e.g., from anger to resignation) in such a way that dissatisfied customers would stay, in the presence of high switching barriers.

Third, we expect switching costs to moderate the dis/satisfaction-exit relationship (H3'): dissatisfied consumers stay with the service provider if the SC are high enough (Gronhaug and Gilly, 1991; Ping ,1993), which reflects the basic concept of switching costs. The integrative model includes the moderating effects of SC on the three relations between satisfaction, emotions and exit/loyalty. It is shown on figure 1.

Figure 2 about here

Method

Retail banking was chosen as sector of this study, because banks are among the most vulnerable to service failure (e.g., MORI, 1994). This sector is ranked the third in terms of frequency of complaints (Tax , Brown & Chandrashekaran, 1998). More importantly in this study, banks customers consider the service recovery as the most important factor of global satisfaction (Hall, 1997).

Whereas most service recovery studies were laboratory investigations (e.g., Blodgett, et al., 1997; de Ruyter & Wetzels, 2000; Goodwin & Ross, 1992; Kelley & Davis, 1994), ours is a field study where actual behavior (loyalty-vs.-exit) is the dependent variable. The respondents were actual consumers of a major Canadian bank and had previously complained for problems that occurred within the past twelve months. The bank records indicated who had remained loyal and who had left the bank. The sample was designed in such a way that about half the respondents had remained loyal and the other half had left the bank.

Data collection and sample

Data were collected through a phone survey using a computer-assisted telephone interviewing system. Experienced interviewers of a professional marketing research company conducted interviews. Interviews lasted in average 15 minutes. 186 customers (out of some 600 whose telephone numbers were provided by the bank and who actually complained to the bank in the last 12 months) responded fully to the entire research questionnaire. 66% of the respondents were males. Most of them (79 %) were college or university graduates; 62% of them were between 24 and 44 years old. In average, they had remained customers of the bank for nine years.

Measures

Dis/satisfaction with recovery was measured with a four-item scale borrowed from Tax, Brown and Chandrashekaran, (1998), the Cronbach's alpha of which proved to be very satisfactory (.87). The factor scores of the single factor on which the four items loaded (explained variance= 73%) were used as an independent variable in further analyses.

Emotions were measured with a scale borrowed from Plutchik (1980). Preliminary internal validity analysis showed that some items, related to positive emotions (such as "joy") had to be deleted, in order to reach a reasonably high Cronbach's alpha (.70). A principal component factor analysis showed three factors (76% of the variance explained): surprise and anxiety (called "anxiety"), sadness and resignation (called "resignation") and anger and disgust (called "anger"). All factor loadings were superior to .76. The three factor scores were used in further analyses.

Exit-Loyalty as the dependent variable: As proposed by Van Matre, Overstreet Jr. and Swan (1986) and Stewart (1998), in the retail banking context exit is the action of closing or transferring main account by the customer. Our measure of exit is based on observed customer actual behavior. One hundred had remained customers of the bank while eighty-six had left.

Switching costs: The scale we used to measure the switching costs was designed and validated by Jones, Mothersbaugh and Beatty (2000). The global Cronbach's alpha for the whole set of items was high (.82), which justified to summate the items scores in order to form a single score of switching costs.

Findings

Hypotheses related to the mediating effects of emotions

The mediating effects of emotion were tested through the following four steps, corresponding to the next four hypotheses.

H1: dis/satisfaction with service recovery affects significantly the emotions, as shown by a canonical regression (Wilk's Lamba= 1.504;Chi-SQ=87.44; df=3.00;p<0001; r=.704). The three emotions are significantly impacted by dis/ satisfaction. However, anger is the emotion triggered *more* by dis/satisfaction(canonical loading=.923; r= .65), than resignation (canonical loading=.50; r=.35) and anxiety (canonical loading=.248; r=.175). H1 is supported.

H2: A logistic regression shows that the three emotions affect significantly the decision to quit (vs to stay with) the bank: Nagelkerke r^2=. 19 (p<.001); 76% of the respondents are classified correctly. However *only* anger had significantly effects on the dependent variable (beta= .800; p<.001). H2 is supported.

H3: A logistic regression shows that dis/satisfaction also significantly affects the decision to quit (vs-to stay with) the bank: Nagelkerke r^2=. 18 (p<.001); 74% of the respondents are classified correctly (beta=-.869; p<.001). H3 is supported.

H4**:** In order to test the *mediating* effects of emotions between dis/satisfaction and exit/loyalty, a logistic regression similar to that of H3 was used, except that the emotions were added as independent variables, which significantly reduced the effects of dis/satisfaction on exit/loyalty: beta(satisfaction)=1.553 (p=.089). Recall that the effects of dis/satisfaction, without the emotions as independent variables, were significant (beta(satisfaction)= -.869 ; p<.001), as shown above in H3. This significant reduction of the effects of satisfaction on the dependent variable qualifies the emotions as a full mediator in Baron and Kenny's typology (1986). Note that these mediating effects of emotions are mostly attributable to anger (beta=.498; p=.010), since the other two emotions have no significant effects on the dependent variables (p>.37). H4 is supported.

Hypotheses related to the moderating effects of the switching costs

The next three hypotheses are related to the moderating effects of SC on the three relations between dis/satisfaction, emotions and exit/loyalty.

H1': This hypothesis is related to the moderating effects of switching costs on the relation between dis/satisfaction and emotions. A canonical regression shows that the interactive effects of satisfaction by switching costs have *no* significant effects on the dependent variables (r=.239; Wilk's Lamba=.936; Chi-SQ=7,999; df =4; p=.092).

Switching costs cannot be regarded as a moderator on the satisfaction-emotion relationship, in the sense of Baron and Kenny (1986). H1' is rejected.

H2': This hypothesis is related to the moderating effects of switching costs on the relation between emotions and exit (vs-loyalty). A logistic regression was performed. The Nagelkerke r^2=. 200 ($p<.001$); 75% of the respondents are classified correctly. Only anger and switching costs (beta= -.18; $p<.001$) had significant interactive effects: high switching costs reduce significantly the effects of anger. This qualifies switching costs as a moderator between anger and exit/loyalty, since anger has already been shown to affect the dependent variable (H2). H2' is supported.

H3': This hypothesis is related to the moderating effects of the switching costs on the relation between dis/satisfaction and exit/loyalty. A logistic regression shows that the three independent variables (i.e., SC, dis/satisfaction and the product of these two variables) significantly impact the dependent variables. The Nagelkerke r^2 = was significant (r^2 =.280 ;$p<.001$); 81% of respondents as classified correctly. The betas for the independent variables are the following: beta (satisfaction)= 4.573, p=.011); beta (switching costs)= -.076, p=.004); beta (satisfaction x switching costs)= -.065, p=.034). These findings qualify the switching costs as a *quasi*-moderator, in Baron and Kenny's typology of moderators (1986), since switching costs have direct effects on the dependent variable H3' is partially supported.

Discussion

Methodological approach

Unlike many studies that have used experimental scenarios, our respondents were actual customers who had to deal with actual service failure and recovery, which enhances the external validity of our results. In this study, our respondents reacted to actual service failures, not to scenarios related to fictional incidents. In laboratory studies, the behavioral intent is measured, not the actual behavior, whereas the relation between behavior and behavioral intent is inflated by a phenomenon called "self-generated validity." (Chandon et al., 2005). In addition, in lab studies, the moderating effects of switching costs are not easy to assess for the respondents who can hardly envision the real life effects of monetary, efforts and time switching costs. McCollough et al. (2000) suggested that a survey approach should be used in future research related to service failure, even if they used themselves a scenario approach.

Contribution from ACT: the mediating effects of emotions

Our study focuses on the following paradoxical behavior: customers who were first dissatisfied with the regular service and who were also dissatisfied with the service recovery may remain loyal to the service provider. We drew from ACT the hypothesis that the relation between satisfaction with service recovery and exit/loyalty was mediated by emotions. We added to ACT the hypothesis of the moderating effects of switching costs.

The ACT-based mediating hypothesis was supported. Emotions mediate the relation between satisfaction and exit/loyalty. More specifically, only anger mediate the relation, since the other two emotions (i.e., resignation and anxiety) have no significant effects of the decision to quit or to stay. This finding confirms what was found previously in a laboratory study on service encounter by Bougie, Pieters and Zeelenberg (2003), i.e., "anger is a full mediator of the effect of service encounter dissatisfaction on negative WOM and complaint behavior and a partial mediator of the effect of service encounter dissatisfaction on switching"(p.390).

Since anger plays a role different from the other types of emotions, it has to be considered carefully from both a theoretical and a managerial viewpoint. Anger is the emotion most loaded with energy; it stimulates and biases cognitive processes. Anger is then more likely to deeply imprint the long term memory of dissatisfied consumers, who will store the services quality cues in their long term memory. Due to the high level of arousal in angry customers, the information filed in long term memory and related to service failures will be retrieved all the easier if a situation similar occurs again (Chebat, 2002).

Moderating effects of switching costs

The moderating effects of switching costs on the three relationships between dissatisfaction, emotions and exit/loyalty, were also tested. First, switching costs do *not* moderate the relation between dis/satisfaction and emotions. In other words, whatever the marketing strategy of the service provider to keep its customers loyal with switching costs, switching costs do *not* reduce the negative emotions of customers dissatisfied with the service recovery. Customers within the switching barriers and those outside share the same feelings toward the corporation: anger may run as high on both sides of the barriers.

Second, the effects of emotions on exit/loyalty are moderated by switching costs. Anger is the only emotion which has significant effects on exit/loyalty and it's also the only emotion whose effects on exit/loyalty are moderated by switching costs. This means that switching costs maintain angry customers “loyal”.

However, these customers are very likely to air their feelings outside the regular channels of communication with the services corporation, i.e., mostly through word of mouth. ACT explains why the negative word of mouth is a likely behavior for customers who are both angry and “loyal”. ACT assumes that emotions guide behaviors. In particular, anger is a powerful driver of exit behavior. Another ACT basic tenet is that individuals create events that confirm their emotions. Then, customers who quit the company wish to maintain their emotions, i.e., anger. If anger cannot turn into exit behavior, because of too high switching costs, ACT predicts that consumers would act in such a way that would not affect their identity: consumers forced to stay within the switching barriers feel that their self-image was negatively impacted by their undesired “loyalty”. It's then very likely that customers unable to behave according to their negative sentiments, may try other behaviors that would be in conformity with the conservation of their self-identity, i.e., through negative word of mouth. This would damage the corporation credibility all the more since the negative word of mouth would come from actual customers who are credible sources for potential customers searching for credence information.

The third relationship moderated by switching costs is that between dis/satisfaction and exit/loyalty. Switching costs are shown to be quasi-moderator. First, as expected, switching costs significantly reduce the effects of dissatisfaction on exit, which is the very essence of the concept of switching costs. Second, switching costs also *directly* affect exit/loyalty, which was not expected. Switching costs are a deterrent of quitting behavior, since they directly enhance loyalty. This finding replicates that of Aydin, Özer and Arasil (2005), who found that "switching cost factor *directly* affects loyalty" (our emphasis). They are a "sacrifice" (in the anthropological sense of it) that customers have paid in recognition of their long term loyalty. The higher the switching costs accepted by customers, the higher the likelihood that they accept not to quit the company both in good and bad times. Customers who accept high SC seem to be accepting also to remain loyal. Since the analogy of marital relations have often be used in the services marketing literature, we may suggest the following metaphor: customers accept assume high switching costs, just as a fiancé shows his will of future loyalty by offering an expensive to the bride-to-be. In this sense, if customers are aware of the switching costs inherent to the relation with the service provider, they may be a good predictor and a good driver of loyalty.

Contact employees

Contact employees are usually not trained to face angry customers. Since, as shown in the present study, emotions shape customers behavior, contact employees have to demonstrate their ability of emotional labor, in particular, not to react to angry customers in an angry way. *Before* taking care of the material issue which caused the complain, service providers should be well advised to cool down angry customers. Even if they remain “loyal”, due to high switching barriers, customers can in many ways hurt the corporation, e.g., through negative word of mouth. We believe that high switching costs strategies can mostly worsen the situation. On the one hand, such strategies can enhance the cash flow of customers kept prisoners. On the other hand, these customers negative word of mouth about the corporation may severely damage its brand equity.

Limitations

The present study is limited to a single service sector, the banking industry. Our findings may not be generalized to other services where the level of involvement is lower and where, consequently, emotions’ intensity is not as high. Similarly, our findings may be not applicable to service sectors where the switching barriers are not as high either, which would necessarily reduce their moderating effects. We then suggest that similar studies be undertaken in other service sectors, such as retailing or magazine subscription.

Managerial Implications

Front line employees have to be trained to face angry customers and manage their hard feelings. In fact, they are rarely trained for these encounters. The front line employees have then a heavy responsibility, namely that of changing the mood of the customers so that they can listen to a possible solution to their dissatisfaction. In addition to being appropriately trained, employees have to be empowered, so that the solutions they propose to the angry customers may be implemented rapidly to lower the level of anger.

As already mentioned, switching costs have been considered as an efficient managerial tool to enhance consumers' loyalty, reduce price elasticity and increase profitability. We oppose the view that SC are an appropriate marketing tool. The main managerial conclusion from our study is that angry customers are kept prisoners. The inevitable consequence of this situation is the negative word-of-mouth behavior, which affects the brand equity in the long run, through the powerful effects of the dissatisfied customers' credibility in their natural milieu. We suggest also that keeping customers within the firm through SC is the opposite of what is expected from a market-driven society, where "laissez-faire" and "laissez-passer" rules apply not only to merchandise and corporations, but also to customers entitled to move freely from competitors to competitors.

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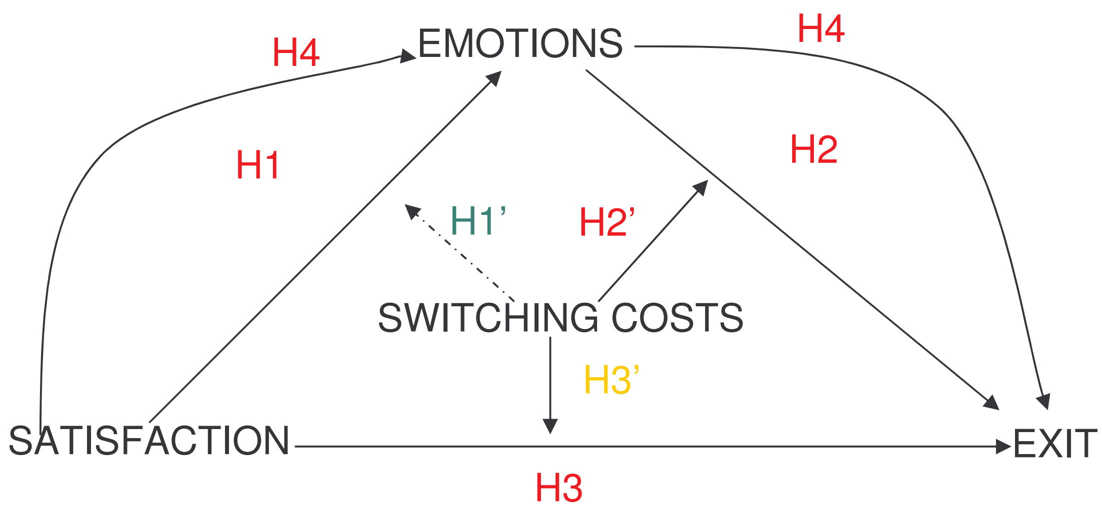

Figure 1: The Moderating Effects of Switching Costs on the Relations between Satisfaction, Emotions and Exit/Loyalty.