

THE IMPACT OF SERVICE GUARANTEES ON CUSTOMER SATISFACTION

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ABSTRACT

The aim of the study is to investigate how a service guarantee may impact customer satisfaction. Contrary to previous research, the paper focuses on the situation after the service purchase when, as a result of a service failure, the guarantee is invoked. Empirical results are gathered from public transportation customers that have invoked the guarantee within the last year.

INTRODUCTION

One challenge for service organizations is to recover the customer and build satisfaction after a service failure has occurred. Service recovery involves recognizing that service failure has occurred and doing something to correct it [Sasser, 1991 #50]. According to Tax and Brown [Tax, 1998 #40], customers fail to complain about service quality failures because they: believe the organization will not be responsive; do not wish to confront the individual responsible for the failure; are uncertain about their rights and the firm's obligation; and are concerned about the high cost in time and effort of complaining. A service guarantee may serve as an incentive for customers to overcome these fears about contacting the company after service quality failures, intending to prevent service failure from terminating the customer relation and to restore satisfaction [Hart, 1990 #38][Rust, 1996 #25].

However, although guarantees theoretically have been claimed to affect service recovery, its empirical relevance has not been analyzed. Instead, recent research on service guarantees have focused on if and how customer expectations of service quality are affected by a service guarantee that is added to the offering [Tucci, 1997 #11][Wirtz, 2000 #2] [Ostrom, 1998 #3] In addition, little is known of how customers' opinions of service quality are affected after the guarantee has been invoked. Thus, instead of analyzing how the guarantee may influence expectations, this research is a post-purchase study of how customers' perceive service quality after they have invoked a service guarantee.

The aim of the study is to investigate how the invoking of a service guarantee may impact customer satisfaction. The empirical foundation of the paper is based on a survey among public transportation customers in an urban city. The Public Transit Authority (PTA) guarantee a reimbursement for taxi expenses in situations when the customer has risked being delayed by 20 minutes to their final destination. In guarantee terms, the guarantee is explicitly marketed, conditional and specific to the design, and related to only the core service of transporting a customer within a specific timeframe.

SERVICE RECOVERY THROUGH SERVICE GUARANTEES

The importance of service recovery has been stressed by a number of researchers identifying that the many uncontrollable factors in service delivery makes the occasional service failure is

unavoidable [Heskett, 1990 #46],[Michel, 2001 #52]. A broad definition of service recovery is that it “involves recognizing that service failure has occurred and doing something to correct it (Sasser, Hart et al. 1991). It differs from complaint management as it aims at providing an immediate solution to prevent that a customer leaves the service encounter dissatisfied, whereas complaint management reactively deals with the complaints on service failure [Michel, 2001 #52]. Its importance has been stressed for several reasons; “Service recovery is one of the most important determinants of service quality and customer loyalty. Customer loyalty has a direct impact on profitability” states Heskett et al [Heskett, 1990 #46]. Tax and Brown [Tax, 1998 #40], emphasize the identification, collection, and analysis of service failures in order not only to satisfy the customer but also to learn from the experience. Johnston has found empirical evidence that a large proportion of delighting outcomes after service failures were the result of service recovery, and that “the recovery of failures can provide a major opportunity for organisations to create very satisfied customers”[Johnston, 1995 #53].

Service guarantees have been attributed a number of benefits such as building loyalty, sales and market share [Hart, 1988 #45], achieving service quality [Ostrom, 2000 #5], customer satisfaction [Heskett, 1990 #46], and service recovery [Tax, 1998 #40]. A literature review on service guarantees display that research has focused primarily on the service guarantee as a mechanism that may influence the customer *before* purchasing a service. In such instances, the guarantee’s effect on consumers’ evaluation of services display that guarantees may increase pre-purchase evaluations, but only under certain conditions, and that the presence of other quality components also influence how the consumers’ perceive the service guarantee and the service offering [Tucci, 1997 #11][Ostrom, 1998 #3] [Wirtz, 2000 #2]. This article regard a part of the guarantee that has received much less attention, namely how the guarantee may affect the customer *after* the service purchase. Although other service recovery approaches have been studied, the effect that invoking a service guarantee may have on service recovery and customers’ evaluation of a service has not yet been empirically investigated.

Theoretically, Hart provides anecdotal documentation that the unconditional guarantee of satisfaction is far more powerful than a specific guarantee [Hart, 1998 #31]. Also Sasser et al (1991) state that “Total customer satisfaction does not mean service perfection. But through the vehicles of unconditional service guarantees and effective recovery efforts, imperfect service can nevertheless be remedied in ways that lead to total satisfaction” [Sasser, 1991 #50] pp 340. However, recent findings display that customers prefer the specific guarantee to the unconditional when they consider invoking a guarantee, “probably for its clarity and manifest nature”. [McDougall, 1998 #1] p 289. Only when the customers consider the choice of firm based on the guarantee, the unconditional guarantee was preferred.

In conclusion, research on service recovery indicates that a successful recovery program may lead to an increase in customer satisfaction, and even to customer delight. The service guarantee is considered such a recovery device, although its relevance has not been empirically studied.

THE STUDY

The methods most commonly used to capture customers’ opinions of recovery is the analysis of hypothetical scenarios, critical incident interviews, or written customer complaints [Edvardsson, 2000 #15], [Johnston, 1995 #53]. In this research, “the guarantee experiences” are real not

hypothetical, and the focus was not on the critical incident itself and what may lie behind it, but rather on the company's response to recover the customer. In addition, the written complaints did not contain information on how the recovery was solved. Therefore, this postal survey differs somewhat from previous studies in that respondents submit opinions based on their experience from invoking it. However, as public transportation is a service that most customers use daily or almost daily, they may previously have been subject to delays or service failures without utilizing the service guarantee. To handle difficulties such as recall bias or re-interpretation of experiences, each survey begun with a brief but individual description of the incident that had caused the customer to invoke the guarantee. It contained information on the date and time of travel, what type of transportation that the customer had used and at what location the service guarantee was invoked.

The postal survey consisted of three sections that captured information on the respondents opinions toward the service guarantee, the overall service, their experience when invoking the service guarantee and background information on the customers regarding travel habits, age, sex and whether they were reimbursed for taxi travel or not. In all, the questionnaire was sent to 592 customers that had invoked the service guarantee and 392 completed and returned the survey (a response rate of 66 percent).

The data were collected from respondents whose guarantee claims regarded incidents that had occurred between February and May 2001. Systematically, every fifth claim that were sent in for reimbursement for taxi travel, including a receipt and a brief description of the incident that resulted in the customer invoking the service guarantee, was selected. Of the 592 customers, 58 had not received a reimbursement since there was no delays in those specific hours or at that specific station when the customer took a taxi. Of the 66 percent of the respondents that returned the survey, 10 percent had taken a taxi but did not receive reimbursement from the PTA.

Respondent were characterized by the following: 77 percent travel daily or almost daily with the public transportation service, 13 percent travel a few times a week, 7 percent travel a few times a month, and 3 percent travel more seldom than a few times a month. 57 percent were women and 43 percent were men. 28 percent was between 14 and 29 years of age, 27 percent between 30 and 39, 18 percent between 40 and 49, 17 percent between 50 and 59, and 10 percent were between 60 and 83.

RESULTS

All respondents of the survey had invoked the service guarantee at least once, 21 percent had invoked it at least three times between February and May 2001. The findings suggest that the service guarantee in the researched public transportation service is a measure that is appreciated by the respondents. 89 percent of all respondents considered the guarantee meaningful. Interestingly, 57 percent of the respondents that *did not* receive reimbursement for their taxi expenses still found the guarantee to be meaningful. For reasons of comparison it is interesting to know that the last four years' surveys on service quality within the total customer group, not only those that have invoked the guarantee, have displayed satisfaction ratings of 56, 56, 58 and 59 percent. With this fact in mind, it is interesting to view the results of table 1 displaying how the respondents that have invoked the service guarantee rate the overall service.

table 1. Overall quality assessment for public transportation service (n=392)

Quality assessment	Percent
Satisfying	34
Neither	24
Dissatisfying	42

Table 2 presents customer responses to the question if they are *more* satisfied with the public transportation service after they have invoked the service guarantee.

table 2. Customers that are more satisfied with public transportation service after invoking the guarantee (n=392)

Quality assessment	Percent
More satisfied	48
Some	14
Not more satisfied	34
Do not know	4

DISCUSSION AND FUTURE RESEARCH

Do service guarantees have an impact on customer satisfaction? There are a few signs in present research that service guarantees indeed have affected the respondents in this survey. However, it is important to remember that the customers in this survey have all experienced a service failure, i.e. the customer has risked being delayed by 20 minutes because the public transportation did not arrive on time. The service recovery effort displayed by the PTA to prevent customers from leaving the service encounter dissatisfied is reimbursement for travel by a substitute service – taxi. The guarantee is related only to a measurable part of the service and is therefore to be considered specific [Hart, 1998 #31].

48 percent of the respondents state that they are *more* satisfied with the public transportation service after invoking the service guarantee. In this situation, it seems service guarantee may function as a recovery measure to positively influence situations when customers have experienced service failures. However, would this fact also mean that these respondents were delighted, that this research is consistent with that of Johnston [Johnston, 1995 #53], who found that a large proportion of delighting outcomes were the result of service recovery? Not necessarily. Table 1 display that of the same customers, only 34 percent rate overall service quality to be satisfying. This rating suggest that despite the fact that invoking the service guarantee has positively influenced almost half of the customers surveyed, they still seem to rate overall service quality lower than the average customer (where 56-59 percent rate service quality as satisfying). There may be several explanations to these findings, such as the failure being too grave or that the customer has experienced service failures often when using public transportation.

Another interpretation could be that the service guarantee may not influence customer delight *after* the service purchase has taken place. When utilized as a service recovery device, the guarantee is always associated with a service failure and possibly would these negative experiences be too closely associated with the guarantee to create delight. In such instances the guarantee would not increase customer satisfaction but decrease customer dissatisfaction.

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