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Not responding to customers on social media - the right thing to do?

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Abstract

Problem   Service failure recovery has been researched for several years, with research on social media starting to surface. However, surprisingly little attention has been paid to a significantly larger group than customers: the observers of complaints on social media. Further, social media provides companies with new service recovery options and companies can now choose to reply in a vague and unhelpful manner or choose not to reply at all. Therefore, this thesis investigates the impact unhelpful service recovery versus no reply has on observers perceived fairness and purchase intentions. We also consider complaint severity and failure locus as moderators to the relationship.

Purpose   The purpose of this thesis is to study the effect unhelpful service recovery versus no reply has on observers purchase intentions, while moderated by failure severity and locus, and mediated by perceived fairness.

Research Design   This thesis uses a scenario-based experiment with a between-subjects design to answer the problem statement. The study takes a 2 (mere apology, no reply) X 2 (severity: high, low) X 2 (locus: company, external) design.

Findings   Not replying is proven to be better in terms of observers' perceived fairness and observers purchase intentions in all considered scenarios. Failure severity and locus is also found to have a direct effect on observers perceived fairness and an indirect effect on observers purchase intentions via perceived fairness.

Keywords   Service recovery, social media, observers, unhelpful service recovery, failure severity, failure locus, perceived fairness

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1. Introduction

From 2005 to 2015, social media usage amongst American adults rose from 7% to 65% (Perrin, 2015). Social media usage continues to increase, and people already spend more time on social media than any other online activity (Schneider, 2014). The media landscape has experienced a huge transformation over the past decade and social media channels have become important tools for companies' communication activities. Social media channels, such as social networks and microblogs, are also increasingly used by consumers as a source of company information. In addition, social media is used by consumers to post complaints to companies and as platforms to seek service recovery (Schaefers & Schamari, 2016).

Companies have been facing an increasing customer service pressure over the years, which does not appear to lessen any time soon. Customer expectations for customer service are changing due to the rise of social media and online reviews (Bear, 2017). When a service failure occurs, companies have the potential to either restore the customer relationship or to aggravate the customer further (Smith, Bolton & Wagner, 1999). Service recovery refers to the actions companies takes after a service failure (Gronroos, 1988), and it is well known within the literature that unsuccessful service recovery leads to lower customer satisfaction, lower perceived quality of service provider and lower purchase intentions than successful recovery (Berry & Parasuraman, 1991; Boshoff, 1997; Hoffman et al., 1995; etc.). However, unsuccessful service recovery indicate that the company made an effort to provide recovery for the customer but failed to succeed. With the rise of social media, we see that many companies are not making an effort in recovering the customers. Companies online often ignore customer complaints or respond in a vague and unhelpful manner. Thus, we will refer to it as *unhelpful* service recovery.

Previous research has shown that taking steps after a failure is crucial, as the customer tend to be more emotionally involved in the company's service recovery attempts than the actual service failure itself (Berry & Parasuraman, 1991). However, on social media companies frequently ignore customer complaints or reply in a vague and unhelpful manner. Not replying to customers is a new option that has surfaced with the rise of social media. In a traditional service recovery

setting, it would be impossible to ignore a customer, as that would require hanging up the phone after hearing a complaint or simply walking away from the customer in store. In the past, dissatisfied customers only complained to service reps via phone or email, whereas now they are taking to Facebook, Twitter and Yelp to air their complaints to the entire world. For example, 67% of consumers have reported that they used a company's social media site for services, and 14% of all tweets sent to major retail brands are from customers experiencing problems (Schneider, 2014). Although many blogs and online sources are stating that companies should always respond to the customers online no matter what (Salesforce, 2017, Social Media Examiner, 2015, Adweek, 2017, etc.), this claim has not been academically proven and might be a misleading advice. Always replying is indicating that a vague and unhelpful reply is better than none, which may be incorrect as all customer complaints vary in terms of severity and failure locus. We will focus on this issue by studying the difference between two types of bad service recovery; unhelpful recovery and no reply.

The rapid growth of social media usage has also impacted marketers' control of brand management. Consumers are able to share their opinions with thousands of other consumers' around the world, making the company no longer the only source of brand communication (Bruhn et al., 2012). Thus, social media has become an important element in the promotion mix. In a traditional sense it enables companies to talk to their customers, while in a non-traditional sense it makes it possible for customers to talk to each other. The content and frequency of the conversations from consumers are outside the company's control. This is in contrast to traditional integrated marketing communications where companies are in complete control of the communication (Mangold & Faulds, 2009). Customers increasingly use social media to complain to companies through social media, which makes both the complaint and the response from the company visible to both existing customers and potential new customers.

Online customer complaints show observers how the company handles complaints from customers and is also a reflection of how much the company values its customers (Cho et al., 2002). Observers are virtually present at the social media site, either as a follower of the company or searching for information. The difference between observers and complainer is that the observing audience will

have a more objective opinion on the service recovery attempts, as they are not personally affected by the actions. Customers these days hardly make a purchase without reading the reviews of other customers online (Chu & Kim, 2011). Therefore, a complaint posted on a company's social media site opens an opportunity for the company to both improve the complaining customer satisfaction through service recovery, and potentially change the purchase intention of the observing audience.

Although research on service recovery and complaint management via social media has started to surface, this is only considering the complaining customer and their outcome of the service recovery attempt. Research on observers is still scarce even though this is a substantially larger group than the customers alone. Current academic literature also focusses on successful versus unsuccessful service recovery, thus ignoring the new options of unhelpful recovery and no reply that companies face on social media. Our research is unique as it both focuses on observers and their reactions to unhelpful service recovery and no reply. Our aim is to test if the myth saying that always replying is the best option in terms of observers purchase intentions is correct.

When considering the impact service recovery has on observers, we propose that failure severity and failure locus will have a moderating effect on the relationship between company response and observers purchase intentions. From traditional service recovery literature, we can see that failure locus and severity moderate the reactions from customers after a service failure. Service failure severity is how serious the problem is perceived to be, either by the customer or in our case the observers. Failure locus on the other hand revolves around who is to blame for the failure, either being customer-caused, company-caused and externally-caused (Folkes, 1984). Therefore, we expect these variables to moderate observer outcomes as well. We also propose that the observers perceived fairness of the complaint dialog will impact observers future purchase intentions through mediation the relationship between unhelpful service recovery.

1.1. Purpose of study

Although several studies target service recovery's impact on perceived fairness and purchase intentions, extant literature with the aspect of social media is limited. Social media gives two new areas that needs to be considered in terms of service recovery; these being *unhelpful service recovery* versus *no reply* via social media and the impact online service recovery has on the *observing audience*. We therefore find it necessary to extend the current service recovery literature and investigate these two new areas. Based on this, our study has three specific objectives. First, we aim to extend the current literature by including observers, and to study the impact service recovery online have on the observers purchase intentions. Secondly, we examine the difference of a mere apology compared to not replying, which seeks to differentiate the two types of bad recovery frequently seen on social media. Finally, by drawing on and extending existing literature on service failure severity and locus, we seek to test if the prior validated offline theory is applicable in an online context, when considering observers instead of customers and when focusing on unhelpful service recovery.

Besides being a theoretical contribution, we expect this extended knowledge to be useful for managers and practitioners when considering their customer service on social media. From the many blog articles that have surfaced on the topic, it is clear that it is of high importance for practitioners to understand the mechanics of service recovery via social media. This study will help practitioners in setting their social media strategies and will be of especial importance to those that do not have time or resources to always provide successful service recovery. This study enables a better understanding of unhelpful service recovery and we seek to establish guidelines for when not replying could be a better option than providing an unhelpful service recovery.

1.2. Overall problem statement and research questions

With the extended usage of social media as platforms to complain and seek service recovery, we find it necessary to investigate the impact of service recovery on the observing audience. Additionally, we see a need to further extend current literature

by focusing on bad service recovery, as it has by now been well established that good recovery is better than bad (Boshoff, 1997), and because social media has given companies new options; unhelpful recovery and not replying. When going through literature on service recovery we found ourselves asking the following question, which is the overall problem statement; *Is existing literature on service recovery transferrable to observers, and will the option of not replying to customers be better in some cases than giving an unhelpful answer?* In order to get a better understanding of the problem statement, we seek to answer the following research questions:

> *RQ1: How are observers purchase intentions impacted by the complaints made by customers on social media and the type of unhelpful recovery (mere apology versus no reply) given by the company?*

> *RQ2: How does service failure severity and locus moderate the observers purchase intentions when seeing the dialog between the complaining customer and company?*

These research questions are an attempt to further extend the current literature on service recovery and set guidelines for companies on how to act on social media. Aan understanding of the impact service recovery via social media have is required for companies to set successful strategies, not only in terms of customers but also in terms of observers. This is crucial information, as in traditional service recovery companies risk upsetting one customer, whilst on social media companies can upset millions. We also hope that this study will lead to more attention in the academic literature towards observers and their role on social media.

2. Literature Review

2.1. Social media and the observing audience

With the rapid growth of social media, the customer service pressure is constantly increasing for companies and customer expectations are changing (Baer, 2017). In the service delivery process, it is common that mistakes and failures occur. When mistakes occur, it is necessary with service recovery to restore the damaged relationship (Hart et al., 1990). The traditional literature consists of several ways companies can handle dissatisfied customers through service recovery and complaint management (Johnston & Clark, 2005; Berry & Parasuraman, 1991; Boshoff, 1997; Bitner et al., 1990 etc.), however research on complaints made via social media is scarce. With social media emerging, customers have begun to share their thoughts and assessments about service experiences without any constraints (Wilcox & Stephen, 2013). Consumer-generated content is communicated though social media sites such as Facebook and Twitter, and Facebook particularly has transformed the way consumers evaluate information by allowing them to share their experiences (Chu & Kim, 2011).

Customers increasingly use social media to complain to companies and to ask for customer service, well aware that a virtual public will witness their successful or unsuccessful service recovery. Research by Schaefers and Schamari (2016) show that the knowledge of mere virtual presence increases the positive effects of successful recovery with the customer. Virtual presence are people who are virtually present at a given social media site and are able to see complaints made by customers as well as the recovery efforts made by the company. Although Schaefers and Schamari (2016) have taken a step in the right direction and studied complaints made via social media, they have not addressed the impact the service recovery has on a much bigger group than just the customers, the observers.

Observers are people who are virtually present at a social media site, and that follow the service recovery dialog between customer and company. Observers can be both existing customers that follow the company online, or potential new customers that are browsing the company site looking for information. Following a complaint

made via social media, companies are no longer only communicating with the complaining customer; they are virtually talking to everyone. From electronic word of mouth (eWOM) research, we know that eWOM by others have a strong impact on the customer in the decision-making progress, and that customers hardly make a purchase without reading the reviews of other customers (Chu & Kim, 2011). Research has also shown that the information provided by other individuals is viewed as more trustworthy and credible by other consumers than company-generated content (Pornpitakpan, 2004). eWOM is not necessarily a complaint, but positive or negative feedback of the product or service. When posting a complaint, the customer expects a reply from the company. Controlling negative and promoting positive eWOM are keys to the success of any service, particularly those in the hospitality and tourism sectors (Zhang et al., 2017). As observers can use the complaints dialog as a source of information it provides an opportunity for companies to contribute to the online conversation and influence their perceived brand image and the observers purchase intentions.

Although there is an increase in empirical research into the topic of social media, there is still little understanding of how customer and company interactions following a complaint influence the observers company perceptions and purchase intentions. To address this gap, we will investigate the effect service recovery has on observers purchase intentions.

2.2. Unhelpful service recovery

Research shows that many brands are not able to provide satisfied customers via social media. In a survey by Langsdorf (2012), more than 55% of the respondents reported that they had disappointing or mediocre experiences when communicating with brands via social media. Service failures are typically viewed negatively, and the negative emotions customers experience after a service failure are annoyance, sadness, disappointment and anger. Failed service encounters are expected to lead to increased dissatisfaction and a behavioral response, such as a complaint (Mattila & Ro, 2008). Traditional service recovery literature has stressed the importance of successful service recovery as it will give the best results in terms of customer satisfaction, perceived quality of service provider and buying behavior, compared

to unsuccessful recovery (Boshoff, 1997). Research has even found evidence that complainers who were satisfied with the recovery response have higher repurchase intentions than those who were satisfied and did not complain (Gilly, 1987). Previous research has also shown that taking steps after a failure is crucial, as customers tend to be more emotionally involved in the company's service recovery attempts than the actual service failure itself (Berry & Parasuraman, 1991). These theories are well established in the literature, and companies have implemented expensive CRM-systems to ensure that they help customers in the best possible way.

However, many companies have not implemented the same systems for customer service via social media. What can be seen on social media is that companies frequently ignore customer complaints or reply in a vague and unhelpful manner. This deviates from the existing literature, as another option has been made available to the company; not replying. According to Baer (2018), only 50% of customers get a response to complaints on social media. Unsuccessful service recovery is a service recovery that the customer is unhappy with, indicating that the company made an effort to recover the customer. However, when ignoring or replying in an unhelpful manner we deem that the company does not make an effort in the recovery-process, and it can therefore not be classified as an unsuccessful recovery. Thus, we will refer to it as *unhelpful* service recovery.

Unhelpful service recovery is a recovery that the company do not put any effort into. It can either be a vague and unhelpful response (mere apology) or no reply at all. The reach of unhelpful service recovery online is massive and a study by Forrester Research (2010) found that observers represent the majority of social media active individuals. Hoffman et al. (1995) discovered that it is possible for a company to recover from almost any service failure and found that even when customers experienced less acceptable service recoveries such no service recovery at all, they were still retained in over 55% of the incidents reported. However, major advertising news sites and blogs have warned against not replying to customer complaints on social media as not answering indicates that the company do not care about their customers (Salesforce, 2017; Social Media Examiner, 2015; Adweek, 2017 etc). Spreng et al. (1995) also stressed the importance of a recovery attempt,

however academic literature has not compared not replying to an unhelpful recovery such as a mere apology.

Traditionally, the aim of an apology has been to pay off a debt and compensating the customer for the harm done (Katz, 1977). Apologies can be given directly by simply saying 'I'm sorry', or indirectly though taking the blame for an action. Throughout this paper, we will be using direct apologies, as they are vague and unhelpful, which reflects responses made by actual companies online.

2.3. Failure severity

Following a service failure, customers use service failure severity to judge the situation. Service failure severity is how serious the customer perceives the problem to be. Service failures can cause losses that are either tangible (e.g. a monetary loss) or intangible (e.g. anger, frustration) (Smith et al., 1999). Several researchers have examined service failure severity within the context of service recovery and have found that if the customer perceives the severity as high, the customer will experience a greater perceived loss (Hoffman et al., 1995; Weun et al., 2004). Hoffman et al. (1995) stated that in cases of more severe failures, it is usually more difficult for a company to implement a successful service recovery as the customer have higher expectations from the service recovery. Thus, the loss incurred from a severe service failure is greater than the loss from a minor failure, and a more substantial recovery is needed to restore equity (Goodwin & Ross, 1992).

Zeithaml et al. (1993) propose that customers tolerance of service failure depends on the severity of the situation. When customers experience a service failure, customers' expectations to the service recovery increase depending on how severe the situation is. Also, when the service failure is severe the customers' tolerance gets lower. Thus, the potential for customer dissatisfaction increase (Hoffman et al., 1995). Smith et al. (1999) considered how service failure severity would influence customers' response to recovery and found that the more severe an incident is the less efficient the recovery efforts become. Weun et al. (2004) expanded on these studies and also found that service failure severity has a

significant influence on satisfaction, trust, commitment, and negative word-of-mouth.

Although research has established the importance of service failure severity when evaluating the post-recovery satisfaction of a customer, none of the authors have considered how severity will affect observers that are not emotionally involved in the service failure itself and only see the following complaint. Additionally, previous research has also neglected the moderating effect severity will have when not comparing successful and unsuccessful recovery but looking at unhelpful recovery versus no reply instead.

2.4. Failure locus

Accountability plays a central role in service failure recovery situations (Ok, Back & Shanklin, 2005). Customers have perceptions about their service encounters and will conclude on who is to blame for the incident that occurred. This conclusion will be related to future actions of the customer, such as switching behavior, WOM and purchase intentions. Attribution theory propose that customers create judgements about the cause and effect relationships to get control of the environment that affects his or her future behaviors, emotions and attitudes (Weiner, 1985). Heider (1958) found that any type of action is based on two sets of conditions; factors within the person and factors within the environment, which has later been known as the locus of causality dimension.

The customer assigns accountability to who they think are to blame for the occurred failure. The failure locus captures whether the failure was firm-related, consumer-related or caused by external factors (Folkes, 1984). Heider (1958) suggest that the failure locus is likely to be attributed to the service provider, and Mattila and Ro (2008) found that when customers attribute the service failure to external factors they are less likely to switch to another brand or engage in negative WOM. This would indicate that there are less complaints on social media with external locus, however looking at the airline industry we can see that this is not the case. In the airline industry we can see that some groups of people have high expectations of

service recovery even when the failure is caused by external factors (Chiou et al., 2009).

When complaining, customers often make it clear who they think is to blame for an incident (Mattila & Ro, 2008), and this is something that is visible to observers. However, observers will not be able to distinguish between consumer-related and firm-related factor, as consumers are unlikely to write a complaint indicating that they are to blame. Therefore, consumer-related factors often revolve around customers lying about who is to blame, making it appear for the observers as if it is firm-related. Therefore, we will only consider firm-related and external factors. Folkes (1984) found that when the customer felt that the failure was due to the company they felt more strongly that they deserved a compensation. There has been extensive research on the customers perceptions of locus in service failures. However, there is a lack of research considering how observers assess the failure locus when observing the service recovery dialog on social media. The literature also overlooks how failure locus will moderate observers purchase intentions when customers are given an unhelpful recovery or no reply at all.

2.5. Perceived fairness

In the context of service recovery, the perceived fairness of the transaction is highly important. Customers who perceive a treatment as unfair are unlikely to quickly forget and forgive the offence (Seiders & Berry, 1998). When customers interact with the company service personnel, either face to face or through social media, the outcome of the service recovery boils down to the perceived fairness the customer feels. Previous research suggests that customer satisfaction and future behavioral intentions such as purchase intentions are directly affected by the perceived fairness of the service recovery (Ha & Jang, 2009; Kim, Kim, & Kim, 2009; McColl-Kennedy & Sparks, 2003). Cropanzano et al. (2001) argued that fairness matters because it serves some important, fundamental psychological needs of a human being, and unfairness can threaten any or all those needs, and therefore trigger an individual's defensive cognitions and negative affect.

Theorists have identified three dimensions of perceived fairness that influence how people evaluate exchanges; distributive justice, which involves the perceived outcome of the exchange; procedural justice, which involves how conflicts are resolved; and interactional justice, which involves the way information is exchanged and outcomes are communicated (Smith et al., 1999). In this paper, we will combine the three levels of justice into 'perceived fairness' to simplify the study. This is done as all three levels have been previously proven to have a positive effect on purchase intentions (Ha & Jang, 2009; Kim, Kim, & Kim, 2009; McColl-Kennedy & Sparks, 2003).

Research of observers perceived fairness is investigating the role of third-parties observing the mistreatment of other customers. Observers might experience the treatment of customers after a service failure when reading complaints via social media or by being informed through WOM or news media (Skarlicki & Kulik, 2005). O´Reilly and Aquino (2011) emphasize that observers have to be sufficiently aware of the poor service recovery in order to perceive injustice. It has been found that observers react upon injustice experienced by other customers and are affected by it (Skarlicki & Kulik, 2005). Observers base their fairness perceptions on the way companies handle their customers and those perceptions influence the observers' behavior. A company's response after a service failure can influence the observer perceived fairness and ultimately their purchase intentions (Skarlicki, Ellard & Kellin, 1998). When observers are aware of the injustice they are likely to react with revengeful action, such as spreading negative WOM and boycotting the company's products (Bies & Greenberg, 2002). If enough observers decide to act in this way it can become viral and the company can experience a significant decrease in sales.

The study by Skarlicki, Ellard and Kellin (1998) also found that in cases where companies provide an adequate explanation to the customer after a service failure it influenced the perceived fairness of the observer. However, we know that this is not the practice on social media, and that customers are left without explanations or even without a reply. What Skarlicki, Ellard and Kellin (1998) left out on the other hand is how severity and failure locus can moderate the relationship and thus, the outcome of a service recovery. Additionally, similarly to other studies on

service recovery, they only consider the difference of successful and unsuccessful recovery in a traditional setting.

3. Predictions

We propose that the type of unhelpful service recovery made by the company will have an impact on the observing audience, and that observers will use it as a way of informing themselves before a purchase. We propose that observers will use perceived fairness to judge the interaction between customer and company, and that this relationship will be moderated by the service failure severity and locus. As company replies via social media often are unhelpful or non-existent, we examine the difference between a mere apology and no reply when moderated by severity and locus. Locus can either be external or company, and severity can be either high or low.

Based on our predictions, we have developed the following research model. Seen in figure 3.1. below. We will discuss the theory and justify our hypotheses further below.

Figure 3.1. Research model
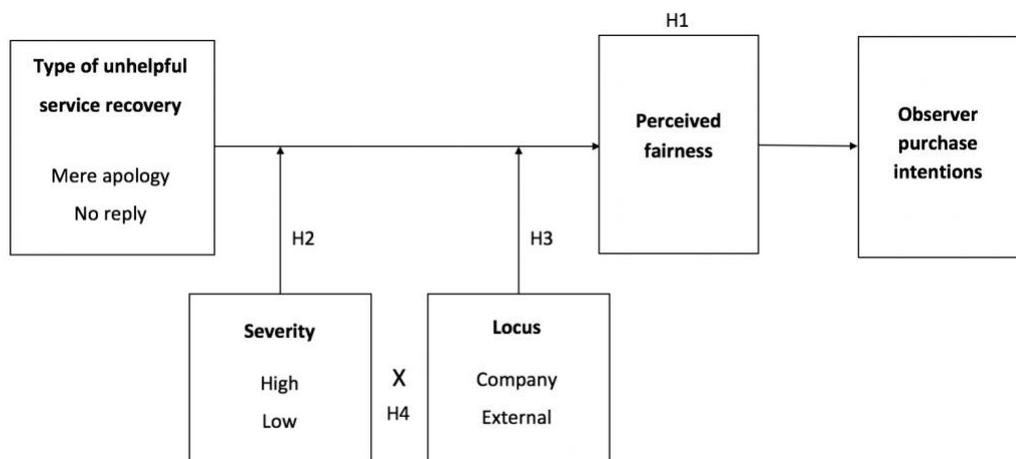
From eWOM research we know that consumers use online reviews to guide their purchases (Chu & Kim, 2011), and according to BazaarVoice Statistics (n.d), 71% of consumers change their perception of a brand after seeing a brand response to a review. Further, Sparks, So, and Bradley (2016) found that potential consumers will have a more positive impression about a brands level of trustworthiness and concern for its customers when the service provider responds to customer reviews on third party websites. Sparks, So, and Bradley (2016) did however not consider the

different types of replies that a company could give but found that consumers who perceived the recovery to be effective could experience higher confidence in the company. Therefore, we expect that company responses to complaints made via social media will have an impact on observers in addition to complaining customers.

Service recovery is known to have a direct impact on perceived fairness, which again is known to impact purchase decisions (Ha & Jang, 2009; Kim, Kim, & Kim, 2009; McColl-Kennedy & Sparks, 2003). This has also been found to hold true in the case of observers in a traditional setting (Skarlicki, Ellard & Kellin, 1998), indicating that perceived fairness could be a key driver in determining the observers purchase intentions in a social media setting. We therefore propose that the observers will use perceived fairness to judge the complaint dialog, and that their perceived fairness will be a key driver in determining observers future purchase intentions.

H1: Perceived fairness by observers will mediate the relationship between the type of unhelpful service recovery and observers' purchase intentions.

Previous research has shown that high severity will make a service recovery attempt more difficult for companies, as it negatively affects customers perceived fairness (Smith et al., 1999; Hoffman et al., 1995; Weun et al., 2004). Research has also shown that if a failure is severe, a mere apology may be insufficient to restore the damaged relationship between the customer and company (Trosborg & Shaw, 1998). Wan, Chan and Su (2011) argued that when observers witness a negative event in a context that is relevant to them, a feeling of threat would arise. As customers are risk averse, the feeling of threat would lead the observers to avoid the company and possible future harm. We expect that in more severe cases, a mere apology will be viewed negatively by observers, as we know from traditional service recovery research that when severity is high, customers have a higher expectation of the service recovery efforts (Hoffman et al, 1995). Thus, when observers see a mere apology as the reply to a severe complaint, they will perceive the encounter as unfair since the company is acknowledging the complaint and indirectly indicating blame by apologizing. If the observer believes that there is a possibility that this situation could befall them as well, avoidance strategies will be

undertaken. We expect this effect to occur because observers react upon injustice experienced by other customers (Skarlicki & Kulik, 2005) and high severity is known to lower the perceived fairness of any service recovery type (Smith et al., 1999). However, if a company does not respond to a severe complaint, observers can conclude that they have handled it privately or that the company has not yet seen the complaint, and thus not feel threatened. We therefore propose that when severity is high, not replying will be better in terms of observers perceived fairness than a mere apology.

However, when severity is low, customers do not have the same expectations of service recovery efforts as their perceived loss is smaller (Hoffman et al., 1995). In this case a mere apology could be viewed positively by the observers as the company shows that they value the customer by replying, whilst not replying indicates that they do not care about their customers (Cho et al., 2002). Based on this, we have developed the following hypothesis.

H2: No reply will lead to higher perceived fairness by observers when failure severity is high, whereas mere apology will lead to higher perceived fairness by observers when severity is low.

Accountability, or who is perceived as responsible (failure locus), plays a central role in service failure and recovery situations (Swanson & Davis, 2003). Consumers make attributions regarding the service encounter (Palmer et al., 2000), and regardless of the accuracy of the attributions made, they will use them to judge the encounter (Swanson & Hsu, 2011). Research on customer complaints has shown that when the failure is due to the company, customers feel more strongly that they deserve a compensation (Folkes, 1984). Customers who then receive a treatment that is subpar to their expectations, are likely to deem it as unfair and are unlikely to quickly forgive the offence (Seiders & Berry, 1998).

We expect that failure locus will moderate the relationship between unhelpful service recovery and perceived fairness by observers because they will use the failure locus as a reference point when judging the complaint dialog. As with severity, observers react upon injustice experienced by other customers (Skarlicki & Kulik, 2005), and are therefore likely to judge a mere apology as unfair if failure

locus is with the company, as customers feel more strongly that they deserve compensation when the company is to blame (Folkes, 1984). We expect that a mere apology will further lower the observers perceived fairness as they are acknowledging the failure and therefore indirectly indicating blame. Thus, we expect that no reply will be more beneficial in terms of observers perceived fairness when failure locus is with the company as observers do not have anything to judge the company by and can conclude that they have dealt with the complaint in a different matter or simply not seen the complaint.

Some customers have high expectations to the service recovery of a company, even when the failure is caused by external factors (Chiou et al., 2009). However, as observers are able to judge the situation more objectively, we expect that the observers will be more sympathetic of the company in these situations. We therefore propose that a mere apology will be viewed more positively than no reply when failure locus is external. We expect this because the company shows empathy by apologizing, even when it is clear that they were not to blame. By ignoring the complaint, we expect the observers to view the company as cold and careless about their customers, thus lowering their perceived fairness.

Therefore, we propose that failure locus will moderate the relationship between unhelpful service recovery and perceived fairness by the observers and have developed the following hypothesis.

H3: No reply will lead to higher perceived fairness by observers when failure locus is company, whereas mere apology will lead to higher perceived fairness by observers when failure locus is external.

We also propose that the effects of no reply versus a mere apology will be reinforced if high severity is combined with company failure locus. We expect this as it will give the observers two aspects to base their decisions on, and also because both high severity and company failure locus is expected to favor no reply. Also, the defensive attribution hypothesis, first proposed by Walster (1966), showed that there is a connection between the severity of a negative incident and the failure locus when looking at customer reactions after a service recovery incident. Thus, we have formulated the following hypothesis.

H4: The effects of no reply versus a mere apology on observers' perceived fairness is reinforced when high severity is combined with company failure locus.

4. Methodology

To answer the research questions and test the hypotheses, we carried out an online experiment. The study seeks to establish a relationship between unhelpful service recovery and observer purchase intentions; and to find whether the relationship is mediated by perceived fairness and moderated by complaint severity and failure locus. Participants act as observers and evaluate written complaints/recovery scenarios set in the contexts of the fictive airline company Cloud Airlines.

The research is a scenario-based experiment focusing on the impact different types of unhelpful service recovery have on an observing audience. We have chosen scenario-based experiments because field experiments are rarely used in service failure and recovery research due to a number of reasons, including the expense and time involved, but also because managers are reluctant to intentionally impose service failures on customers (Bitner et al., 1990). Scenario-based experiments on the other hand eliminate the difficulties associated with observation of complaint and recovery incidents on actual social media, ethical considerations, and the managerial undesirability of intentionally imposing unsuccessful service recovery on customers (Smith et al., 1999). Further, the use of scenarios reduces biases from memory lapses, rationalization tendencies, and consistency factors, which are common in results based on retrospective self-reports (Smith et al., 1999).

As scenario-based experiments overcome the limitations of other methods it has been widely used to study service failures and recovery in past research. Scenario-based experiments also allow us to test for causal relationships, while not having to account for differences in previous company encounters. It generally improves internal validity because it allows for strict control of the study environment, and this control allows precise predictions to be tested.

However, ecological validity or "realism" is a key drawback of this method in traditional research. Ecological validity means that the methods, materials and setting of the study approximates the real-world that is being examined (Brewer, 2000). In scenario-based experiments, respondents read a hypothetical scenario and are then asked to express how they feel (e.g., anger and satisfaction) about the

described situation. Ecological validity can then be threatened as the respondents are not traditionally part of the described service setting, and they may be insufficiently stimulated to have a strong emotional response to the scenario. However, as we are measuring the impact the complaints and responses have on *observers*, the realism is less threatened, as people would read the social media posts made by others on their computer or mobile in a real setting as well. Therefore, participants will not need to be stimulated to have a strong emotional response the way they would if they were to experience the service failure themselves. Thus, the disadvantages that ecological validity usually bring to scenario-based experiments will be limited in our study.

4.1. Procedure

4.1.1. Scenario development

To create as realistic scenarios as possible, we went through customer complaints of six major airlines and looked for similarities. Four scenarios were created with severity high or low and with locus being company or external. See appendix 1 for the scenarios.

4.1.2. Pre-test

The first study was a pre-test to test the different scenarios for the experiment. The pre-test was designed to determine that observers would perceive severity as high or low and locus as company or external, based on the scenario. The pre-test was created using an online survey, and participants were randomly allocated to one of the four scenarios. Participants were asked to read a complaint from a customer that had been sent to Cloud Airlines and asked to judge how serious the incident was and who was to blame.

Participants were asked to judge the severity of the complaint by indicating on a scale from 1 to 10 (10 being the most severe) how severe they perceived the complaint to be. This method of measuring severity was tested by Weun et al.

(2004), who reported a Cronbach's coefficient α of .93. Similarly, we asked participants to indicate from 1 to 10 (10 being definitely Cloud Airlines fault) to what extent Cloud Airlines was to blame.

26 people participated in the pre-test survey. The sample was a convenience sample which was collected through social media, and it was a self-selected sample. Participants were not given any incentive to participate, and all participants were over the age of 18.

The pre-test confirmed that the manipulation of the independent variables severity and locus had been successful. Scenarios designed to represent high severity had a significantly higher mean (M = 8.88, SD = 1.25) than the low severity scenario (M = 3.63, SD = 1.93) (t=6.967, p=000). The same results were seen for failure locus; company locus scenario (M = 8.56, SD = 1.63) versus. external locus scenario (M = 3.93, SD = 1.48) (t=3.076, p=.004).

4.1.3. Experiment survey

After confirming the effectiveness of the manipulation in the scenarios, the main experiment was carried out. We aimed to investigate the relationship between unhelpful service recovery and observer purchase intentions when potentially mediated by perceived fairness and moderated by severity and failure locus. The study takes a 2 (mere apology, no reply) X 2 (severity: high, low) X 2 (locus: company, external) design and will be a between-subjects design. In a between-subject design experiment, each individual is exposed to only one scenario. This design has both advantages and disadvantages. A main disadvantage is that individual differences can become confounding variables and increase the variability of the scores (Gravetter, 2003). On the other hand, between-subjects design completely avoids any problems that could arise from order effects, as each variable score is completely independent of every other score (Gravetter, 2003). Order effect is a big disadvantage of within-subjects design, as each participant need to see all scenarios, which in our case would be eight. This could lead to both hypothesis guessing as they see the differences made to the scenarios and fatigue from answering too many cases. Thus, as we have eight different scenario groups, making participants judge all would decrease the validity of the study. Therefore,

we have chosen between-subjects design. In order to obtain causal estimates with this type of design, group assignment needs to be random and participants need to be compared with those exposed to a different scenario. Participants were randomly allocated to one of the eight stimuli groups, and Qualtrics software ensured equal group sizes.

The survey is divided into five categories; written consent, fictive company description, manipulated scenario, purchase intention and perceived fairness, and demographics. The survey was translated into Norwegian, and participants were able to select which language they wanted to complete the survey in. This was done to ensure that participants would be able to completely understand the survey, and that language barriers would not affect the outcome. To ensure that language would not impact the results, we carried out an independent sample t-test to see if there was a significant difference in results between the language groups. The independent t-test confirmed that there was no significant difference between language groups when looking at the dependent variables (e.g. t = -1.334, p=.184).

Before starting the survey, a consent form was presented, and participants had to consent before starting the survey. The survey started with a fictive company description of Cloud Airlines (Appendix 2) to establish a relationship with the company. This was done to make the company more realistic. Participants were then shown a print of a customer's complaint at the company's social media page. Each participant was shown one complaint, which was either replied to with a mere apology or ignored. Time-stamps, profile picture and names of complaints were blurred out to ensure that it would not impact the results.

Following the complaint, the participants' were asked questions about purchase intentions and perceived fairness, as well as questions regarding their demographics.

4.1.3.1. Measures

The survey questions are based on previously validated scales, that were slightly adjusted to fit the purpose of this study. The final questionnaire had 15 items. A seven-point Likert and semantic differential was added to all items for consistency.

All items were made mandatory by forcing response in the online survey. Research has shown that participants consider their answers more carefully when they are forced to answer, compared to check-all formats (Easterby-Smith, Thorpe & Jackson, 2008). By forcing responses, we were also able to ensure that we would not have missing data.

The scales used in the survey to measure each variable in the study are discussed and reviewed below. See appendix 3 for a copy of the survey questions. The reliability of the scales was checked using the Cronbach's alpha coefficient. Hair et al. (2006:137) state that a value of above .7 indicate reliability.

In table 4.1. below it can be seen that both scales had an average Cronbach's alpha coefficient above this minimum value, which indicates reliability and internal consistency.

Table 4.1. Cronbach's Alpha

Variable	**Number of items**	**Cronbach's Alpha**
Purchase Intentions (PI)	4	.929
Perceived Fairness (PF)	8	.764

Purchase intentions

The participants' purchase intentions were measured using the Purchase Intentions scale by Coyle and Thorson (2001). We adapted the scale slightly to ensure that the questions were aligned with an airline company. The items were measured using a 7-point Likert scale. The scale ranged from 1= strongly disagree to 7= strongly agree. Coyle and Thorson (2001) reported a Cronbach's coefficient α for the scale of .94. Schaefers and Schamari (2016), who also utilized the same scale, reported that Cronbach's coefficient α for the scale ranged from .94 to .97, indicating high internal consistency with the scale.

Perceived fairness

Perceived fairness was measured using an adapted version of Smith et al. (1999) scale. Adaptations are minor changes in phrasing as Smith et al. (1999) measured the perceived fairness of customers, not observers. The items were measured using a 7-point Likert scale. The scale ranged from 1= strongly disagree to 7= strongly agree. Smith et al. (1999) reported that Cronbach's coefficient α for the scale ranged from .88 to .93, indicating high reliability.

4.2. Reliability and validity

4.2.1. Scale Normality Assessment

Normality is the most important assumption when running a multivariate analysis (Hair et al, 2010), and therefore we checked the normality distribution of both scales. We checked for normality by inspecting the histograms and Q-Q plots for each scale, as well as looking at the Kolmogorov-Smirnov statistical significance (K-S sig.) and the skewness and kurtosis values. A non-significant result of the K-S sig. test indicate normality (Graham, 2009). A skewness and kurtosis value of zero, as reported in SPSS, represents normality, and values above or below zero moves away from normality (Hair et al., 2010). A rule of thumb is that skewness values outside the range of -1.0 to +1.0 indicate a substantially skewed distribution. Table 4.2. shows the results for the normality tests for both scales.

Table 4.2. Normality Analysis Results.

Scale	*Skewness*	*Kurtosis*	*K-S sig.*
Purchase Intentions	-.158	-.792	.000
Perceived Fairness	.202	-.104	**.040**

Bold K-S sig. values implies a normality of distribution. As seen in table 4.2. above, the purchase intention scale did not indicate normality in the K-S sig. test. However, when checking the Q-Q plot and histogram it was deemed as acceptable for use (See appendix 4 for Q-Q plots). Further, when splitting the file based on scenario-grouping, both scales showed normality through an insignificant K-S sig. in all groups, most groups having a significance value of .200.

4.2.2. Outliers

Outliers are "observations with a unique combination of characteristics identifiable as distinctly different from other observations" (Hair et al; 2010:64). By inspection of our box plots and Q-Q plots we were able to identify two outliers in our data, however their scores appeared to be genuine and were not extreme compared to the others. Therefore, we kept them in the data as recommended by Pallant (2013:67).

5. Analysis and results

The following hypotheses will be tested throughout this chapter using various statistical tools:

> **H1:** *Perceived fairness by observers will mediate the relationship between the type of unhelpful service recovery and observers' purchase intentions.*

> **H2:** *No reply will lead to higher perceived fairness by observers when failure severity is high, whereas mere apology will lead to higher perceived fairness by observers when severity is low.*

> **H3:** *No reply will lead to higher perceived fairness by observers when failure locus is company, whereas mere apology will lead to higher perceived fairness by observers when failure locus is external.*

> **H4:** *The effects of no reply versus a mere apology on observers' perceived fairness is reinforced when high severity is combined with company failure locus.*

5.1. Sample

271 people participated in the survey, however only 219 participants completed the entire survey and only their results will be analyzed. This is a drop-out rate of 19.5%. The sample was a self-selected convenience sample that was collected through social media. As an incentive, participants were entered into a prize draw when completing the survey.

Participants were asked to indicate age and gender. Age was measured by intervals of 9 starting at 20 and ending at 70. Participants under 20 or over 70 will be in separate groups. From table 5.1 below it can be seen that the sample had equal demographic group sizes and is thus a representative sample from the population.

Table 5.1. Survey Demographics

Gender	% of sample
Male	45.2%
Female	53.5%
Prefer not to answer	1.3%
Age	
Under 20	4.5%
20-29	53.5%
30-39	15.3%
40-49	12.1%
50-59	8.9%
60-69	4.5%
70+	1.3%

5.2. Correlations

As recommended by Pallant (2013:107), we have used Pearsons correlation to establish the strength of the relationship between all the measures. Table 5.2. below shows the correlation matrix for all our measures.

Table 5.2. Correlations Matrix

	PI	PF	Severity	Locus	Recovery	Gender	Age
PI	-						
PF	.641***	-					
Severity	-.185*	-.158*	-				
Locus	-.292***	-.199*	.714***	-			
Recovery	.132	.301***	.324***	.271†	-		
Gender	-.194*	-.185*	.368***	.045	.054	-	
Age	.125	.120	.490***	.046	.105	-.180*	-

Test of significance were two-tailed † <.1, *<.05, ** <.01, ***<.001

From the correlation matrix we can see that there is a relationship between, for example, perceived fairness and purchase intentions. The Pearson correlation showed r=.641 with a significance of .000*** , which indicates that there is a strong positive relationship between purchase intention and perceived fairness (Pallant, 2013:139). This is consistent with previous literature on the topic (Ha & Jang, 2009; Kim, Kim, & Kim, 2009; McColl-Kennedy & Sparks, 2003).

Further we can see that there is no significant relationship between type of unhelpful service recovery and purchase intention (r=.132, p=.101), however there is a medium sized significant relationship between recovery and perceived fairness (r=.132, p=.000) which could indicate that there is a mediation present. However, as correlation only indicates that there is a relationship and does not consider cause-effect, further analysis needs to be undertaken to conclude on this.

5.3. Multicollinearity

Before being able to make assumptions about the results derived from multiple regression, we need to ensure that there are no multicollinearity problems. We decided to carry out the tests despite having designed an experiment that avoids the problem of multicollinearity. In order to determine multicollinearity problems, we assessed the VIF- and tolerance values of all analyzed variables. Multicollinearity is considered to be a problem if VIF values are 10 or greater, or the tolerance values are smaller than 0.10 (Pallant, 2013). As expected, we found that VIF values and tolerance values were well within the satisfactory range, indicating that multicollinearity is not an issue. Tolerance values ranged from .909 to .988, while VIF values ranged from 1.012 to 1.100.

5.4. Homoscedasticity

All linear regressions were also checked for heteroscedasticity before concluding on results. The assumption of homoscedasticity is an important assumption of linear regression and indicates that the variance of the errors (residuals) is constant across all the values of the independent variable (Laerd Statistics, 2015). From the

Levene's test of equality we could see that there was a homogeneity of variances for all cases, with significance values ranging from p=.076 to p=.991.

5.5. Hypothesis 1 – Mediation via perceived fairness

Perceived fairness by observers will mediate the relationship between the type of unhelpful service recovery and observers' purchase intentions.

We used regression analysis to test the first hypothesis and too see if perceived fairness is a mediator in the relationship between type of unhelpful service recovery and observers purchase intentions. The mediation is illustrated in figure 5.1. below.

Figure 5.1. Mediation by perceived fairness in the relationship between unhelpful service recovery and observers purchase intentions.
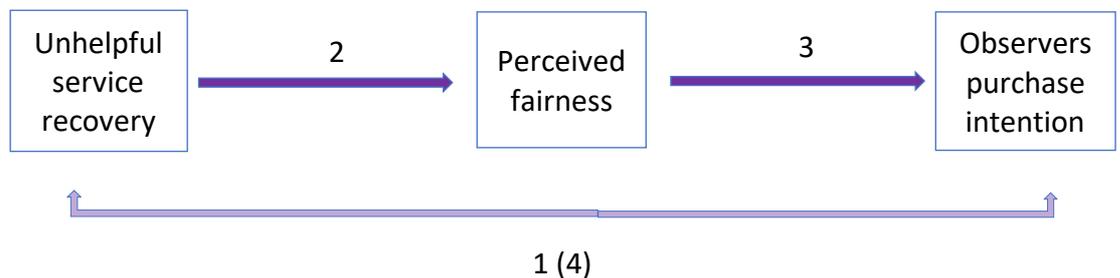
According to Baron and Kenny (1986) a variable is defined as a mediator if:

1. There is a significant relationship between the independent variable (Unhelpful service recovery) and the dependent variable (Observers purchase intentions);
2. There is a significant relationship between the independent variable (Unhelpful service recovery) and the mediator (Perceived fairness);
3. The mediator (Perceived fairness) still predicts the dependent variable (Observers purchase intentions) after controlling for the independent variable (Unhelpful service recovery); and
4. The relationship between the independent variable (Unhelpful service recovery) and the dependent variable (Observers purchase intentions) is

"less" when the mediator (Perceived fairness) is entered into the equation.

Modern thinking of mediation does not require evidence of a relationship between the independent variable and dependant variable (Hayes, 2009). However, we will still follow the steps provided by Baron and Kenny (1986) to see the outcome. By performing a multivariate regression analysis, we can see that:

1. There is no significant relationship between the independent variable (Unhelpful service recovery) and the dependent variable (Observers purchase intentions), β=.132, p=.101.

2. There is a significant relationship between the independent variable (Unhelpful service recovery) and the mediator (Perceived fairness), β=.301, p=.000***.

3. When controlling for the independent variable (Unhelpful service recovery), the mediator (Perceived fairness) still predicts the dependent variable (Observers purchase intentions) with a β=.662, p=.000***.

4. The relationship between the independent variable (Unhelpful service recovery) and the dependent variable (Observers purchase intentions) fell from β=.132, p=.101 to β=-.068, p=.295 when the mediator (Perceived fairness) is entered into the equation.

As the first requirement for a variable to be defined as a mediator set by Baron and Kenny (1986) did not follow through, this procedure would indicate that there is no mediating effect by perceived fairness in the relationship between unhelpful service recovery and observers purchase intentions. However, as modern thinking about mediation does not require evidence of a simple association between the independent and dependent variable in order to test and estimate hypotheses about indirect effects (Hayes, 2009), we used the PROCESS macro designed by Hayes (2013) to test the significance of the indirect relationship.

When applying the PROCESS macro, both the Bootstrap method and Sobels test was used by recommendation of Hayes (2013) to test the indirect relationship. The Bootstrap analysis also showed that the direct relationship between unhelpful service recovery and observers purchase intentions is non-significant (p=.295). However, the indirect relationship showed a lower limit bootstrap of .16 and an

upper limit bootstrap of .93. Thus, the relationship does not straddle zero, indicating that there is a mediation effect. The Sobels test showed an indirect effect of .61 with a significance of .003**. Hence, we can say with a confidence interval of 95% that perceived fairness mediates the relationship between type of unhelpful service recovery and observers purchase intentions.

5.6. Hypothesis 2 – Moderation by severity

No reply will lead to higher perceived fairness by observers when failure severity is high, whereas mere apology will lead to higher perceived fairness by observers when severity is low.

We used a two-way ANOVA to examine the effect of failure severity and unhelpful recovery on perceived fairness by observers. The two-way ANOVA provided graph 5.2. shown below.

Graph 5.2. Two-way ANOVA between unhelpful service recovery and failure severity on perceived fairness.
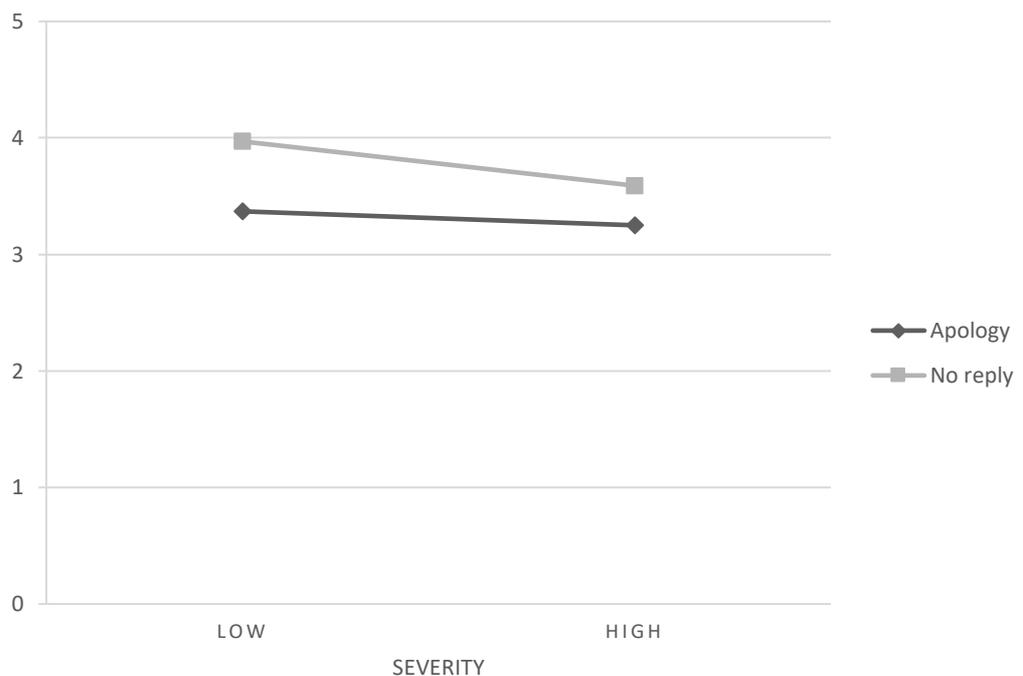
The graph above indicates that there might be an ordinal interaction. However, the interaction between the effects of failure severity and unhelpful recovery on perceived fairness by observers was found to be non-significant, $F(1,153) = 1.161$, $p=.283$.

As the interaction effect was non-significant, we will interpret and report the main effects as recommended by Howell (2010). Testing for main effects we found that both a statistically significant main effect of recovery $F(1, 153) = 14.977$, $p = .000***$, and severity $F(1, 153) = 4.349$, $p = .039*$. All pairwise comparisons were run with 95% confidence intervals and p-values are Bonferroni-adjusted. We see the estimated marginal means in table 5.3. below.

Table 5.3. Estimated marginal means.

Variable	Mean	S.E	Mean	S.E	Mean difference	S.E
Recovery	Mere apology		No reply		Mere apology - No reply	
	3.307	.082	3.778	.090	-.471***	.122
Severity	Low		High		Low - High	
	3.607	.084	3.416	.088	.254*	.122
Notes: † <.1, *<.05, ** <.01, ***<.001						

Based on the estimated marginal means we can see that when a mere apology is given, observers perceived fairness significantly decreases. Similarly, we see that as severity decreases, observers perceived fairness increases.

However, we did not find statistically significant support for an interaction effect between failure severity and unhelpful service recovery and have thus not been able to confirm our hypothesis stating that no reply will lead to higher perceived fairness by observers when failure severity is high, whereas mere apology will lead to higher perceived fairness by observers when severity is low. What we did find support for, however, is that no reply is better than a mere apology in terms of perceived fairness and that high severity leads to lower perceived fairness. The latter has been backed up by previous research on customers (Smith et al., 1999; Hoffman et al., 1995;

Weun et al., 2004), and our study found evidence that this mechanism exists within observers as well.

5.7. Hypothesis 3 – Moderation by locus

No reply will lead to higher perceived fairness by observers when failure locus is company, whereas mere apology will lead to higher perceived fairness by observers when failure locus is external.

In order to test the third hypothesis, we will follow the same procedure as used to test hypothesis 2. The two-way ANOVA provided graph 5.3. shown below.

Graph 5.3. Two-way ANOVA between unhelpful service recovery and failure locus on perceived fairness.
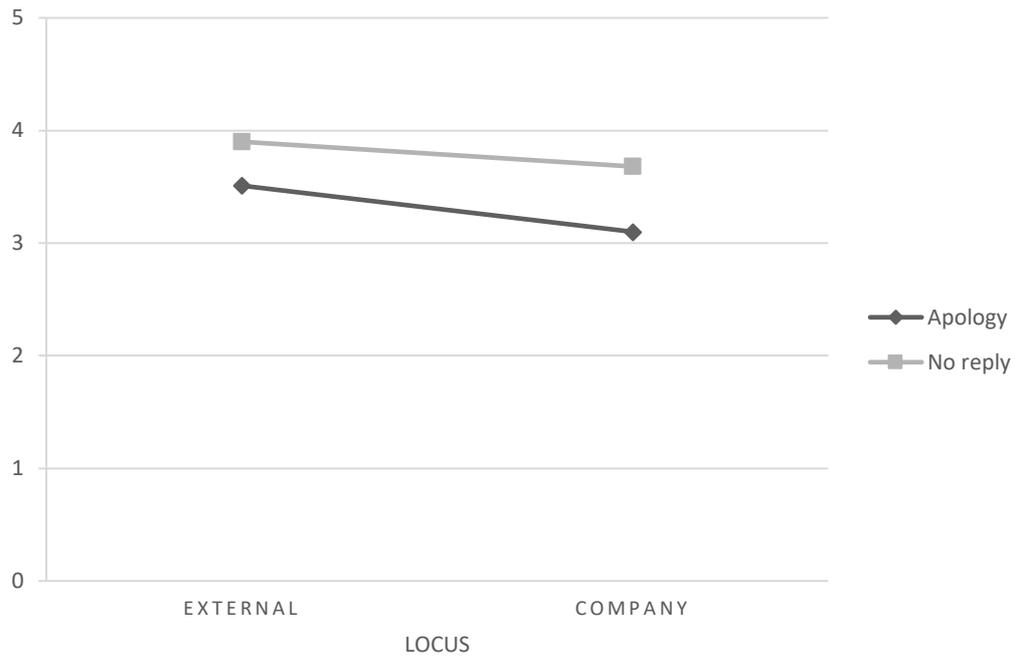
Similarly to severity, the graph above indicates that there might be an ordinal interaction. However, the interaction between the effects of failure locus and unhelpful recovery on perceived fairness by observers was found to be non-significant as well, $F(1,153) = .315$, $p=.456$. Thus, we tested for main effects.

Testing for main effects we found that both a statistically significant main effect of recovery $F(1, 153) = 9.190$, $p = .000^{***}$, and locus $F(1, 153) = 3.781$, $p = .011^{*}$.

All pairwise comparisons were run with 95% confidence intervals and p-values are Bonferroni-adjusted. We see the estimated marginal means in table 5.4. below.

Table 5.4. Estimated marginal means.

Variable	Mean	S.E	Mean	S.E	Mean difference	S.E
Recovery	Mere apology		No reply		Mere apology - No reply	
	3.304	.081	3.790	.089	-.486***	.121
Locus	External		Company		External - Company	
	3.703	.084	3.391	.086	.312*	.121
Notes: † <.1, *<.05, ** <.01, ***<.001						

Based on the estimated marginal means we see that when failure locus is company, observers perceived fairness decreases. Recovery still have the same main effect as discovered while testing hypothesis 2, showing that no reply is better than a mere apology in terms of observers perceived fairness.

We did not find statistical support for hypothesis 3, stating that no reply will lead to higher perceived fairness by observers when failure locus is company, whereas mere apology will lead to higher perceived fairness by observers when failure locus is external. We did however find support for the impact failure locus has on perceived fairness by observers. This confirms that the findings of Seiders and Berry (1998) can be transferred to observers as well.

5.8. Hypothesis 4 – Combined moderation by severity and locus

The effects of no reply versus a mere apology on observers' perceived fairness is reinforced when high severity is combined with company failure locus.

In order to test the fourth and final hypothesis we will use two different statistical tools. First, we will carry out a one-way ANOVA with eight groups to compare all eight scenarios and their impact on perceived fairness. Secondly, we will use a

three-way ANOVA to see if there is an interaction effect when severity and locus is combined.

From the one-way ANOVA we could see that there was a statistical difference between the groups in terms of perceived fairness (F=4.442, p=.000). A Bonferroni post-hoc test was conducted to find out where the difference lies. From the Bonferroni post-hoc test we could see that only four of the eight scenario groups had a significant difference in observers perceived fairness. See table 5.5. below for a summary of significant results.

Table 5.5. Multiple comparisons.

Scenario	Scenario compared to	Results
Mere apology + Company locus + Low severity	No reply + Company locus + Low severity	Mean difference = -.832, p = .016*, S.E .236
Mere apology + Company locus + Low severity	No reply + External locus + Low severity	Mean difference = -.867, p = .009**, S.E .236
Mere apology + Company locus + High severity	No reply + Company locus + Low severity	Mean difference = -.869, p = .009**, S.E .236
Mere apology + Company locus + High severity	No reply + External locus + Low severity	Mean difference = -.904, p = .005**, S.E .236

From table 5.5. above, we can see that there definitely are some significant differences in observers perceived fairness when exposed to different scenarios. In the first scenario listed, we can see the difference between types of unhelpful recovery that we also found when testing the previous hypotheses, showing that a mere apology is worse than no reply in all four scenarios. Further, we can see that company locus is worse than external locus and that high severity is worse than low severity. This confirms our previous results.

To test if there is a three-way interaction we used the three-way ANOVA analysis. The three-way ANOVA found that there was no statistically significant three-way

interaction between unhelpful recovery, severity and locus, $F(1, 149) = 1.391$, p = .240. Nor was there a significant interaction between severity and locus, $F(1,149)$ =.306, p = .581. Thus, we have no statistical support indicating a three-way interaction or an interaction between severity and locus.

5.9. Updated research model

As we found significant main effects for both failure severity and locus in addition to type of unhelpful service recovery, we have reformulated our research model and will test the following.

Figure 5.4. Updated research model
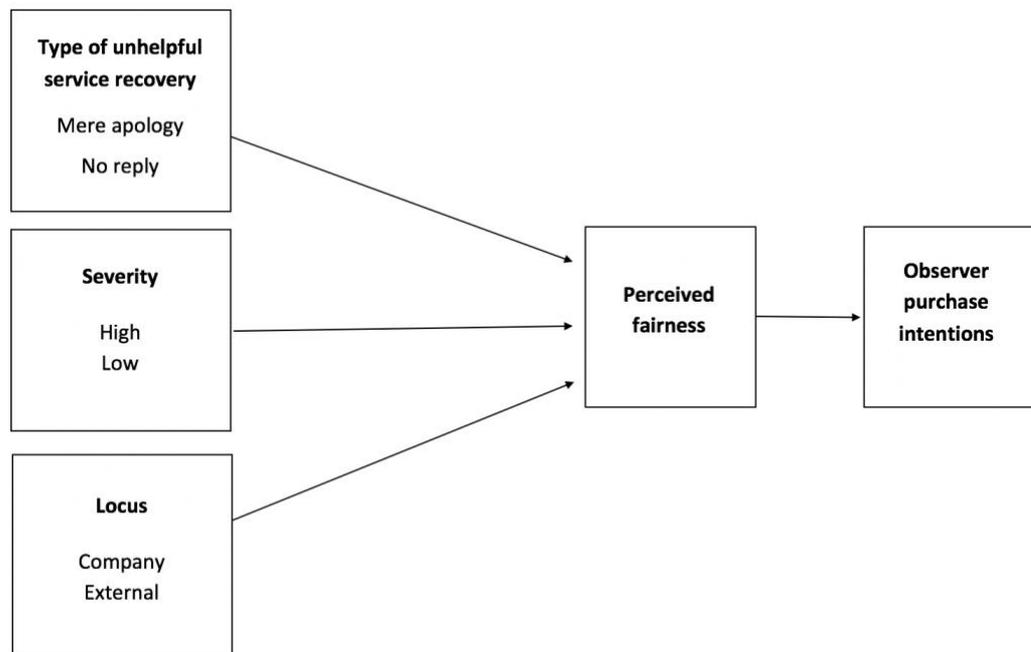
In order to test this model, we will replicate the mediation analysis done for hypothesis 1, relationship between type of unhelpful service recovery and observers purchase intentions mediated by perceived fairness. This will be carried out for both severity and locus.

Through the correlations matrix and regression analysis we found that the first two points of Baron and Kenny's (1986) definitions of a mediator has been met. There is a significant relationship between severity and purchase intentions (β=-.185,

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p=.020) and between locus and purchase intentions (β = -.292, p = .000). Further, we see that there is a significant relationship between severity and perceived fairness (β=-.158, p=.048) and locus and perceived fairness (β = -.199, p = .012). To test if perceived fairness is still predicting observers purchase intentions after controlling for severity and locus, we used two separate multiple regressions. When controlling for severity, the standardised coefficient beta for perceived fairness was β=.628, p=.000. The relationship between severity and observers purchase intentions is also 'less' falling from β=-.185 to β=-.086. In addition, the relationship became insignificant (p=.170) when perceived fairness was controlled for, indicating a complete mediation. When controlling for locus, the standardised coefficient beta for perceived fairness was β=.607, p=.000. The relationship between locus and observers purchase intentions is also 'less', falling from β=-.292 to β=-.170. Thus, we can see that perceived fairness mediates the relationship between both severity/locus and observers purchase intentions.

As all three independent variables are correlated, a joint mediation analysis was also carried out to determine if the three independent variables combined predict observers perceived fairness and purchase intentions. After combining the three independent variables (Recovery, Severity, Locus (RSL)), we found a significant relationship between RSL and observers purchase intentions (β=-.205, p=.010). However, we did not find a significant relationship between RSL and perceived fairness (β=-.073, p=.363). Thus, we can already conclude that there is no mediation effect found when combining the three independent variables, and that their effects occur separately.

6. Discussion

The aim of our thesis was to respond to the gap in the current literature in regard to observers and unhelpful service recovery via social media. Prior literature on the topics has focused on customers in a traditional setting (Johnston & Clark, 2005; Berry & Parasuraman, 1991; Boshoff, 1997; Bitner et al., 1990). Although there is some literature on customers in a social media setting, it is scarce and incomplete, ignoring the new response options that companies have. Looking at research about observers of complaints and service recovery it is even scarcer, with only a few articles addressing it in a traditional setting (Skarlicki & Kulik, 2005; O´Reilly & Aquino, 2011). Thus, we found ourselves asking the following question; *Is existing literature on service recovery transferrable to observers, and will the option of not replying to customers be better in some cases than giving an unhelpful answer?*

In order to answer our overall problem statement and our research question, we developed a thorough understanding of the currently existing research involving service recovery, complaint management, social media and observers.

Although many blogs and online sources are stating that one should always reply to the customers online no matter what (Salesforce, 2017, Social Media Examiner, 2015, Adweek, 2017, etc.), our main finding indicates that a mere apology will be worse than not replying in terms of observers' perceived fairness. This is regardless of service failure severity or locus. This goes against conventional wisdom and the advice of marketing gurus online. Thus, proving that always replying is not the best option, and that unless companies are able or willing to successfully recover a complaint, they should remain silent. Further, we found that observers' perceived fairness mediates the relationship between type of unhelpful service recovery and observers purchase intentions. Thus, replying in a vague and unhelpful manner to customers on social media will impact the purchase intentions of the virtually present observers via perceived fairness. Therefore, the answer to our overall problem statement; 'Will the option of not replying be better in some cases than giving an unhelpful answer?' is yes, it is always better to not reply instead of being unhelpful.

Further, our study discovered that service failure severity and locus did not have a moderating effect between unhelpful recovery and perceived fairness; instead severity and locus have a direct relationship with perceived fairness and a mediated relationship with observers purchase intentions. This is conflicting with much research that has been done looking at customers, where researchers have found service failure severity and locus to have a moderating effect (Hoffman et al., 1995; Weun et al., 2004; Zeithaml et al., 1993, Smith et al., 1999). Not finding a significant moderation effect was surprising to us; however, we cannot rule out the relationship. The regression coefficients and estimated marginal means indicated that there was an ordinal interaction in our dataset, however it was not strong enough to be significant. Therefore, we cannot rule out the relationships, but instead encourage more research on the topic.

As we did not find support for our moderating hypotheses, we decided to update our model and test for direct and mediating relationships. We found that there was a complete mediation between severity and observers purchase intention, with perceived fairness as the mediator. We also found a partial mediation between failure locus and observers purchase intention, with perceived fairness as the mediator. This in addition to the already established complete mediation between type of unhelpful service recovery and observers purchase intentions, mediated by perceived fairness

Through the analysis we have been able to answer our initial research questions:

> *RQ1: How are observers purchase intentions impacted by the complaints made by customers on social media and the type of unhelpful recovery (mere apology versus no reply) given by the company?*

Observers' purchase intentions are indirectly impacted by the type of unhelpful service recovery. Observers use perceived fairness to judge the complaint dialog to form an opinion of the situation and the company, and then base their purchase intentions on this opinion. We found that no reply from the company is better than just a mere apology in terms of both observers' perceived fairness and observers purchase intentions. We assume that observers view a mere apology as a lazy way of handling complaint and that observers would expect more from companies.

When observers do not see a reply, we assume that they are more accepting, as they may infer that the company did not see the complaint or that the company did not have time to deal with it. Therefore, perceived fairness and purchase intentions are higher when companies do not reply.

> *RQ2: How does service failure severity and locus moderate the observers purchase intentions when seeing the dialog between the complaining customer and company?*

Through the analysis we found that service failure severity and locus does not have a moderating effect on the relationship between unhelpful service recovery and perceived fairness. Instead we found that service failure severity and locus both have an indirect relationship with observers purchase intentions, mediated by perceived fairness. When severity gets high, observers perceived fairness decreases along with their purchase intentions. Similarly, when failure locus is company, observers perceived fairness and purchase intentions decrease.

From the analysis and discussion, it can be seen that the main problem statement and research questions have been answered. It has been proven that not replying is better than a mere apology in terms of observers perceived fairness and their purchase intentions. This is an important finding that challenges the conventional wisdom and many blog articles found online. Further, we proved that service failure severity and locus have a direct effect on observers perceived fairness and indirect effect on their purchase intentions. This study proves that 'always replying, no matter what' is not a good strategy for companies, and that it will negatively impact observers purchase intentions.

7. Managerial and theoretical implications

According to Baer (2018), only 50% of customers get a response to complaints on social media, and in a survey by Langsdorf (2012), more than 55% of the respondents reported that they had disappointing or mediocre experiences when communicating with brands via social media. These are strong indicators that unhelpful service recovery and not replying does exist on social media. Of the 50% that do get a response, 55% are having mediocre experiences with it. Based on our study we can see that not replying would be much better in terms of observers perceived fairness and their purchase intentions than being unhelpful.

In the beginning of this thesis we could see that social media usage has increased from 7% to 65% between 2005 and 2015 (Perrin, 2015). The largest group on social media are observers, virtually watching the complaint dialog between customers and companies in order to form opinions before making a purchase. Although the group of observers is substantially larger than the complaining customers, it has received a limited amount of interest in the academic literature and on blogs and other online sources. This is surprising as it is well known that eWOM and information gathering online has become a natural part of the purchase decision funnel.

Based on this research, we can conclude that companies should not implement a 'always responding' strategy as recommended by online blogs. If the company lacks the resources and time required for a successful recovery, it is better to stay silent than to give a vague and unhelpful response. It is important to note that we are not encouraging companies to ignore all customer complaints on social media. If possible, companies should seek to provide solutions to their customers in the hope of achieving a successful recovery. However, we would like to discourage companies from having an unhelpful response to all customer complaints only to say that they always respond to customers. Then not replying will be a better option.

8. Limitations and further research

There are a few limitations to this research, as it is an attempt to explore a previously untouched area, with limited literature to base hypotheses on. This research provides a good starting point for further research in terms of replication and extensions.

The first limitation is that this thesis is only giving an overview of the topic of unhelpful service recovery and the impact this has on observers. With more resources a more thorough study, truly diving into the topic and giving an understanding of all mechanisms, could have be undertaken. Another limitation is that this was a convenience sample collected through social media, making the sample size slightly lower than we wanted. Preferably we would have liked to see a larger sample to ensure higher statistical power of our groups.

Future research should focus their time on the observing audience as well, and further expand on our contribution. We suggest that future research should investigate the effects different types of service recovery have on observers, in addition to looking into other moderators that could impact the relationship. We also believe that researchers should replicate this study to confirm if there is a moderating effect of severity and locus, or if these are strictly main effects when considering observers. Further, researchers should be critical to the quick comparison of eWOM and complaints made on social media. It is important to distinguish between the two, as eWOM could be any positive or negative feedback online, whilst complaints expect a company reply. Therefore, we suggest that also the difference of eWOM and online complaints are examined.

All in all, we consider our work to be beneficial and important for both practitioner and for the literature. With our limitations and recommendations in mind, future research on this topic should be of great interest as this is a relatively undiscovered, yet increasingly important and relevant marketing field.

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Appendix 1 - Scenarios

Scenario 1 - Severity high + locus company:

English

'Hi Cloud Airlines. I travelled with you earlier today, and my flight was 2 hours delayed due to shortage of staff. I had to sit in a crowded cabin the whole time, and missed my connecting flight. How will you make up for this?

Kind regards,

Irritated customer.'

Norwegian

'Hei Cloud Airlines. Jeg reiste med deres flyselskap tidligere i dag, og flyet mitt var 2 timer forsinket på grunn av mangel på personale. Jeg måtte sitte i en stappfull kabin hele tiden, og mistet mitt neste fly. Hvordan vil dere gjøre opp for dette?

Vennlig hilsen,

Irritert kunde.'

Scenario 2 - Severity high + locus external:

English

'Hi Cloud Airlines. I travelled with you earlier today, and my flight was 2 hours delayed due to a storm. I had to sit in a crowded cabin the whole time, and missed my connecting flight. How will you make up for this?

Kind regards,

Irritated customer.'

Norwegian

'Hei Cloud Airlines. Jeg reiste med deres flyselskap tidligere i dag, og flyet mitt var 2 timer forsinket på grunn av en storm. Jeg måtte sitte i en stappfull kabin hele tiden, og mistet mitt neste fly. Hvordan vil dere gjøre opp for dette?

Vennlig hilsen,

Irritert kunde.'

Scenario 3 - Severity low + locus company:

<u>English</u>

'Hi Cloud Airlines. I travelled with you earlier today, and my flight was 30 minutes delayed due to shortage of staff. I had to sit in a crowded cabin the whole time. How will you make up for this?

Kind regards,

Irritated customer.'

<u>Norwegian</u>

Hei Cloud Airlines. Jeg reiste med deres flyselskap tidligere i dag, og flyet mitt var 30 minutter forsinket på grunn av mangel på personale. Jeg måtte sitte i en stappfull kabin hele tiden. Hvordan vil dere gjøre opp for dette?

Vennlig hilsen,

Irritert kunde.

Scenario 4 - Severity low + locus external:

<u>English</u>

'Hi Cloud Airlines. I travelled with you earlier today, and my flight was 30 minutes delayed due to a storm. I had to sit in a crowded cabin the whole time. How will you make up for this?

Kind regards,

Irritated customer.'

<u>Norwegian</u>

'Hei Cloud Airlines. Jeg reiste med deres flyselskap tidligere i dag, og flyet mitt var 30 minutter forsinket på grunn av en storm. Jeg måtte sitte i en stappfull kabin hele tiden. Hvordan vil dere gjøre opp for dette?

Vennlig hilsen,

Irritert kunde.'

Appendix 2 – Fictive company description

English

Cloud Airlines was founded in 2007 with one goal in mind — to transport people around the world — and that is precisely what we do. Our friendly staff and fleet of aircrafts will accommodate you in a helpful way, and no matter what you need, we are there for you.

We are based in Oslo, Norway and serve almost all major airports around the globe. Cloud Airlines takes pride in the strong relationships we have with our customers, our never-ending drive to make flying better for you, and the fact that we have been able to grow global out of little Norway.

We currently have a fleet of 150 planes, which all are modern and of top quality. This makes us able to always serve our customers and get them where they need to go.

Come fly with us in the clouds!

Norwegian

Cloud Airlines ble grunnlagt i 2007 med et mål; å transportere mennesker rundt hele verden - og det er akkurat det vi gjør. Vårt vennlige personale og flåte av fly vil imøtekomme deg på en hjelpsom måte, og uansett hva du trenger, er vi der for deg.

Vi er basert i Oslo, Norge og har ruter til nesten alle større flyplasser over hele verden. Cloud Airlines er stolte av de sterke relasjonene vi har med våre kunder, vår uendelige driv for å gjøre flyturen bedre for deg og det faktum at vi har vært i stand til og vokse globalt ut av lille Norge.

Vi har for tiden en flåte på 150 fly, som alle er moderne og av topp kvalitet. Dette gjør at vi alltid kan betjene våre kunder og frakte dem dit de ønsker å reise.

Kom fly med oss i skyene!

Appendix 3 - Questionnaire

Purchase intention

Seven-point scale, anchored at middle and endpoints ("Strongly Disagree"/"Neither"/"Strongly Agree").

<u>English</u>

1.   It is very likely that I will buy from [brand]
2.   I will purchase from [brand] next time I need an airline ticket
3.   I will definitely try [brand]
4.   Suppose that a friend called you to get your advice in his or her search for an airline ticket. Would you have recommended him or her to buy from [brand]?

<u>Norwegian</u>

1. Det er veldig sannsynlig at jeg vil kjøpe fra Cloud Airlines
2. Jeg vil kjøpe fra Cloud Airlines neste gang jeg trenger en flybillett
3. Jeg vil definitivt prøve Cloud Airlines
4. Anta at en venn ringte deg for å få ditt råd i hans eller hennes søk etter en flybillett. Vil du anbefale han eller henne å kjøpe fra Cloud Airlines?

Perceived fairness

Seven-point scale, anchored at middle and endpoints ("Strongly Disagree"/"Neither"/"Strongly Agree").

Distributive Justice

<u>English</u>

1. The outcome the customer received was fair.

2. The customer did not get what they deserved. (R)

3. In resolving the problem, the airline gave the customer what they needed.

4. The outcome the customer received was not right. (R)

<u>Norwegian</u>

1. Utfallet kunden fikk var rettferdig.
2. Kunden fikk ikke hva han eller hun fortjente.
3. Ved å løse problemet ga flyselskapet kunden det han eller hun trengte.
4. Utfallet kunden mottok var ikke riktig.

Procedural Justice

<u>English</u>

1. The airline showed adequate flexibility in dealing with the customer's problem.

<u>Norwegian</u>

1. Flyselskapet viste tilstrekkelig fleksibilitet når de håndterte kundens problem.

Interactional Justice

<u>English</u>

1. The company were appropriately concerned about the customer's problem.

2. The company did not put the proper effort into resolving the customer's problem. (R)

3. The company's communications with the customer were appropriate.

4. The company did not give the customer the courtesy that was due. (R)

<u>Norwegian</u>

1. Selskapet var tilstrekkelig bekymret angående kundens problem.
2. Selskapet gjorde ikke en ordentlig innsats for å løse kundens problem.
3. Selskapets kommunikasjon med kunden var passende.
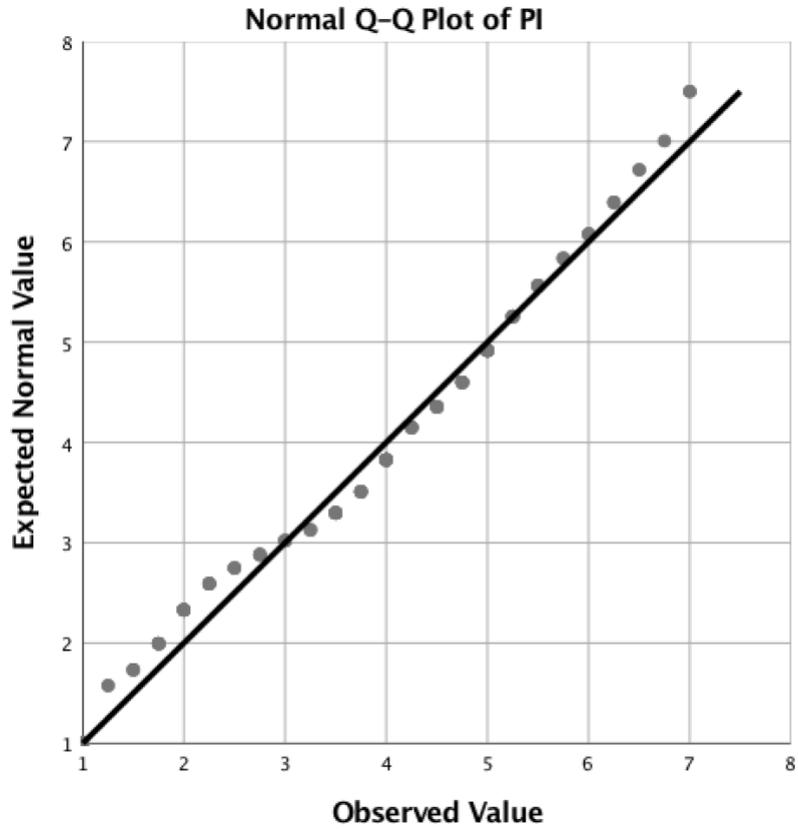4. Selskapet ga ikke kunden høfligheten som var forventet.

Demographic measures

Age

- Under 20
- 20-29
- 30-39
- 40-49
- 50-59
- 60-69
- 70+

Gender

- Male
- Female

Appendix 4 – Q-Q plots

Purchase intentions

Perceived fairness