EXPLORING PENALTIES IN SERVICES

FOLLOWING A CUSTOMER MISTAKE

by

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ABSTRACT

This dissertation focuses on two under-researched areas in services: customer mistakes and customer penalties. The mistakes that customers make often lead to penalties imposed by the service provider. Examples of penalties are airline change fees, late payment fees, retail restocking fees, and no-show charges. The current trend among service firms is to add or increase penalties and fines (Lovelock and Wirtz 2007, p. 143) as a means of not only changing customer behavior, but also as a source of revenue for the firm. Customers are frequently error-prone (Chase and Stewart 1994) and cause one-third of all service problems (Tax, Colgate, and Bowen 2006). As common as customer mistakes are, no research exists that explores these mistakes. In addition, no research examines the penalties assessed by service firms after a mistake, or the effect of these penalties on the customer-firm relationship. Many questions exist about customer mistakes and the resulting penalties. The major research questions of this dissertation are the following: (1) What are the underlying causes of customer mistakes in services? (2) What are customers' emotional reactions to penalties, penalty waivers, and waiver refusals? (3) What are the consequences of these emotional reactions on the service relationship? (4) What is the role of attribution of firm responsibility and the disconfirmation of expectations in explaining customers' perceptions of fairness?

LIST OF ABBREVIATIONS AND SYMBOLS

ANCOVA	Analysis of covariance
ANOVA	Analysis of variance
AVE	Average variance extracted
CFI	Comparative fit index
CIT	Critical incident technique
Freq	Frequency
GEMS	Generic error-modeling system
GFI	Goodness of fit index
IFI	Incremental fit index
NFI	Normed fit index
RFI	Relative fit index
RMSEA	Root mean square error of approximation
SD/SA	Strongly disagree/strongly agree scale
SRMR	Standard root mean square residual
α	Cronbach's index of internal consistency
β	Beta
df	Degrees of freedom: number of values free to vary after certain restrictions have been placed on the data

F	Fisher's *F* ratio: A ratio of two variances
M	Mean: the sum of a set of measurements divided by the number of measurements in the set
p	Probability associated with the occurrence under the null hypothesis of a value as extreme as or more extreme than the observed value
R^2	Coefficient of determination
ΔR^2	Change in the coefficient of determination
SD	standard deviation
t	Computed value of *t* test
z	z score
<	Less than
=	Equal to
%	Percentage
→	Relationship with

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CHAPTER 1

EXPLORING PENALTIES IN SERVICES FOLLOWING A CUSTOMER MISTAKE

Introduction

All services require some level of customer participation (Bitner, Faranda, Hubbert, and Zeithaml 1997). Customers now have more opportunities than ever before to co-create the service experience. New methods of service customization and the array of self-service technologies available to customers generate new participation opportunities. However, greater proficiency levels are required of customers in order to co-create the service. In addition to this ability to successfully participate in the service experience, the customer also must have the resources (e.g., adequate time) to effectively contribute. The high demands placed on the customer create a greater chance of customer error. In fact, customers cause one-third of all service problems (Tax, Colgate, and Bowen 2006). TARP Worldwide, a customer experience-consulting agency, found that customer mistakes or incorrect expectations cause up to 40% of customer dissatisfaction (Goodman 1999).

Common examples of customer mistakes in services are being late or forgetting (e.g., an appointment; to pay a bill), over-drafting a checking account, or requesting something without fully understanding the service or the request. The nature of a consumer's busy lifestyle can lead to mistakes. Forgetting things or being late for things is very common in American society. An endless number of books, smart phone applications, and television shows seek to help people organize their lives. In addition, service customization allows consumers to make very specific decisions about the service, and sometimes consumers do not have the expertise or understanding to make those types of decisions (e.g., choosing a rental car that does not fit the needs of a trip). This lack of expertise or understanding may come from a lack of experience with the service, the failure to obtain needed information before a service, inaccurate assumptions about the service provider, or other individual differences.

In this dissertation, I am only looking at "honest mistakes," or those mistakes that are truly unintentional, without any deceptive undertones. The customer does not anticipate a problem from his or her action or inaction in these situations. Throughout this dissertation, a customer mistake is defined from the customer's perspective (i.e., the customer considers the action/inaction a mistake).

The topic of why we make mistakes (particularly in decision-making) has garnered intense popularity among the general public, as a plethora of books about the subject have come out recently and sold well. Among those, there are the New York Times best sellers (e.g., *Sway* (2008) by Brafman and Brafman; *Blink* (2005) by Malcolm Gladwell) and the Wall Street Journal's Joseph Hallinan's book *Why We Make Mistakes* (2009). Also, psychologist Cordelia Fine's *A Mind of its Own: How Your Brain Distorts and Deceives* (2006) and psychologist Madeleine van Hecke's *Blind Spots: Why Smart People Do Dumb Things* (2007) are popular titles. One of the main points that these books make is that the world is a cluttered and confusing place. Individuals use mental shortcuts to make life simpler, to be more efficient, and to reduce cognitive load. However, these mental shortcuts also mean that people may miss the details of a task, leading to mistakes.

When a customer makes a mistake in a service situation, the service firm often assesses the customer a penalty. Service firms are increasingly using penalties and fines not only as a way of getting customers to behave in a certain way, but also as a major source of income. For example, if an individual makes a mistake while booking a flight, the airline charges a change fee to the customer to correct the mistake. A recent New York Times article reported that airline change fees are as much as $150 for domestic tickets on American, Continental, Delta, United, and US Airways (Stellin 2010). An international flight change fee on those airlines is as much as $250. From January through March of 2010, U.S. airlines made $554 million from change fees.

Consumer penalties are an important public policy issue as well. On August 22, 2010, the Federal Reserve's new credit card penalty limits went into effect. These regulations prevent a credit card company from charging more than $25 in late fees (unless the customer makes repeated violations) and from charging penalties that exceed the amount of the violation (i.e., a $39 penalty on a $20 minimum payment is no longer legal) (Bater 2010). The new laws also limit banking overdraft penalties.

In October of 2010, the CEO of Bank of America admitted to an Associated Press writer that overdraft penalties generated a lot of income for the company (Gogoi 2010). He also said that the penalties were causing the bank to lose customers. Customers upset by the high fees closed checking accounts at an annual rate of 18 percent. He said complaints were at an all-time high as well (Gogoi 2010). Account closings dropped by 27 percent after Bank of America removed overdraft charges on small debit card transactions. Penalty fees also subsidize free checking accounts. As the new regulations that limit banking penalties go into effect, Moebs Services, an economic research firm, expects free checking accounts to disappear (Gogoi 2010).

Three different theories may help explain a customer's behavior after receiving a penalty from a service firm (due to the customer's mistake). This dissertation contributes to each of these theoretical frameworks. The first theory is the attribution of responsibility. The attribution of responsibility is the degree of liability that the customer assigns to themselves and to the firm for the mistake. The customer's assignment of liability for the mistake is a major factor in determining how fair the customer will perceive a penalty and the degree to which the relationship between the customer and the firm is affected.

The second theory is entitlement theory. Entitlement theory states that an entitled customer will feel owed special benefits (Butori 2010). Loyal and long-term customers of the service provider may feel entitled to special treatment. This entitlement will be a major factor in determining the customer's perceptions of fairness.

The third theory is interpersonal rejection theory. According to interpersonal rejection theory, the most negative interpersonal emotions (i.e., shame, hurt feelings, embarrassment) will occur when people think others could reject them (Leary 2001). Therefore, if a customer asks the service firm to remove the penalty, then the firm's refusal to remove the penalty may produce the most negative customer-firm relationship outcomes.

Purpose and Contribution of Dissertation

The focus of this dissertation is customer mistakes and the resulting penalties. The purpose of this dissertation is to discover how penalties, penalty waivers, or waiver refusals that occur after a customer mistake affect the customer-firm relationship. This research contributes to two major under-researched areas in the services literature. First, this dissertation contributes to the area of penalty research. Very little research currently exists to explain how customers react to penalties from service providers. Despite the existing debate over customer penalties (among public policy makers) and the large number of service firms that use penalties, little academic research exists on the topic. A search of the marketing and services journals results in less than five published empirical papers on the topic of customer penalties (in addition to several conference papers), with only two of those published within the last five years. Among the academic research that exists, no paper focuses on the customer mistakes that cause the penalties. All of the previous studies focus on what the penalty is, not the issue that causes the penalty. Without looking at the mistake that the customer commits, it seems impossible to understand the customer's reaction to the penalty.

Second, this dissertation contributes to the area of customer mistakes. The marketing literature makes mention of customer mistakes, but mistakes are not fully explained or focused on in any empirical paper. Due to the frequency of customer mistakes and the potential for error in services, this topic is one that we should not ignore.

In this dissertation, I seek to contribute to the research areas mentioned above by focusing on the following research questions: (1) What are the mistakes that customers make in services? (2) What are the effects of a penalty on the customer-firm relationship after a customer mistake? (3) What are the effects of a penalty waiver/waiver refusal on the customer-firm relationship after a customer mistake?

Overview of Research Methodology

This dissertation includes multiple data collections (described below in Table 1.1). The first major data collection effort (Study 1) in this dissertation process was a set of critical incident studies focusing on customer mistakes. The purpose of Study 1 was to answer research question 1 (What are the mistakes that customers make in services?). Study 1 established a comprehensive list of categories of customer mistakes. The next data collection effort (Study 2) was a critical incident study and survey focusing on the penalties that customers receive due to their own mistake. This data collection helped establish the types of service providers that customers receive penalties from and the specific penalties that follow a customer mistake. This data collection also provided initial insight into the effects of penalties on the customer-firm relationship. In addition, Studies 1 and 2 contributed to the development of my model of mistakes and resulting penalties. Study 3 was a pre-test of the scenario manipulations. This pre-test determined which scenarios should be included in Studies 4 and 5. Study 4 was a pre-test of the scenario-based experiment with a student-recruited sample of non-students. The purpose of Study 4 was to determine if the scales and measures were working and to test the viability of the experimental design. Finally, I conducted the scenario-based experiment with a national consumer panel (Study 5).

Table 1.1

Description of data collection

Pre-test of Study 1: critical incident technique (CIT) and content analysis of customer mistakes with a student sample
Study 1: CIT and content analysis of customer mistakes with a non-student sample
Study 2: CIT and content analysis of penalties with a student and non-student sample (recruited by MKT 473 students)
Study 3: Manipulation and realism check with a convenience sample of non-students
Study 4: Pre-test of the scenario-based experiment with a non-student sample (recruited by MKT 473 students)
Study 5: Scenario-based experiment with a non-student sample (using a Qualtrics consumer panel)

Overview of the Model and Hypotheses

Figure 1.1 shows the model of customer mistakes and potential penalties. I define each variable in Table 1.2. Three potential penalty conditions are included in the model. In the first penalty condition, the customer receives the penalty from the firm without asking for a waiver. In the second, the customer asks for a penalty waiver and receives the waiver—the customer does not receive a penalty. Finally, the customer asks for a penalty waiver, but the firm denies the waiver—the customer receives the penalty. Based on the outcome of the penalty situation, the customer makes an appraisal as to the fairness of the firm's action. Perceived fairness, defined as the degree to which the customer believes the firm's response is reasonable and justifiable, is the central construct of this study. The confirmation/disconfirmation of customer expectations and the attribution of responsibility form customers' perceptions of fairness. The negative emotions anger and disappointment mediate the relationship between perceived fairness and the outcomes for the firm.

As described and presented, the model illustrates the following hypothesized relationships:

> **H1:** Attribution of responsibility fully mediates the relationship between the reason for the mistake that the customer makes and the perceived fairness of the penalty outcome. Specifically, a customer who makes a mistake due to a lack of attention will perceive the penalty as fairer than a customer who makes a lack of knowledge mistake. (reason for mistake → attribution of responsibility → perceived fairness of the penalty outcome)

> **H2:** A customer who feels a high degree of personal responsibility for the mistake is likely to appraise the penalty as fairer than a customer who feels the firm has a high degree of responsibility (attribution of responsibility → perceived fairness of the penalty outcome)

> **H3:** A customer who receives a penalty or penalty waiver refusal is likely to appraise the penalty as less fair than a customer who receives a penalty waiver. (potential penalty→perceived fairness of the penalty outcome)

> **H4:** The confirmation/disconfirmation of customer expectations fully mediates the relationship between customer situational entitlement and perceived fairness of the penalty outcome. Specifically, a customer who feels entitled will perceive the penalty as less fair than a customer who feels less entitled. (customer situational entitlement→ confirmation/disconfirmation of customer expectations→perceived fairness of the penalty outcome)

> **H5:** A customer whose expectations are disconfirmed positively by the firm's response is likely to appraise a penalty as fairer than a customer whose expectations are disconfirmed negatively. (confirmation/disconfirmation of customer expectations → perceived fairness of the penalty outcome)

> **H6:** The customer's emotional response fully mediates the relationship between the customer's perceived fairness appraisal and the outcomes for the firm. Specifically, a customer who perceives a penalty as fair will have lower levels of anger and disappointment (increasing positive outcomes for the firm) than a customer who

perceives the penalty as unfair (increasing negative outcomes for the firm). (perceived fairness of the penalty outcome→negative emotions→outcomes)

H7: A customer who experiences high levels of anger or disappointment will be less likely to stay with the provider and engage in positive word-of-mouth communication, and more likely to have a desire to switch providers and engage in negative word-of-mouth communication than a customer who experiences lower levels of anger or disappointment. (negative emotions → outcomes)

Figure 1.1

A model of customer mistakes and potential penalties

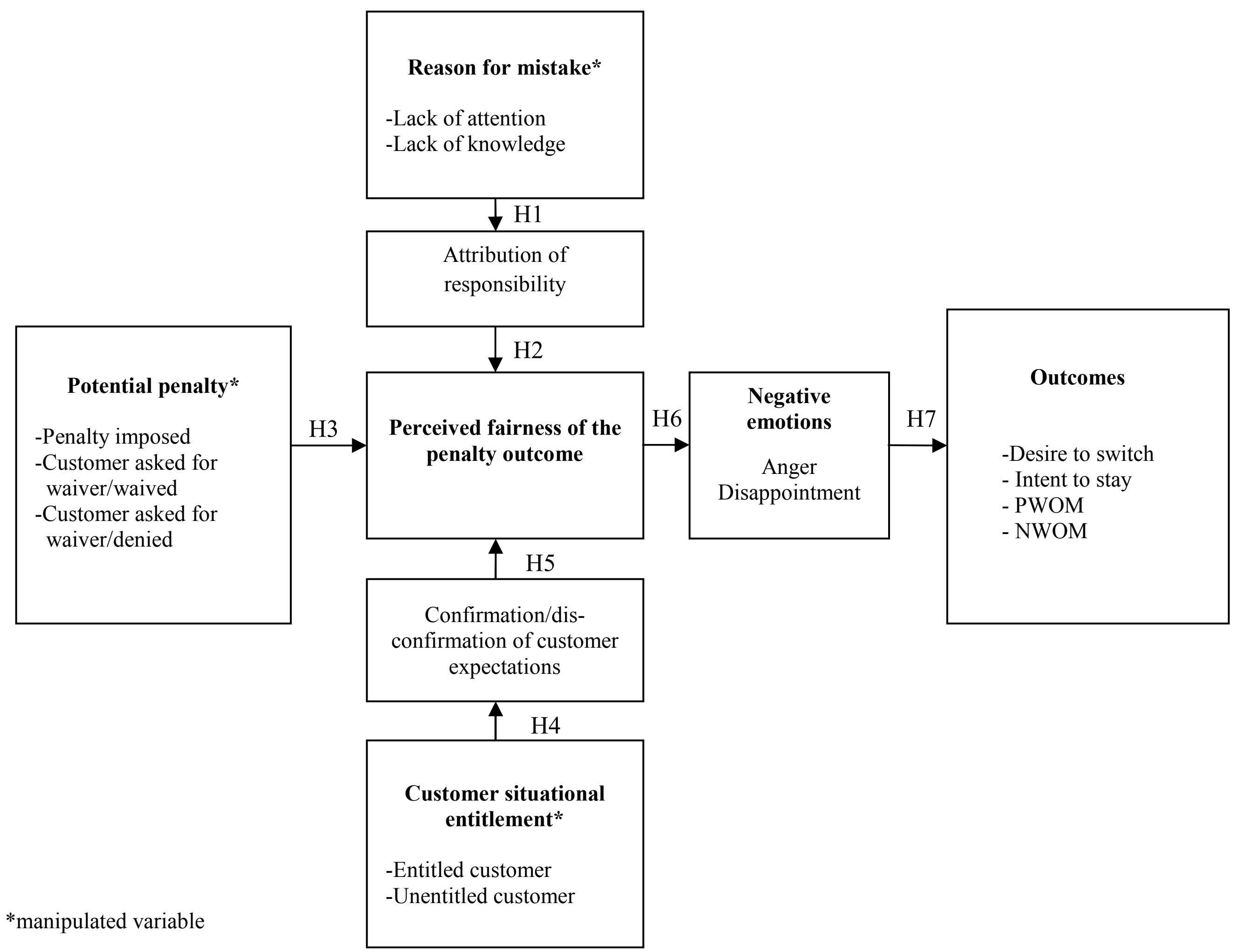


Table 1.2

Variable definitions

Variable name	Variable components	Definition
Reason for mistake	Lack of attention	The failure to give the amount of care and concentration needed to a task (leading to a customer mistake)
	Lack of knowledge	Having insufficient information needed to properly perform a task (leading to a customer mistake)
Customer situational entitlement	Entitled customer	A customer who feels that he/she should receive special or better treatment than regular customers (Butori 2010)
	New/fairly new customer	A customer who does not feel that he/she should receive special or better treatment than regular customers
Potential penalty	Penalty imposed	The firm imposes a penalty after the customer makes a mistake
	Customer asked for waiver/waived	The firm imposes a penalty after the customer mistake, and the customer asks for a waiver. The firm agrees to remove the penalty.
	Customer asked for waiver/denied	The firm imposes a penalty after the customer mistake. The customer asks for a waiver, but the firm refuses to remove the penalty.
Attribution of responsibility		The degree of liability (responsibility) that the customer assigns to themselves and to the firm for the mistake
Confirmation/dis-confirmation of customer expectations		The degree to which the outcome is the same as, falls short of, or proves better than the customer's expectations (Wallace, Giese, and Johnson 2004)
Perceived fairness of the penalty outcome		The degree to which the customer believes the firm's response to the mistake is reasonable, acceptable, or justifiable (not excessive or extreme)
Negative emotions	Anger	An emotion that is aroused by a real or supposed wrong, grievance, or injustice (Funches 2007)
	Disappointment	An emotion that occurs when an outcome does not match up to a previously held expectation or hope (Zeelenberg and Pieters 2004)

Variable name	Variable components	Definition
Outcomes	Desire to switch	A customer's longing to receive the service from a different provider (Bougie, Pieters, and Zeelenberg 2003)
	Intent to stay	The customer's desire to stay with the service provider (Maxham and Netemeyer 2002)
	Positive/negative word-of-mouth	Positive word-of-mouth includes making others aware that one does business with a service provider and making positive recommendations to others about the company (Brown, Barry, Dacin, and Gunst 2005); Negative word-of-mouth includes giving negative information relating to a service firm and its offerings (Laczniak, DeCarlo, and Ramaswami 2001)

Organization of the Dissertation

This dissertation proposal contains eight chapters, organized as follows: Chapter 2 reviews the relevant and related literature to customer mistakes and penalties in services. Chapter 3 explains the qualitative phase of the dissertation. Chapter 4 presents the proposed model of customer mistakes and the resulting penalties, the research hypotheses, and rationales. Chapter 5 explains the research design and the results from Study 3. Chapter 6 describes the research design, method, data analysis, and results from Study 4. Chapter 7 outlines the research, method, data analysis, results, and discussion of the findings from Study 5. Finally, Chapter 8 provides a general discussion of the findings, theoretical and managerial implications, and limitations and future research directions.

CHAPTER 2

LITERATURE REVIEW

In this chapter, I review several streams of literature relevant to customer mistakes and resulting penalties. First, I discuss the marketing literature that examines customer mistakes. Given that this is not a fully developed research area in marketing, I draw from other disciplines in order to explain customer mistakes. I present research on human error from operations and quality management, human resources management, and criminal and contract law in order to explain mistakes. Then, I examine the marketing research that focuses on customer penalties.

Customer Mistakes

The marketing literature makes mention of customer mistakes, but mistakes are not fully explained or focused on in any empirical paper. Bitner, Booms, and Tetreault (1990) describe a customer error as a strain on the service encounter. Examples of customer error in this research are lost tickets, incorrect orders, or missed reservations. The authors found that when responding to customer errors, employees contribute to highly satisfying encounters when he or she acknowledges the problem, takes responsibility, and assists the customer with the problem without embarrassing the customer. The employee contributes to dissatisfying encounters by laughing at or embarrassing the customer for the mistake, avoiding responsibility, or being unwilling to help solve the problem.

Xue and Harker (2002) explored customer efficiency, explaining that customers' efficiency and productivity influences the quality of the entire service delivery process. An inefficient customer (e.g., takes a long time during a transaction) is likely to cost the company money and is likely to have a lower quality experience than an efficient customer. Ultimately, the service provider benefits when its customers are efficient, and suffers when its customers are inefficient and mistake-prone.

Stewart and Chase (1999) stated that while the customer often takes an active role in the delivery of the service, unlike people in other error research (i.e., employees of an organization), the customer does not train to perform the service function. If the untrained customer makes an error, then the customer may blame the service firm (Stewart and Chase 1999).

Chase and Stewart (1994) showed that customer errors occur in three different stages during the service: errors in the preparation for the encounter, the encounter, or the resolution of the encounter. The authors suggest practical ways for service firms to prevent mistakes at each stage of the service encounter (e.g., setting up a reminder system to help customers remember appointments).

Human Error

Human error is an action or inaction that produces undesired results (Resimius and Stiller 2010). Stewart and Grout (2001) describe error as a performance of a task that an individual does not complete as intended or an individual making a decision that does not produce the desired result (p. 442). The odds of an error-filled performance seem very high, as there is usually only one way to perform a task correctly (or very few correct ways). Each stage in a sequence of actions or thoughts has a chance of an unintended or inappropriate path (Reason 1990). The probability of human error on even straightforward tasks is nonzero (Kantowitz and Sorkin 1983). During stressful situations, human error rates are even higher (between 10% and 100%) (Pope 1986). Error is a natural consequence of overtaxing the mind or using the stored routines and rules in inappropriate situations (Stewart and Grout 2001). Actions performed repetitively become unconscious routines over time, which may lead to error (Norman 1981). This is activation-trigger-schemata theory (Norman 1981). Mistakes may also occur due to situational variability and complexity (Hinckley and Barkan 1995).

Service Employee Error

The marketing literature does not elaborate on employee error, even in service failure situations. One reason for this may be that service providers seem more concerned with how employees recover from a mistake rather than how the mistake occurred. In addition, the majority of service failure research is attempting to determine the best recovery method for service failure without looking at how human error contributes to the failure. Secondly, perhaps the lack of employee error research is due to business process improvements that do not allow employees to fail. Previous research has shown that 95% of customer defections are due to system-based reasons and 5% are due to human-based reasons (Deming 1986). The field of total quality management is now focusing on preventing defects or problems instead of inspecting quality after production (Snell and Atwater 1996). Thirdly, a review of employee errors requires that employees report the errors that they make. Service employees may regularly make small mistakes (e.g., writing down an order wrong) that they would not want to report or that they do not remember to report. In addition, some errors may never be revealed to the employee (i.e., the customer does not complain about the mistake).

Mistake Prevention

Poka-yoke is a Japanese term meaning “to fail-safe” or “to mistake-proof.” A poka-yoke traditionally refers to any mechanism in a manufacturing process that helps the employee avoid mistakes. Shigeo Shingo created the concept as part of the Toyota production system (Liker and Hoseus 2008). Baka-yoke was the original Japanese word used, meaning “fool-proofing” or “idiot-proofing,” but eventually the name changed to the less abrasive poka-yoke. Today, the term refers to any behavior-shaping constraint designed into a product or service to prevent incorrect action by the user (Grout and Downs 2010). The purpose of the poka-yoke is to eliminate mistakes by preventing, correcting, or drawing attention to human errors as they occur (Grout and Downs 2010). A poka-yoke prevents a mistake from occurring or makes the mistake glaringly obvious. For example, a restaurant trying to prevent wait staff from serving the wrong drink may use different shapes of coasters to distinguish the decaffeinated coffee drinkers from the regular coffee drinkers. On an airplane, a passenger may have to engage the door lock in order to switch on the lights in the toilets. A bank may have a beeping mechanism on its automated teller machine (ATM) so that the customer does not forget to take their card. Using poka-yokes, or fail-safe methods, to prevent human errors in service systems is one of the "big ideas" in service operations history (Chase and Apte 2007). Ideas such as SERVQUAL and the emergence of the experience economy are also on the big ideas list (Chase and Apte 2007).

The System Approach to Human Error

Taking action to employ fail-safe methods is an example of "the system approach" to human error. The premise of the system approach, which psychologist James Reason (2000) argues is the best approach to confronting human error, is that humans are fallible and that we should expect errors, even in the best of circumstances. The approach recognizes that errors are consequences of other factors (Reason 2000). Under this approach, the service provider must expect mistakes, and take action to counter mistakes. When an undesirable event occurs, the important issue is not who messed up, but how and why the countermeasure failed (Reason 2000). The system approach places high importance on building defenses into the service system to avert error or to mitigate the effects of the error.

The Person Approach to Human Error

In contrast, an organization may employ "the person approach" to error. The person approach to human error focuses on who is at fault for the error. This approach views human error as coming from atypical mental processes such as forgetfulness, inattention, poor motivation, carelessness, negligence, and recklessness. A company puts countermeasures into place in an attempt to reduce unwanted variability in human behavior (Reason 2000). Examples of these countermeasures are fear appeals, adding additional procedures, disciplinary measures, threats of litigation, naming the party responsible, and blaming the party responsible. Organizations that follow the person approach typically treat mistakes as moral issues, assuming that errors are a result of moral weakness (i.e., bad things happen to bad people) (Reason 2000). The person approach is the dominant tradition in medicine (i.e., how hospitals treat employee error) as well as other services (Reason 2000). One reason that the person approach is dominant is that blaming an individual is more emotionally satisfying than blaming a process or an organizational system (Stewart and Chase 1999).

Error Management within the Service Organization

Error management has two parts: limiting the number of errors and (because this will never completely be effective) containing the damaging effects of errors (by creating systems that are able to tolerate error) (Reason 2000). High reliability organizations (organizations that have avoided catastrophes in environments in which experts would expect normal accidents due to the risk factors) are obsessed with the possibility of failure. These organizations expect errors to occur and train employees to recognize and report errors (Reason 1990). These organizations also rehearse familiar failure scenarios and try to imagine new failures. A high reliability organization does not rely on scare tactics to prevent error (i.e., a mistake results in punishment), but instead employs practical tools (e.g., poka-yokes) to help prevent error as well as manage errors as they occur (Reason 2000).

Mistake Detection

Consumers may not immediately realize that they have made a mistake. Reason (1990) finds that there are three ways that individuals discover their own mistakes: (1) through self-monitoring (2) something in the environment alerts the individual that they have made a mistake, or (3) another person tells the individual that they have made a mistake. Sellen (1994) offers a similar categorization of detecting human error. The first category in Sellen's framework is catching an error as it occurs. The second category, external limiting function, occurs when an external environmental cue signals to the individual that an error is made (e.g., a customer who writes down a flight time incorrectly will find the mistake after looking at a flight departure board). Finally, the third category, outcome-based detection, occurs when the actions do not produce the intended results (e.g., the customer pays a bill and then receives a late fee).

Human Error in Human Resources Management

In the management literature, researchers study human error in order to prevent accidents. Accident prevention is a top priority for most industrial companies in order to reduce insurance and liability costs. Human error is the main cause of accidents (Abdelhamid and Everett 2000). Accident root cause tracing models (ARCT) are common in the management literature focusing on preventing accidents and human error. Accident tracing guides an investigator through questions about the accident and helps find and eliminate the root cause. Accident root cause tracing comes from the Ferrel theory (Heinrich, Peterson, and Roos 1980) which says that accidents can be attributed to a causal chain in which human error plays a significant role. According to this theory, human errors occur due to one of three situations: overload of the mind, incorrect response, or improper activity because of not knowing any better or deliberately taking a risk.

Human Error and Criminal Law

In criminal law, one of the major issues when looking at an individual's mistake and determining whether it is criminal is whether to look first at the objective act or the subjective intent. The judge or jury must decide the "moral culpability" (i.e., the blameworthiness of an individual; whether the intent was to do wrong). The jury or judge usually base their decision on whether the mistake is reasonable or unreasonable based on the circumstances (Finkel and Goscup 1997). This includes looking at the social situation, the other individuals involved, the accused person's background, etc.

Dissonance between the objective facts and an individual's subjective impression of the facts generate some of the most difficult problems in criminal theory (Fletcher 1978). Criminal theorists must consider whether to hold a person responsible for something that they did not mean to do. Some argue that making a mistake is similar to having a cognitive impairment (Finkel and Goscup 1997) because individuals act on what they perceive, comprehend, and believe to be true. Not having enough knowledge or the correct knowledge is an impairment.

Human Error and Contract Law

In contract law, a mistake may be a reason to void a contract. Mistakes raise complex issues in contract law and are a source of difficulty for the courts (Eisenberg 2003). One of the main reasons for this difficulty is the courts' desire to give relief to those parties who make a mistake, while balancing the reward of skill, knowledge, and diligence for those who enter an agreement. Eisenberg (2003) considers five types of mistakes in contract law, each with reasons why the mistake should or should not be a basis for relief from a contract. I define the five types of mistakes and then explain which mistakes are grounds for contract termination.

Evaluative mistakes are those in which one party changes their mind, for any reason. Mechanical errors are physical or intellectual mistakes. A mistranscription is a situation in which the writer or typist of the contract does not complete the job accurately. Interpretive mistakes are those in which one or both parties are mistaken about the meaning of the contract. Shared (mutual mistake) or unshared (unilateral) factual assumptions are those in which the parties have incorrect beliefs about the world at the time of the contract (Rasmusen and Ayres 1993). Evaluative mistakes should not be a basis for voiding a contract (Eisenberg 2003). Changing one's mind does not constitute a reason for terminating a contract. Mechanical errors should be a basis for voiding the contract unless the unmistaken party is injured due to reliance on the contract. The three other types of mistakes (mistranscription, interpretive, and mutual or unilateral mistakes) are generally reasonable excuses for relief from a contract (Eisenberg 2003).

Penalties

When a customer makes a mistake in a service situation, a service firm will often charge the customer a penalty or give some type of punishment. Although a large number of service firms use penalties, little academic research exists on the topic. A search of the marketing and services journals results in less than five published empirical papers on the topic of customer penalties (in addition to several conference papers), with only two of those published within the last five years. This is surprising considering the amount of attention penalties are currently receiving in the general media.

Among the academic research that exists, no one focuses on the customer mistakes that cause the penalties. All of the previous studies focus on what the penalty is, not the issue that causes the penalty. Without looking at the mistake that the customer commits, it seems impossible to understand the customer's reaction to the penalty.

In previous work on penalties, Kim (2007) conducted an exploratory study of customers' perceptions of why firms use penalties. The author introduced the variable "customer attribution of the organization's intent." This variable is composed of two components: offensive and defensive intent. Defensive intent is similar to self-defense, as it relates to the organization's effort to protect itself from economic losses or harm caused by customers and to encourage customers to comply with the organization's rules in the future. Offensive intent is the organization's decision to exploit and punish customers for the firm's gain. The author found that the customer's perception of the organization's intent influences the customer's behavior toward the firm.

Kim and Smith (2005) found that perceptions of fairness drive a customer's response to a fine or penalty. Using the critical incident technique, the authors asked participants (from two e-mails lists) to recall a recent penalty incident, describe the situation and complete a questionnaire referring to the incident. The severity of the penalty and adequacy of the firm's explanation both had a significant influence on distributive justice and negative emotions. The controllability of the penalty (ability to prevent the penalty) had a significant positive influence on the three types of justice.

McCarthy and Fram (2000) define customer penalties as payments of a fee or loss of a deposit for failure to complete a purchase agreement. These authors surveyed a consumer panel, asking for the participants' opinions about penalties. To find if customer penalties work (i.e., prevent unwanted behavior), the authors asked participants for their level of agreement with the following statement: "The possibility of paying a penalty makes me more likely to follow through on a transaction I would otherwise cancel." Results show that the level of agreement was only slightly higher than the midpoint of the scale, and the authors could not make a conclusion about the influence of penalties on consumer behavior. The authors believe that consumers may vary in their sensitivity to penalties. Other findings from the study show that women seem less willing to patronize a penalizing firm than men, customers' willingness to patronize firms who impose penalties decreases with age, and customers' willingness to patronize firms who impose penalties increases with income. In order to find if different penalties result in different fairness perceptions, the authors created 13 situations involving a penalty (e.g., early lease termination; late cancellation fee), and find that men tend to view penalties as fairer than women do across all situations. Some individuals who had paid a penalty in the last two years rated the penalties in the scenarios as fairer than people did who had not had a penalty before. The authors believe that customers, in certain situations, will accept responsibility for failure to comply with the purchase agreement. McCarthy and Fram (2000) find that punishment and penalties produce negative outcomes for the firm, including negative word-of-mouth. An interesting consideration for my dissertation is how a penalty waiver may affect these negative outcomes.

Fram and Callahan (2001) conducted phone interviews with 44 customers (randomly chosen phone numbers from the phone book) who related stories about 66 penalties. The authors questioned participants about penalties resulting from the failure to complete a purchase agreement. The fairness of the penalty, whether the individual tried to get the penalty overturned, and whether a conflict developed were the main research questions of the research. The authors found that in 42% of the penalty situations, the customers see the penalty policy as fair. The remainder found the penalty policy unfair and the cost unjustified. In about half of the 66 penalty situations, the customer tried to get the penalty waived. Of those who tried, about half were successful in obtaining the waiver. The authors report that conflicts occurred in half of the penalty situations. In one-third of the penalty situations, the customer switched to a different vendor because of a conflict. In 77% of the penalty situations, the customer told someone else about the penalty.

Presumably using the same data set as McCarthy and Fram (2000), Fram and McCarthy (1999) listed 13 penalty situations and the prevalence of each within their data. The most common penalty in their study was a late loan payment fee, followed by an airline change fee, a merchandise-restocking fee, and an early certificate of deposit withdrawal fee. The authors also listed the various fees associated with many different services, including the no-show fees at restaurants and car rental companies, daycares (who often charge $5/minute for late pick-up), and cell phone cancellation penalties.

Fram (1997) gave practical advice to companies about using penalties, and explained how penalizing customers may affect the company. Fram (1997) encouraged companies to measure the results of their penalties. He stated that few, if any, firms appear to be measuring the results of penalty programs. Some programs are likely causing customer relations problems that exceed the program benefits. Customers view penalties negatively, and penalties may affect customer relations (Fram 1997).

Kim (2006) conducted a survey with consumers in the financial services industry and found that perceptions of fairness play an important role in increasing customers' overall satisfaction, as well as helping customers behave in a desirable way (such as compliance intentions). Kim (2008) studied two groups of customers and their penalty evaluations: cooperative customers and rebellious customers. Cooperative customers are those who develop a positive relationship with the company and are not likely to break the company's rules in the future, while rebellious customers are those who are dysfunctional and are likely to break the company's rules. The study used a critical incident technique with a survey design. Results show that for cooperative customers, overall satisfaction plays a more significant role in repurchase intentions than penalty fairness perceptions, but penalty fairness perceptions determine rebellious customers' repurchase intentions.

CHAPTER 3

QUALITATIVE RESEARCH

In this chapter, I explain the data collection process and findings from two critical incident studies. The goal of the first study was to gain a better understanding of customer mistakes and to obtain a comprehensive list of the types of mistakes that customers make in services. In the second study, the goal was to learn more about the penalties that customers receive in services, including which service providers are most likely to give penalties and the types of penalties that customers receive. Studies 1 and 2 (approved by the institutional review board #11-OR-031) provided the background for the model used in Studies 3, 4, and 5.

Customer Mistake Critical Incident Study (Study 1)

In order to explore mistakes from the customer's perspective, a new research area, I conducted a critical incident study with a content analysis (cf. Harrison and Beatty 2011). The critical incident technique (CIT) appears in more than 140 articles in the marketing or marketing-related literature since 1975 (Gremler 2004). Using this method allowed the participants to describe, in detail, actual mistakes that they have made. Other methods would not have provided this level of detail (in the quantity collected). Before conducting Study 1, I pre-tested the questions with students.

Pre-test

The pre-test survey explored the mistakes that customers make in service situations, and ensured that the open-ended questions were adequate for a broader study. I offered students in a marketing research class an optional extra credit opportunity for participating. The exact question the students were asked is "Can you think of a time when you or someone you know had a bad experience at a service provider due to a mistake you/they made? If so, please fully describe the situation." I also asked the students about customer mistakes that they had seen while working for a service provider. The exact wording used was "Perhaps you have worked in a service industry where you dealt with a customer who had a bad experience due to a mistake they made. Please describe the situation." (This was a paper-and-pencil survey.)

After gathering the data, I engaged in a careful, iterative reading process of all of the incidents. Within each data set, I grouped similar incidents together and named the groups. I took extra care to ensure that all themes were mutually exclusive, and that all incidents were included. Two major categories of types of mistakes emerged from the data: lack of attention and lack of knowledge. After examining the data, I created the following definitions: lack of attention is the failure to give the amount of care and concentration needed to a task; lack of knowledge is having insufficient information needed for a task, leading to a customer mistake.

Study 1

In order to address the first research question of this study (What are the mistakes customers make?), I conducted a large data collection effort. Students in a marketing research class received extra credit to recruit non-student adults (see Appendix A for the recruitment e-mail). This recruiting approach is widely used (cf. Arnold and Reynolds 2003). Forty-three students (59 percent of the class) recruited participants for extra credit (students could recruit up to five individuals). Two hundred and thirteen participants shared 275 incidents in which they made a mistake. Fifty-three incidents were dropped (33 due to a participant describing a situation in which the service provider made a mistake; 18 because it was not clear what the mistake was or what service industry it pertained to; and two individuals were dropped because they could not think of any mistakes), resulting in 222 usable incidents from 179 people. Eighty percent of the sample discussed one mistake, 16 percent submitted two mistakes, and four percent provided three mistakes. Forty-one percent of the sample is male; 59 percent of the sample is female.

Table 3.1 shows other demographics and the service providers represented.

Table 3.1

Demographics and service providers represented

Age	
19-25	12%
26-35	20%
36-45	14%
46-55	39%
56-65	9%
66-75	6%
75+	0%
Education	
Less than high school diploma	0%
High school or equivalent	7%
Some college	14%
2-year degree	10%
4-year degree	49%
Master's degree	3%
Doctorate or Professional degree	16%
Race	
White/Caucasian	92%
Black/African-American	7%
Hispanic	.6%
Other	.6%
Service providers	
Airline	11%
Hotel/Vacation rental	10%
Retail	10%
Restaurant	9%
Hairdresser	7%
Online retail/book club	7%
Bank	6%
Doctor/dentist	5%
Dry cleaner	4%
Car/limo rental	4%
Car maintenance	3%
Landscaper	3%
Apartment mgmt co.	2%
Home maintenance	2%
Nail/tanning salon	2%
Tuxedo rental	2%
Credit card co.	1%
Other (e.g., accountant, pest control, spa, child's dance lesson, etc.)	12%

The exact wording used in the critical incident study was “Sometimes customers have bad experiences with service providers, but it is because the customer has made a mistake. For example, a customer might order something without fully reading what it is, make reservations for the wrong day, check out of a hotel at the wrong time, or not understand the expectations when returning something that was rented.” After showing the participant a list of 28 example service providers, I asked the participant to describe a memorable mistake and then answer several follow-up questions, including whose fault the participant thought the mistake was and if the participant told other people about the mistake. (See Appendix B for the complete list of survey questions.) The participant could describe up to three mistakes. (Participants could describe more than one mistake because one of main goals of the main study was to compile an exhaustive list of mistakes that customers make.)

Data Categorization

I used the incident classification system recommended by Bitner et al. (1990) to develop a process for categorizing the customer mistake data. The process involves an analytic induction procedure, consisting of iterative, careful reading in which the first coder places incidents into groups based on the similarities in the data. These groups became the themes of the study. After careful consideration and elimination of many alternative dimensional structures, I identified two themes: lack of attention and lack of knowledge. Further, I identified two dimensions of lack of attention and three dimensions of lack of knowledge (this dimensional structure is similar to Chase and Stewart (1994) who found that errors occur at different stages of the service). The following list shows the dimensional structure:

Lack of attention has two dimensions:

- Lack of attention while initiating the service
- Lack of attention during the service process

Lack of knowledge has three dimensions:

- Lack of knowledge about the details of the service
- Lack of knowledge to solve an issue with the provider
- Lack of knowledge of the scope of the service

I wrote a detailed set of coding rules and definitions, which served to increase the reliability of the judgments (Kolbe and Burnett 1991; Perreault and Leigh 1989). The coding instructions provided a training mechanism for a second coder who had not participated in the earlier categorization decisions. I gave the second coder the instructions as well as a list of the themes. The coder was free to create new categories, and offer suggestions regarding the existing categories. This individual coded the 222 incidents independently, using the coding instructions as a guide. Disagreements occurred between the two judges in 11% of the categorizations across the 222 incidents analyzed, resulting in an interjudge reliability of 89% (an acceptable score according to Gremler 2004). We discussed disagreements until we reached agreement. See Table 3.2 for the list of subcategories. The subcategories (Table 3.3 shows examples of each) create a basis for understanding the types of mistakes customers make in service situations.

Table 3.2

Categorization of critical incident data

Lack of Attention		
Lack of Attention (57%)	***Definition/Explanation***	***Subcategories***
A) Initiating the service (31%)	The individual unintentionally neglects the ordering, reservation, or other service initiation procedures.	(1) Did not pay attention to all of the information available/ misread the information (17%) (2) Made reservation for the wrong date/time/location (12%) (3) Went to wrong service provider (3%)
B) Service process (26%)	During the actual service, the individual does not pay attention to what they are doing.	(1) Forgot about the service/late (14%) (2) Gave the service provider the wrong information/wrong payment (8%) (3) Mismanaged time while using the service (3%) (4) Lost something (1%)
Lack of Knowledge		
Lack of Knowledge (43%)	***Definition/Explanation***	***Subcategories***
A) Details of the service (21%)	The individual is deficient in knowledge about specific details of the service (i.e., price).	(1) Did not understand what they were asking for/ did not know how to communicate what they wanted (12%) (2) Did not have complete information to make a decision about the service/did not realize how much it would cost (8%) (3) Did not follow the service provider's advice (1%)
B) Solving issues with the service (16%)	The individual does not have knowledge on how to address problems with the service provided.	(1) Allowed service failure to happen/did not get documentation (12%) (2) Did not check behind the provider/question anything after a service failure (4%)
C) Scope of the service (6%)	The individual lacks knowledge of the service in general. This is often due to inexperience or not using the service over a period of time (during which the service has changed).	(1) Did not understand the service/unaware of service script (3%) (2) Assumed service provider offered the service and they did not (3%)

Table 3.3

Example incidents

Lack of Attention (57%)	*Subcategory*	*Example Incident*
Initiating the service (31%)	(1) Did not pay attention to all of the information available/misread the information (17%)	I made a reservation at a hotel, but I didn't read the fine print. I had to cancel it a couple of nights before the stay and come to find out, I was responsible for the full amount of the bill regardless of whether I ended up staying there or not!
	(2) Made reservation for the wrong date/time/ location (12%)	I was traveling to Puerto Rico on company business and my wife, daughter and mother-in-law were going along with me. I was trying to book the cheapest flights and booked the flights for 8:53 pm instead of 8:53 am. This would have caused them to miss a whole day of their stay. Since I was a preferred customer, the airline let me cancel and rebook although at a higher ticket price.
	(3) Went to wrong service provider (3%)	I usually use the same hotel when I travel...Holiday Inn Express....well, I arrived in Minneapolis and I go to the hotel and they did not have my reservation....my mistake was I actually made my hotel reservation for a different hotel...Hampton suites…
Service process (26%)	(1) Forgot about the service/late (14%)	I scheduled an appointment for pest control to come out for their annual termite inspection, around my schedule, and completely forgot about the appointment.
	(2) Gave the service provider the wrong information/wrong payment (8%)	I was co-hosting an 80th birthday party in my hometown, not my current residence. I was in charge of the caterer and accidentally gave him my home phone number instead of my cell. Needless to say, they encountered a problem and were running very late. They couldn't reach me. Some of the old folks got restless and a few left.
	(3) Mismanaged time while using the service (3%)	Once I rented a condo for a concert in Gulf Shores, AL. I did not pay close attention to our check out time and after staying out all night for the concert I did not wake up in time. I was charged an extra day on my credited card. This really made me mad because I only missed check out time by 30 minutes. The front desk lady explained to me that check out time is set in the computer and if you do not make it to the desk in time the card is automatically charged.
	(4) Lost something (1%)	I bought a dressy 2-piece outfit from a retail store, but when I got home I had only the top in the hang-up bag. I went back to the retail store and told them I only had the one piece but they said there wasn't anything they would do to replace it. The position the store took was it was my fault.

Lack of Knowledge (43%)	***Subcategory***	***Example Incident***
Details of the service (21%)	(1) Did not understand what they were asking for/did not know how to communicate what they wanted (12%)	I went to the hairdresser, asked her to cut my hair 1 inch all over but I didn't realize how short one inch would be.
	(2) Did not have complete information to make a decision about the service/did not realize how much it would cost (8%)	I ordered new checks from the bank. They asked if I wanted the fancy duplicate type. I "assumed" it was included in the free checking that I had originally signed up for. I freaked when I saw my bank account balance. I had been debited over $100.00 for the fancy checks.
	(3) Did not follow the service provider's advice (1%)	I had a problem with a tooth. My doctor told me to go to the dentist quickly because the tooth would become brittle. I put it off (not thinking it was that bad) and suffered the consequences by slightly cracking the tooth. I went ahead and got the crown put on it but now I can't really use that side of my mouth when chewing something hard. I am like an old person.
Solving issues with the service (16%)	(1) Allowed service failure to happen/did not get documentation (12%)	I have had a bad experience due to my own mistakes with my landlord. When I first moved in to my apartment, there was a checklist available for me to make sure everything was in good condition. I had so much going on at the same time that I completely forget to turn in the sheet. I am responsible for existing problems with my landlord considering I did not make them aware of the circumstances prior to moving in.
	(2) Did not check behind the provider/question anything after a service failure (4%)	A couple of years ago I took 23 items to the dry cleaner. When I picked them up I didn't count the items. A couple of days later I was looking for a particular sweater that I knew was in that batch. I called the cleaners and they said they sent home everything I had brought. 6 months later when this dry cleaner moved to a new location they called me at home and demanded that I pick up my left over cleaning. I was out of an entire season of wearing that sweater.
Scope of the service (6%)	(1) Did not understand the service/unaware of service script (3%)	My wife and I rented an apartment which had a dirty oven. Instead of reporting it to the realty company which represented the landlord we just cleaned it, and used it occasionally for 18 months. When we left the apartment we didn't clean the oven but left it moderately clean. The oven was left noticeably cleaner than it was when we moved in. The realty company kept our $200 deposit because we didn't clean the oven. When I complained I was told that I should have done 2 things differently: #1 - report problems as soon as they are discovered and #2 - leave the property fully clean and undamaged.
	(2) Assumed service provider offered the service and they did not (3%)	I have been looking for a mobile home in Tuscaloosa area for about 4 weeks now, and I finally found something I liked. I went to my financial advisor, but he was out for the week. 2 weeks later, when I was finally able to meet with him, he tells me that they no longer finance mobile homes. I really could have used that information two weeks ago when the one I found got sold to other people. I should have hounded them until they told me that they no longer finance mobile homes.

Participants were asked "Do you feel like this mistake was more your fault or the service provider's fault?" (7-point scale; 1 being completely my fault and 7 being completely the service provider's fault). Those participants who made a mistake due to a lack of attention had a mean of 1.98 (closest to completely my fault), which was different from the lack of knowledge group who had a mean of 3.23 (t=5.96; p<.01). Customers who make a mistake due to a lack of knowledge are more likely than those who make a mistake due to lack of attention to attribute the fault to the service providers than to themselves. After this evaluation of the data, there seemed to be a distinct separation between the lack of attention and the lack of knowledge categories pertaining to the attribution of responsibility.

Penalty Critical Incident Technique Study (Study 2)

After acquiring and analyzing the data on customer mistakes, I conducted a similar data collection effort in order to learn more about customer penalties. In this study, I wanted to find out what types of penalties customers typically receive in services. In addition, I wanted to know how these penalties affected the customer's relationship with the service provider (research question 2). This study serves as a basis for the scenarios used in Studies 3, 4, and 5. Students in two marketing research classes were asked to participate in an online survey that asked, "Can you think of a time when you made a mistake that led to a penalty? (Or you almost got a penalty but the company waived it?)" In addition to taking the survey themselves, the students could recruit up to four non-students (See Appendix C for the recruitment e-mail). One hundred and forty-eight participants completed the survey, and I dropped 22 incidents due to the participant not fully describing the mistake or penalty; not describing a specific incident but penalties in general; or deliberately receiving the penalty (such as keeping a DVD from Red Box on purpose). This left 126 usable critical incidents. Table 3.4 shows the demographics of the sample.

Table 3.4

Demographics of Study 2

Age	
19-25	49.2%
26-35	8.7%
36-45	6.3%
46-55	26.2%
56-65	7.1%
66+	2.4%
College student	
Undergraduate	60%
Non-student	40%
Gender	
Female	60%
Male	40%

I asked participants to "fully describe the mistake you made and the resulting penalty that you received." (For the full set of questions, see Appendix D). In addition to several open-ended questions about the details of the incident, I gave the participants several statements to rate on 5-point scales. I first coded the answers to the open-ended questions by service provider type. As shown in Table 3.5, banks, airlines, and credit card companies are the top three most prevalent service providers. Table 3.6 rank orders the most prevalent providers by students and non-students. I noted that 60% of my sample was undergraduate students, and I wanted to see the effect of separating the students from the non-students. Although overdraft charges were heavily represented in the data, I cautiously interpreted that finding because of the following: (1) over-drafting is dependent on the amount of money you keep in the bank (i.e., for some people, it will be very unrealistic that they would overdraft their checking account). Over-drafting was the most common penalty that undergraduate students receive, and that may be partially due to the amount of money in the account. (2) Banks and overdraft charges may be heavily represented in this data because it was the first example in the wording of the survey. ("Some examples of this are when a customer has to pay a $25 overdraft penalty for accidentally overdrawing their checking account, losing a cleaning deposit after failing to clean something in their apartment, or paying a $100 airline change fee for making a mistake while booking a flight.")

Table 3.5

Most prevalent service providers

Service provider	**Freq**	**Percentage**
Bank	38	30.2%
Airline	20	15.9%
Credit card	15	11.9%
Hotel	8	6.3%
Doctor/dentist	6	4.8%
Hairdresser	5	4.0%
Apartment management	5	4.0%
University	4	3.2%
Parking	3	2.4%
Miscellaneous: golf course, railway, auto mechanic, library, DVD rental, cell phone co., water co., cable co., car rental	22	17.5%
Total	126	

Table 3.6

Most prevalent service providers by student status

Student status	**(1)**	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
Non-student	Misc. (21%)	Bank (19%)	Airline (19%)	Cr. Card (16%)	Hotel (8%)	Dr./dentist (7%) Hairdresser (7%)
Student	Bank (47%)	Airline (16%)	Misc. (12%)	Parking (6%) Apt. (6%) University (6%)	--	--

Next, I looked at the data by whether the participant asked for a waiver or not in their situation. If the participant asked for a waiver, I looked at whether the company granted the waiver or not. Table 3.7 shows that the majority of participants asked for a waiver in their situation (58.8%) versus not asking for a waiver (41.3%). A similar number of people were granted the waiver (31%) and denied the waiver (28%).

Table 3.7

Penalty vs. waiver prevalence

Penalty/waiver/waiver refusal		
Did not ask for waiver/received penalty	52	41.3%
Asked for waiver/penalty waived	39	31.0%
Asked for waiver/waiver refused	35	27.8%

From the incidents associated with each category above, I found that customers would ask for a waiver when they felt as though the company should take some responsibility for the problem. When participants were asked why they did not ask for a waiver, most said that they knew that the mistake was their fault, that they knew the policy and they knew that they would receive the charge, that it would not change things to ask for a waiver, or that the company charges everyone for this (i.e., standard penalty). If customers perceive that the entire industry charges the same (or similar) penalties for a mistake, then the customer seems more willing to pay the penalty and stay with the company. A customer who is unaware that the penalty exists seems more likely to ask for a waiver than someone who knows about the penalty. The customer seems to have this underlying feeling that the firm should have made them aware of the potential penalty.

Customers seem to have goodwill towards firms that waive the penalty. Likewise, customers use harsh language to describe the companies that refuse to waive a penalty (see Table 3.8). It appears as though those individuals who go through the effort to ask for a waiver do so because they expect that that the company will waive the penalty. The company either confirms the customer expectations with the waiver or disconfirms the expectations with the refusal. This negative disconfirmation seems to blindside customers and produce negative emotions toward the company. Table 3.8 presents some selected quotes from each of the penalty categories.

Table 3.8

Selected quotes by penalty/waiver/waiver refusal

Received penalty/did not ask for waiver	"I didn't ask the company to waive the penalty because (1) it was my fault completely and (2) it clearly states on the statement that you will be charged the penalty if not paid by a certain date and time. I normally pay on the computer so there are time deadlines as well as date deadlines." – 26-35 female (charged a late fee on her credit card after she wrote down the due date wrong)
	"I recognized that the problem was my own fault, and the company more than likely would not correct it." –19-25 year-old female (over-drafted checking account)
Asked for waiver/waiver granted	"They made a smart move by taking the penalty off and they kept me as a customer because of it." – 26-35 year-old female (forgot to cancel a second hotel room reservation)
	"I agree companies need policies, but everyone makes mistakes. Companies should break their policies on occasion when it is obvious that a good customer just made an occasional mistake. Yes, I still use their services. Being a customer for a long time definitely carries some weight in situations like this." –46-55 year-old female (paid bills on-line with an old (closed) checking account)
Waiver refusal	"Despisement; hatred; will NEVER go back to them again. I could understand charging someone extra who did not pay in a timely manner, but three days is ridiculous." – 19-25 year-old male (left vehicle at car mechanic for 3 days after it was ready; charged $50 per day)
	(Standard penalty) "I like the company and still use their service because to my knowledge all banks have penalties for over-drafting." – 19-25 year-old male (charged a penalty for over-drafting checking account)
	(Standard penalty) "I feel like they cheat me out of money, however I still use their services because the whole industry does business this way and it is a service that is vital." – 19-25 year-old male (charged a penalty for over- drafting checking account)
	(Standard penalty) "I feel that airlines charge too much in penalty fees. I still use them because I don't have any other choices." – 26-35 year-old female (had to pay change fee for booking the wrong date)

I also coded the data by the type of penalty that the participant received. In Table 3.9, I show the prevalence of each service provider and in Table 3.10, I rank-order the prevalence of the type of penalty by penalty/waiver/waiver refusal.

Table 3.9

Service provider prevalence

Most prevalent service providers	Freq	Percentage
Bank	38	30.2%
Airline	20	15.9%
Credit card	15	11.9%
Hotel	8	6.3%
Doctor/dentist	6	4.8%
Hairdresser	5	4.0%
Apartment management	5	4.0%
University	4	3.2%
Parking	3	2.4%
Miscellaneous: golf course, railway, auto mechanic, library, DVD rental, cell phone co., water co., cable co., car rental	22	17.5%
Total	126	

Table 3.10

Prevalence of penalty type by penalty/waiver/waiver refusal

Penalty type	(1)	(2)	(3)
Penalty/did not ask for a waiver	Overdraft/under min. bal. (50%)	Late charge (15%)	Change fee (5%) No-show fee (5%)
Waiver received	Late charge (44%)	No-show fee (21%)	Overdraft/under min. bal. (18%)
Waiver refused	Late charge (26%)	Change fee (23%)	Overdraft/under min. bal. (17%)

In one of the most interesting findings from Study 2, participants who received a penalty waiver did not leave the firm (see Table 3.11). This finding seems to have very important implications for service firms focused on retention. In addition, 43% of those individuals who asked for a waiver and did not receive the waiver left the company.

Table 3.11

Retention by penalty/waiver/waiver refusal

Do you still use the provider's services?	
Penalty/did not ask for a waiver	21% left the provider
Waiver received	0% left the provider
Waiver refused	43% left the provider

I did not specifically ask participants for the dollar amount of the penalty in their situation, but many participants offered this information while describing their situation. This information will be useful to create realistic penalties in the scenario-based experiment. Table 3.12 shows the prevalence of penalty amount by penalty type. A midrange penalty seems to fall in the $30-$40 range.

Table 3.12

Penalty amount prevalence

Penalty	Amount mentioned
Overdraft fee	$10, 15, 20, 25, 30, 32, 35, 36, 50
Failure to maintain a minimum balance	$10 (for not maintaining a $500 balance)
Credit card late fee	$29, 34, 40
No show fee (hairdresser/depilation)	$25, 25% of the service price
No show fee (doctor)	$25, 40
No show fee (dentist)	$50
Lost apt. key/lost hotel key (in Europe)	$50, 100
Lost beach towel at resort	$20
Did not put towels in bath tub as instructed at condo rental	$50
Lost parking garage ticket	$30
Forgot railway ticket—had to replace	Price of new ticket
Lost DVD (rental)	$20
Damage at a condo rental (accidentally pushed couch cushions against radiator)	$150
Apartment damage (paint on interior door)	$150
Booked the wrong dates on hotels.com	$100
Booked the wrong date for the GRE	Price of the test
Late phone bill	$10
Missed flight	$100
Overweight luggage	$50
Change flight	Difference in the price of a new ticket

The following item asked participants how fair they thought the situation was. “In my situation, I felt the penalty (penalty waiver) was fair.” In order to use the penalty/waiver/waiver refusal manipulation in an experiment, each category needed to show different results. Finding that these categories produce different appraisals of fairness would show that all categories are distinguishable from each other. Table 3.13 shows that the means are, in fact, different on the fairness item. This provides evidence that I can move forward with the penalty/waiver/waiver refusal manipulation.

Table 3.13

Fairness mean comparison

Penalty type	**“In my situation, I felt the penalty (penalty waiver) was fair.”** **Mean (5-point SD/SA scale)**
Asked for waiver/waiver refused (n=35)	2.31*
Did not ask for waiver/received penalty (n=52)	3.51*
Asked for waiver/penalty waived (n=39)	4.13*

*Means are different (even with very small sample sizes)
Independent groups t-test: t=2.52; p<.05 (1 and 2); t=4.79; p<.001 (2 and 3)

Conclusion

Study 1 revealed two different types of customer mistakes and the subcategories of each. Study 2 illustrated that customers who ask for a penalty waiver expect to receive the waiver. All of the participants who received the waiver stayed with the company. Almost half of the individuals (43%) who asked for a waiver and did not receive it left the company. Each of the three potential penalty outcomes (penalty/waiver/waiver refusal) is different on the item of fairness, suggesting that this manipulation will provide different results in a scenario-based experiment.

CHAPTER 4

MODEL, HYPOTHESES, AND RATIONALES

In this chapter, I discuss and present the research model. Next, I expound on the hypotheses and the accompanying rationales. Then, I elaborate on the theoretical contributions of this model.

Explanation of the Model

Potential Penalty

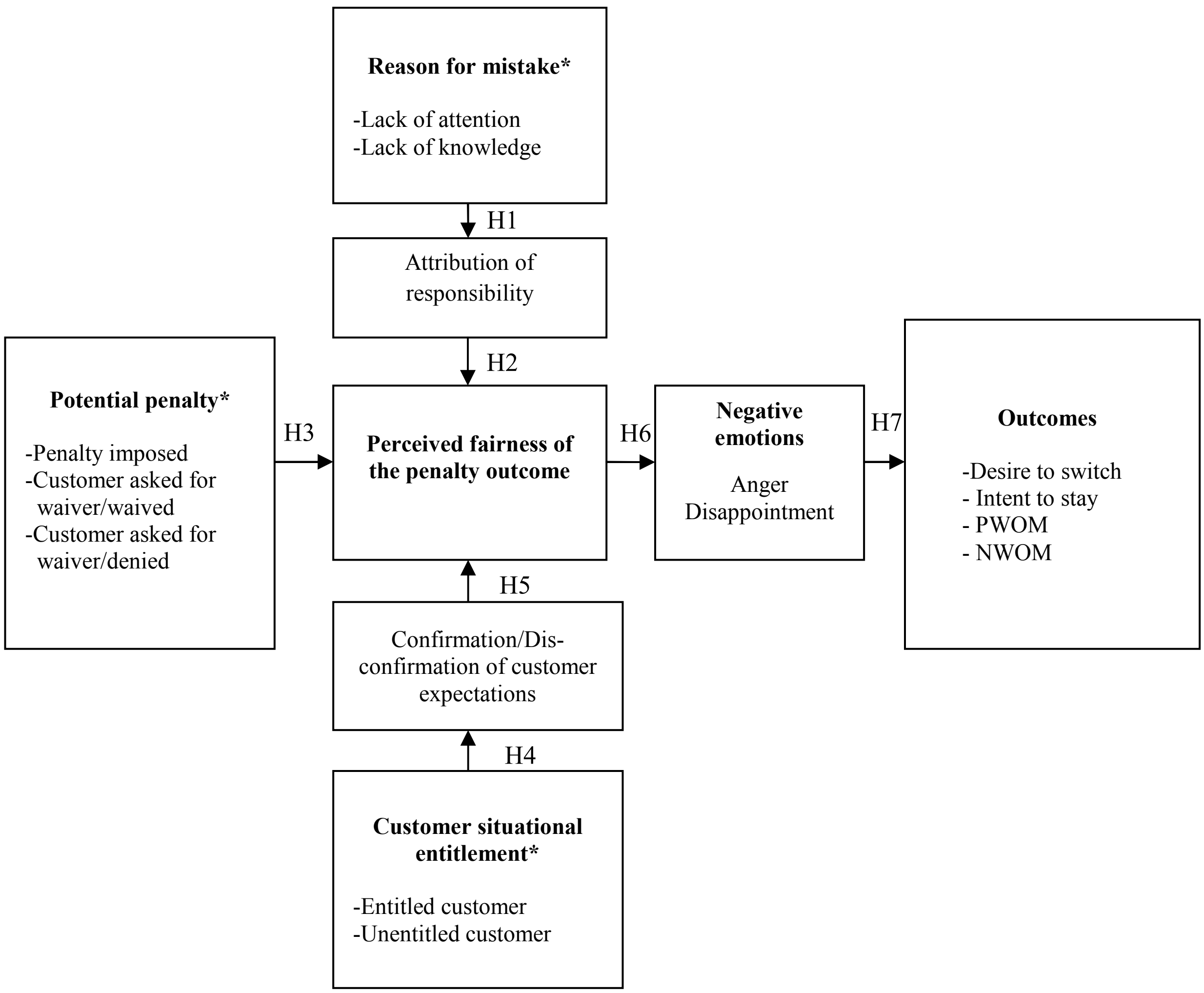
Figure 4.1 shows the model of customer mistakes and potential penalties. Three potential penalties are included in the model. In the first potential penalty, the customer receives the penalty from the firm without asking for waiver. In the second, the customer asks for a penalty waiver and receives the waiver—the customer does not receive a penalty. Finally, the customer asks for a penalty waiver, but the firm denies the waiver—the customer receives the penalty. Based on the penalty or waiver denied/received, the customer makes an appraisal as to the fairness of the firm's action.

Customer Mistake: Lack of Attention vs. Lack of Knowledge

The lack of attention/lack of knowledge paradigm (created in Study 1) fits with Reason's (1990) generic error-modeling system (GEMS), which classifies the origins of basic error types. The lack of attention category is comparable to Reason's (1990) slips and lapses, and the lack of knowledge category is comparable to Reason's knowledge-based mistakes.

Figure 4.1

A model of customer mistakes and potential penalties



* manipulated variable

Lack of attention is the failure to give the amount of care and concentration needed to a task leading to a customer mistake (definition created from critical incident study analysis). Reason (1990) describes inattention as a slip or lapse, in which actions deviate from what was intended. This is due to an execution failure or a storage failure (Reason 1979; 1984; Reason and Mycielska 1982). Two conditions are necessary for these slips of action to occur: (1) the performance of a largely automatic task in a familiar surrounding and (2) a degree of attention captured by something other than the job at hand (Reason 1979; Norman 1981). See Table 4.1 for a comparison of lack of attention and lack of knowledge.

Table 4.1

Comparison of lack of attention and lack of knowledge

Comparison factor	Lack of attention	Lack of knowledge
Additional names	Inattention; lapses; slips; execution failure	Incomplete knowledge; planning failure
Definition	Not giving the amount of care and concentration needed to a task leading to a customer mistake	Having insufficient information needed to properly perform a task leading to a customer mistake
Caused by	Poor execution of a planned action; monitoring failure (failure to monitor one's own performance, especially at critical moments during a task) (Reason 1990)	Bounded rationality (the fact that knowledge is almost always incomplete and often inaccurate) (Reason 1990)

Lack of knowledge refers to a customer having insufficient information needed for a task. The individual needs facts about a specific topic, but these are not stored in memory (Page and Uncles 2004). Individuals who find themselves in situations without the knowledge to navigate through the situation work "online," which involves slow, sequential, and resource-limited processing (Reason 1990). Lack of knowledge mistakes occur due to bounded rationality (i.e., decision-making is limited by the information one has) and incomplete or inaccurate mental models (Reason 1990).

Hypothesis 1 addresses issues related to the reason for the mistake that an individual makes and the degree of responsibility the customer feels that they should take for the mistake (versus the degree of responsibility the customer feels that the firm should take). The attribution of responsibility is the degree of liability that the customer assigns to themselves and to the firm for the mistake. In the critical incident study of mistakes (Study 1), customers who made a mistake due to lack of knowledge were more likely to attribute the fault to the service provider than those who make a lack of attention mistake. One possible explanation for this is that the customer may expect the service provider to help them understand the service so that they do not make lack of knowledge mistakes (i.e., "I should have been told or warned about this"). If the service provider does not give the customer the knowledge he/she needs, then the customer may blame the mistake on the service provider. In the lack of attention category, most people seem to recognize that they should have been more aware or more careful, and seem more willing to take responsibility for their mistake. The lack of attention and the lack of knowledge categories clearly show differences pertaining to the attribution of responsibility.

Additionally, a customer mistake may produce cognitive dissonance in the customer. Festinger (1957) described a person as being in a dissonant state if two elements in one's cognition (e.g., knowledge of oneself; behavior; feelings; desires; or one's knowledge of the world) are inconsistent. The customer may see the mistake as inconsistent with who they are (e.g., intelligent) and then must reconcile how their inconsistent behavior occurred (i.e., behavior inconsistent with intelligence). The customer may explain their inconsistent behavior by attributing the responsibility to the service provider (i.e., "they should have told me,"), which is expected to happen when a lack of knowledge mistake occurs. The customer may explain their inconsistent behavior by resolving that "I was not myself" (e.g., the individual was tired; distracted) and taking the responsibility themselves (expected to happen when a lack of attention mistake occurs).

Attribution of Responsibility

The attribution of responsibility is the degree of liability (i.e., degree of responsibility; who is obligated to fix the situation; who is answerable for what happened) that the customer assigns to themselves and to the firm for the mistake. Causality and responsibility are two different concepts (Shaver and Drown 1986). For example, a customer may feel that they caused a service problem to happen, but that they are not responsible for restitution. The customer may feel varying levels of personal and firm responsibility. The more personal responsibility that the customer takes, the more likely the customer is to perceive the imposed penalty as fair. If the customer believes that the firm has a greater degree of responsibility, then the customer is likely to perceive an imposed penalty as less fair.

Perceived Fairness

Perceived fairness is the degree to which the customer believes the firm's response is reasonable, acceptable, or justifiable (not excessive or extreme). After the firm responds (with a penalty, waiver, or waiver refusal), the customer appraises the firm's response. The customer evaluates the firm's action and decides the degree to which the penalty or waiver of penalty is deserved (fair/reasonable) or undeserved (unfair/excessive). The deserving/undeserving framework is used across the field of criminal justice (i.e., Ezorsky 1977) in studies of criminal punishment (i.e., does the punishment match the crime?) The customer's appraisal will vary based on their interpretation of the situation.

Perceived fairness is central in the model because the variable has proven to be important in previous penalty research. In Fram and Callahan (2001), customers who perceived a penalty to be unfair were likely to switch providers and tell others about the penalty situation (77% of participants told someone). In Kim (2006), perceptions of fairness drove overall satisfaction and repatronage intentions. Low levels of perceived fairness also drove dissatisfaction levels in Kim and Smith (2005).

> **Hypothesis 1:** Attribution of responsibility fully mediates the relationship between the reason for the mistake that the customer makes and the perceived fairness of the penalty outcome. Specifically, a customer who makes a mistake due to a lack of attention will perceive the penalty as fairer than a customer who makes a lack of knowledge mistake. (reason for the mistake → attribution of responsibility → perceived fairness of the penalty outcome)

> **Hypothesis 2:** A customer who feels a high degree of personal responsibility for the mistake is likely to appraise the penalty as fairer than a customer who feels the firm has a high degree of responsibility (attribution of responsibility → perceived fairness of the penalty outcome)

> **Hypothesis 3:** A customer who receives a penalty or penalty waiver refusal is likely to appraise the penalty as less fair than a customer who receives a penalty waiver. (potential penalty→perceived fairness of the penalty outcome)

Customer Situational Entitlement

Customer entitlement is a situational variable that refers to an individual who feels that they should receive special treatment. Special treatment is the extent to which a provider treats and serves its regular customers better than its non-regular customers (Gwinner et al. 1998). Entitlement theory has roots in the psychological concept of narcissism (Campbell et al. 2004). According to entitlement theory, an entitled customer feels owed special benefits (Butori 2010). Therefore, the expectations for the firm’s response will be higher for an entitled customer than a customer who feels less entitled, and it will be much harder for the firm to confirm or positively disconfirm the entitled customer’s expectations. In this context, the customer perceives that he/she has an elevated status due to his/her loyalty to the firm. The customer believes that the firm should reciprocate this loyalty by providing special treatment. Fram and Callahan (2001) find that in six of 38 (16%) penalty situations, the customer rated the firm's penalty policy as unfair because the firm did not take into account the customer's good standing.

Confirmation/Disconfirmation of Customer Expectations

As shown in the model, the customer's level of entitlement affects his/her expectations. In addition, expectations result from the customer's knowledge of the company, word-of-mouth, and previous experience with the service (Zahorik, Rust, and Keiningham 2000, p. 234). (Previous experience with the service is a covariate in the model; knowledge of the company is a control variable). These factors lead the customer to expect a certain performance from the provider. Within some industries, certain standards may exist for specific mistakes. For example, a customer may expect that there is an airline industry standard of $150 for changing a flight. Charging more than this standard may cause a negative disconfirmation of expectations. Charging less or not imposing a penalty at all will produce a positive disconfirmation of expectations.

The confirmation/disconfirmation of customer expectations contributes to customers' perceptions of fairness. Perceived fairness refers to the degree to which the customer believes that the firm's response is reasonable, acceptable, or justifiable. If a customer expects a positive outcome (e.g., a penalty waiver) and does not receive that positive outcome, then the customer does not view the firm's actions as reasonable, and therefore considers the actions unfair. This happens because an expectation occurs with a sense of certainty or confidence that a specific outcome will occur. When the service provider responds in a way that breaks this certainty and confidence, this leads to perceptions of unfairness (i.e., "Why was I treated this way?"). The relationship between confirmation/disconfirmation of expectations and perceived fairness fits with the consistency over time rule. This rule dictates that once people expect a certain procedure (in this case, the removal of a penalty), deviation from the expected procedure will lead to a reduction in procedural fairness (van den Bos, Vermunt, and Wilke 1996). On the other hand, individuals will exhibit strong, positive reactions when their high expectations of justice are confirmed by perceptions of fair treatment (Bell, Wiechmann, and Ryan 2006).

> **Hypothesis 4:** The confirmation/disconfirmation of customer expectations fully mediates the relationship between customer situational entitlement and perceived fairness of the penalty outcome. Specifically, a customer who feels entitled will perceive the penalty as less fair than a customer who feels less entitled. (customer situational entitlement→ confirmation/disconfirmation of expectations→perceived fairness of the penalty outcome)

> **Hypothesis 5:** A customer whose expectations are disconfirmed positively by the firm's response is likely to appraise a penalty as fairer than a customer whose expectations are disconfirmed negatively. (confirmation/disconfirmation of expectations → perceived fairness of the penalty outcome)

Negative Emotions

Perceived fairness of the penalty outcome will lead to an emotional response, and this emotional response carries a readiness to behave in a certain way (Roseman 1984). The appraisal-cognition-emotion-behavioral reaction is generally referred to as cognitive appraisal theory. Emotions are the result of an individual's appraisal of a situation, specifically how one evaluates the impact of an event on one's self or well-being (Lazarus and Folkman 1991). In order for an emotion to occur, an individual must first make an appraisal of the situation (Lazarus 1991) and the appraisal, or interpretation of the situation (rather than the actual event), determines the emotions that will be felt (Roseman 1984). Emotions carry behavioral intentions, and the readiness to act in a specific manner (Roseman 1984).

In the past, emotions were studied as broad groupings—either positive or negative emotions. Within the past few years, marketing researchers have endorsed testing specific emotions instead of broad groupings (i.e., Zeelenberg and Pieters 2004). The reason for this is that not all positive or negative emotions will elicit the same customer response. Anger may elicit retaliation behavior (fight) while fear may elicit avoidance behavior (flight). Thus, putting these emotions into one group prevents a true understanding of the effects of specific emotions (Zeelenberg and Pieters 2004). Emotions, such as anger, elicited during consumption experiences have strong affective traces in memory (Cohen and Areni 1991). Consumers often can remember incidents that make them angry for a long period, leading to negative outcomes for the firm.

I chose anger and disappointment for this study because (1) the two emotions seem the most relevant for penalty research and (2) these emotions seem to have the most negative consequences for service providers. A customer will experience anger when a real or supposed wrong, grievance, or injustice occurs (Funches 2007). Rose and Neidermeyer (1999) find that anger results when individuals feel as though someone is treating them poorly. Therefore, I expect that individuals who feel that the service firm is being unreasonable will experience higher levels of anger than those who feel like the provider is being fair.

Disappointment stems from an outcome that does not match up to a previously held expectation or hope (Zeelenberg and Pieters 2004). Van Dijk and van der Pligt (1997) and Zeelenberg and Pieters (2004) both find that negative disconfirmation is the antecedent condition to disappointment. In Study 2, I found that individuals appear to ask for a penalty waiver only if they expect the company to grant the waiver. Therefore, I expect disappointment to increase for individuals who ask the service firm for a waiver and do not receive the waiver. I am proposing the following:

Hypothesis 6: The customer's emotional response fully mediates the relationship between the customer's perceived fairness appraisal and the outcomes for the firm. Specifically, a customer who perceives a penalty as fair will have lower levels of anger and disappointment (increasing positive outcomes for the firm) than a customer who perceives the penalty as unfair (increasing negative outcomes for the firm). (perceived fairness of the penalty outcome →negative emotions→outcomes)

Relationship Outcomes

The customer's emotional response directly affects a customer's intentions to stay with the provider; desire to switch providers; and word-of-mouth communication. Service providers face overpopulated and hypercompetitive markets, and have shifted the emphasis of their marketing strategies from customer acquisition to customer retention in many industries (Dube and Shoemaker 2000, p. 381). Service providers seek to prevent customers from leaving the firm because retention of customers increases the firm's market share and can have a significant impact on profits (Reichheld and Sasser 1990). Word-of-mouth communication is a major predictor of overall company growth (Reichheld 2003). Extremely dissatisfied customers tell more people about their experience than those who are highly satisfied (Anderson 1998). Over 80% of the participants in Study 1 told someone else about the mistake that they made. Negative word-of-mouth will be high for customers who perceive the firm's response as unfair. In addition, customers who perceive that the firm responded in an unfair manner will be more likely to leave the firm or to have the desire to leave the firm. An individual who feels that the firm's response was fair, however, will be more likely to engage in positive behaviors.

Hypothesis 7: A customer who experiences high levels of anger or disappointment will be less likely to stay with the provider and engage in positive word-of-mouth communication, and more likely to have a desire to switch providers and engage in negative word-of-mouth communication than a customer who experiences lower levels of anger or disappointment. (negative emotions → outcomes)

Potential Theoretical Contributions

As mentioned earlier, this dissertation has the potential to make valuable contributions to the attribution of responsibility framework. In this dissertation, I expect major differences between lack of attention and the lack of knowledge mistakes pertaining to the attribution of responsibility. I expect lack of attention mistakes to induce more personal responsibility (less firm responsibility), and lack of knowledge mistakes to evoke expectations of firm responsibility (less personal responsibility). Previous literature does not identify these connections.

Linking entitlement theory with the confirmation/disconfirmation of customer expectations is an association that is not in the marketing literature. Entitled customers gauge themselves as important and therefore have higher expectations of the provider. This association could be an important segmentation variable. That is, the provider may need to introduce a different customer service plan for these entitled customers.

The penalty work in this dissertation has the potential to make theoretical contributions in other areas, such as interpersonal rejection. The act of asking the firm for a penalty waiver requires the customer to risk rejection or devaluation (Bachman and Guerreo 2006). I expect the most negative responses from customers to occur in situations in which the customer asks for a penalty waiver but does not get it. Interpersonal rejection theory currently is in the academic literature on communication in relationships (i.e., Bachman and Guerreo 2006) and psychology (i.e., Leary, Twenge, and Quinlivan 2006), but the marketing literature does not yet mention this theory. According to interpersonal rejection theory, the most negative interpersonal emotions (i.e., shame, hurt feelings, embarrassment) will occur when people think others could reject them (Leary 2001). This theory may help to explain negative consequences in other situations in which the customer feels rejected (e.g., a retailer does not allow a customer to make a return; a company refuses a customer's special order, etc.).

This dissertation would also add to cognitive appraisal theory in a services context. Using perceived fairness as an indicator of a customer's appraisal of the penalty situation, researchers will better understand the emotional effects of perceived fairness. In addition, researchers will better understand how these emotions mediate the fairness—firm outcome relationship.

Finally, this research is the first to link customer mistakes with penalties. This research will help to predict customers' appraisals of penalties caused by mistakes. The framework in Figure 4.1 further advances marketing theory and helps with the field's understanding of the topic in general.

CHAPTER 5

RESEARCH METHOD: STUDY 3

Before embarking on the main data collections of this dissertation, I conducted a manipulation and realism check with several different scenarios. The goals of this study, Study 3, were to determine if the manipulations were working properly and if the scenarios were realistic. In addition, I wanted to determine which two service contexts to use in Studies 4 and 5 (the institutional review board approved these studies #11-OR-049).

Procedure

After reviewing the results of Study 2, I chose four service provider contexts to use for the manipulation check. Airline, cell phone, credit card, and hotel were the four service contexts I chose after looking at the service providers that participants mentioned most often in the data from Study 2. When writing the scenarios, I relied heavily on the data from Study 2. I chose the penalty amounts based on the penalty charges that participants listed in Study 2. After writing the manipulations for each context, I put the scenarios into Qualtrics survey software. I sought critical feedback from other graduate students, asking them to look for any issues with the scenarios or questions. Based on the feedback from the 10 people who looked at the scenarios, I refined the scenarios and dropped the airline scenario (because several people questioned the realism of the lack of knowledge manipulation). Each of the three service contexts had 12 different scenarios (3 potential penalties x 2 reasons for mistake x 2 types of customer situational entitlement) totaling 36 cells (see Table 5.1 for a list of the manipulations used in each cell). I created 3-item scales to measure lack of attention, lack of knowledge, and customer situational entitlement (see Table 5.2 for the items). The alphas of all scales are above .70, indicating that the items in each scale fit together well. I randomized the order in which the participants saw the scales as well as the order of the items within the scales. In addition to the manipulation items, I also wrote items that would assess the realism of the situations. I randomized the order of the realism items. Each participant saw one randomly selected scenario from each service context (i.e., each participant saw three scenarios total). Participants rated all items on a 5-point strongly disagree/strongly agree scale unless otherwise noted.

Table 5.1

Manipulation check by service context

No.	**Cell phone company**	**Hotel**	**Credit card company**
1	Penalty/entitled/lack of attn	Penalty/entitled/lack of attn	Penalty/entitled/lack of attn
2	Penalty waiver/entitled/lack of attn	Penalty waiver/entitled/lack of attn	Penalty waiver/entitled/lack of attn
3	Penalty waiver refusal/entitled/lack of attn	Penalty waiver refusal/entitled/lack of attn	Penalty waiver refusal/entitled/lack of attn
4	Penalty/less entitled/lack of attn	Penalty/less entitled/lack of attn	Penalty/less entitled/lack of attn
5	Penalty waiver/less entitled/lack of attn	Penalty waiver/less entitled/lack of attn	Penalty waiver/less entitled/lack of attn
6	Penalty waiver refusal/less entitled/lack of attn	Penalty waiver refusal/less entitled/lack of attn	Penalty waiver refusal/less entitled/lack of attn
7	Penalty/entitled/lack of know	Penalty/entitled/lack of know	Penalty/entitled/lack of know
8	Penalty waiver/entitled/lack of know	Penalty waiver/entitled/lack of know	Penalty waiver/entitled/lack of know
9	Penalty waiver refusal/entitled/lack of know	Penalty waiver refusal/entitled/lack of know	Penalty waiver refusal/entitled/lack of know
10	Penalty/less entitled/lack of know	Penalty/less entitled/lack of know	Penalty/less entitled/lack of know
11	Penalty waiver/less entitled/lack of know	Penalty waiver/less entitled/lack of know	Penalty waiver/less entitled/lack of know
12	Penalty waiver refusal/less entitled/lack of know	Penalty waiver refusal/less entitled/lack of know	Penalty waiver refusal/less entitled/lack of know

Table 5.2

Scales used for manipulation check

Variable	Actual Items
Lack of attention α = .92	1. If I made this mistake, I would feel as though I should have been more careful. 2. If I made this mistake, I would feel as though I was not paying enough attention to what I was doing. 3. If I made this mistake, I would feel as though I should have been more attentive.
Lack of knowledge α = .89	1. If I made this mistake, I would feel as though I was not aware of the company's policies. 2. If I made this mistake, I would feel as though I did not understand some part of the service. 3. If I made this mistake, I would feel as though I did not have all of the information I needed.
Entitlement α = .93	1. If I were in this situation, I would feel that I deserve more attention than a regular customer who would be subject to this penalty. 2. If I were in this situation, I would feel that the company should not see me as an average customer who would be subject to this penalty. 3. If I were in this situation, I would feel as though I should receive better treatment than other customers.

Data Collection

I used a convenience sample and the snowball sampling technique (i.e., asking participants to pass along the survey link to others) in order to find participants for the manipulation check. I wrote e-mails to various friends and acquaintances, and many of those individuals forwarded the link to their friends. This technique resulted in 159 participants, and after dropping 23 participants for incomplete data, 136 participants remained. The sample is comprised of 74% females and 26% males, 94% Caucasian/white, and 71% are age 45 or younger.

Manipulation Check Results: Cell phone

In the first six cells of the cell phone context, the participants saw this lack of attention manipulation:

> Imagine that you lose your cell phone. You go to the cell phone company and purchase a new phone. On your next statement, you notice a $40 penalty fee for losing your phone and reactivating a new one. You don't remember anything about the $40 penalty charge.
>
> As you look back over everything that the customer service representative gave you, you realize that she wrote down that a $40 charge would be added to your account. You did not listen to everything that the customer service representative was going over that day.

After participants read the scenario and answered the manipulation check questions and the realism questions, they saw the penalty/penalty waiver/penalty refusal scenario. First, I used SPSS 18.0 for each lack of attention and lack of knowledge scale to determine the means and the alphas. Then, I ran an independent groups t-test on the means of the lack of attention and lack of knowledge scales for each context. The results of the lack of attention manipulation are shown in Table 5.3. The mean for the lack of attention scale is higher than the mean of the lack of knowledge scale, indicating that the manipulation worked.

Table 5.3

Cell phone context: lack of attention manipulation results

Lack of attention manipulation: cell phone (n=69)		
Variable	**Mean**	**t-value (independent groups t-test of means)**
Lack of attention	4.26	t=4.44
Lack of knowledge	3.69	p<.001

In cells 7-12 of the cell phone context, the participants saw this lack of knowledge manipulation:

> Imagine that you lose your cell phone. You go to the cell phone company and purchase a new phone. On your next statement, you notice a $40 penalty fee for losing your phone and reactivating a new one.
>
> When you purchased your new phone, they did not say anything to you about the penalty. You wish that you had asked more questions because you might have purchased a different phone if you had known about the penalty.

In Table 5.4, the mean for the lack of knowledge scale is higher than the mean of the lack of knowledge scale, indicating that the manipulation worked.

Table 5.4

Cell phone context: lack of knowledge manipulation results

Lack of knowledge manipulation: cell phone (n=73)		
Variable	**Mean**	**t-value (independent groups t-test of means)**
Lack of attention	3.47	t=4.64 p<.001
Lack of knowledge	4.14	

In three of the lack of attention cells and in three of the lack of knowledge cells, participants saw this entitlement manipulation:

> You are a long-time and very loyal customer of this cell phone company, and you have spent thousands of dollars with this company over the years. You have never lost a phone before. The company has a good reputation.

The mean for the entitled manipulation is higher than the mean for the unentitled group, indicating that the manipulation worked.

Table 5.5

Cell phone context: entitlement manipulation results

Entitlement manipulation: cell phone (n=69)		
Variable	**Mean**	**t-value (independent groups t-test of means)**
Entitled	2.90	t=4.39 p<.001

The unentitled manipulation (i.e., new/fairly new customers) was presented to the other half of the participants, and Table 5.6 shows the mean of this group.

> You have been with this cell phone company for about three months, and this is the first time you have lost your phone. The company has a good reputation.

Table 5.6

Cell phone context: unentitled manipulation

Unentitled manipulation: cell phone (n=74)		
Variable	**Mean**	**t-value**
Unentitled	2.21	(above)

Manipulation Check Results: Credit Card Company

The lack of attention manipulation for the credit card context was the following:

> Imagine that you receive a statement from your credit card company. The statement shows a $30 penalty charge because you paid your last bill late. You paid late because you missed the e-mail from the company reminding you to make a payment.

Table 5.7 shows that this lack of attention manipulation worked; the mean for lack of attention is higher than the lack of knowledge mean.

Table 5.7

Credit card context: lack of attention manipulation results

Lack of attention manipulation: credit card (n=69)		
Variable	**Mean**	**t-value (independent groups t-test of means)**
Lack of attention	4.33	t=12.09
Lack of knowledge	2.49	p<.001

The lack of knowledge manipulation for the credit card context was:

> Imagine that you receive a statement from your credit card company. The statement shows a $30 penalty charge because you paid your last bill late.
>
> You scheduled your last payment for the due date, but the due date was a holiday. Before you scheduled your payment, you looked on the website for any announcements about a holiday closure, but you did not find any information on it.

Table 5.8 shows that the lack of knowledge manipulation worked. The mean of lack of knowledge is higher than the lack of attention.

Table 5.8

Credit card context: lack of knowledge manipulation results

Lack of knowledge manipulation: credit card (n=69)		
Variable	**Mean**	**t-value (independent groups t-test of means)**
Lack of attention	2.85	t=4.93
Lack of knowledge	3.70	p<.001

The entitlement manipulation for the credit card context was:

> You are a long-time and very loyal customer of this credit card company, and this is the first time you have received a late penalty. The company has a good reputation.

The unentitled (new/fairly new customer) manipulation was:

> You have been with this credit card company for about three months, and this is the first time you have received a late penalty. The company has a good reputation.

Table 5.9 shows the results of the entitlement manipulation. The means are different for the two groups, showing that the manipulation worked.

Table 5.9

Credit card context: entitlement manipulation results

Entitlement manipulation: credit card		
Variable	**Mean**	**t-value (independent groups t-test of means)**
Entitled (n=68)	3.13	t=4.52
Unentitled (n=70)	2.32	p<.001

Manipulation Check Results: Hotel

The lack of attention manipulation for the hotel context was the following:

> Imagine that you are checking out of a hotel. As you look over your bill, you see that the statement shows a $30 penalty charge because you did not check out on time.

You saw a note in the room about the check out time. You intended to look at the note, but you simply forgot.

Table 5.10 shows that the lack of attention mean is higher than the lack of knowledge mean, indicating that the manipulation worked.

Table 5.10

Hotel context: lack of attention manipulation results

Lack of attention manipulation: hotel (n=69)		
Variable	**Mean**	**t-value (independent groups t-test of means)**
Lack of attention	4.06	*t*=7.96
Lack of knowledge	2.88	*p*<.001

The lack of knowledge manipulation for the hotel service context was the following:

> Imagine that you are checking out of a hotel. As you look over your bill, you see that the statement shows a $30 penalty charge because you did not check out on time.
>
> There was not a sign or a brochure in your room to tell you what time to check out, so you assumed that the hotel had a typical noon checkout.

In Table 5.11, the lack of knowledge mean is higher than the lack of attention mean, indicating that the manipulation worked.

Table 5.11

Hotel context: lack of knowledge manipulation results

Lack of knowledge manipulation: hotel (n=69)		
Variable	**Mean**	**t-value (independent groups t-test of means)**
Lack of attention	3.21	*t*=5.67
Lack of knowledge	4.18	*p*<.001

The following is the entitlement manipulation for the hotel service context:

> You are a long-time and very loyal customer of this hotel chain, and you have spent thousands of dollars with this company over the years. You have never received a late check out penalty before. The hotel has a good reputation.

This is the less entitled manipulation for the hotel service context:

> This is the second time you have stayed with this hotel chain, and this has not happened to you before. The hotel has a good reputation.

Table 5.12 shows that the entitlement manipulation worked. The mean of the entitled group is higher than the mean of the unentitled group.

Table 5.12

Hotel context: entitlement manipulation results

Entitlement manipulation: hotel		
Variable	**Mean**	**t-value (independent groups t-test of means)**
Entitled (n=64)	3.32	t=6.96
Unentitled (n=76)	2.23	p<.001

Realism Check Results

I asked participants four realism questions after each scenario. Participants answered these questions on a 5-item strongly disagree/strongly agree scale. In Table 5.13, the means of each realism item are listed by service context. The cell phone and the credit card contexts have the highest realism means. I conducted an ANOVA with each item as the dependent variable in order to determine if the means were different across contexts. Fisher's Least Significant Difference (LSD) post hoc tests show that there is a difference between the hotel and cell phone contexts and the credit card context for each item, with the exception of the third item, how common the penalty is. The cell phone and credit card contexts were not different from each other across questions.

Table 5.13

Realism check

Item	Cell phone	Credit card	Hotel	LSD difference tests
I could see this situation happening to one of my friends or family members.	4.21	4.17	3.77	Hotel and cell $p < .001$ Hotel and credit $p < .001$ Cell and credit $p = .07$
This situation is realistic.	4.16	4.38	3.95	Hotel and cell $p < .05$ Hotel and credit $p < .01$ Cell and credit $p = .19$
This penalty amount is common among cell phone providers.	3.28	4.29	3.36	Hotel and cell $p = .64$ Hotel and credit $p =.16$ Cell and credit $p = .052$
This situation could likely happen to me.	3.62	3.60	3.25	Hotel and cell $p < .01$ Hotel and credit $p < .001$ Cell and credit $p = .26$

Finally, the last question that participants answered after each scenario was how realistic they felt the penalty/waiver/waiver refusal was. Participants only saw one type of potential penalty per scenario, and answered the question on a 5-item very unrealistic/very realistic scale. I conducted an ANOVA with the realism item as the dependent variable in order to determine if the means were different. Fisher's Least Significant Difference (LSD) post hoc tests (Table 5.14) show that there are some differences among the means. Participants perceived the penalty outcome as more realistic in the cell phone and credit contexts than in the hotel context. The penalty waiver was more realistic in the hotel context than in the cell phone context. The waiver refusal was more realistic in the cell phone context than in the hotel context.

Table 5.14

Potential penalty realism check

Manipulation	Item	Cell phone	Credit card	Hotel	LSD difference tests
Penalty imposed	Imagine that you decide to pay the $40 charge. How realistic is this to you?	3.75	3.76	3.24	Hotel and cell p = .04 Hotel and credit p =.04 Cell and credit p = .98
Waiver received	Imagine that you call the company, explain what happened, and ask them to remove the penalty. The company agrees to remove the penalty for you. How realistic is this to you?	3.40	3.79	4.02	Hotel and cell p = .00 Hotel and credit p =.26 Cell and credit p = .06
Waiver refused	Imagine that you call the company, explain what happened, and ask them to remove the penalty. The company refuses to remove the penalty for you, and you pay the penalty charge.	3.92	3.78	3.48	Hotel and cell p = .047 Hotel and credit p =.17 Cell and credit p = .53

Interpretation of the Results

The results from Study 3 show that the manipulations are working (i.e., no problems were detected with any of the manipulations) and that the scenarios and potential penalties are realistic. Based on the manipulation check results and the realism check results, the cell phone and the credit card scenarios seem to work better than the hotel context in regards to realism.

Conclusion

Study 3 provides evidence that the scenarios and manipulations are ready for testing in a full scenario-based experiment, using the cell phone and credit card scenarios. Appendix G shows the items for the scenario-based experiment. The participants in Studies 4 and 5 will rate these items after reading the scenario.

CHAPTER 6

RESEARCH METHOD: STUDY 4

In Study 4, I conducted a large pre-test of the scenarios and measures with a student-recruited sample of non-students. The purpose of this data collection and analysis was to determine if the manipulations and measures work. After reviewing the results of Study 3, I chose the cell phone and credit card contexts for this study (Study 4). I used the same cell phone and credit card manipulations from Study 3 in the current study. After finding existing scales for each measured variable, I put the scenarios and measures into Qualtrics survey software. I asked graduate students and a convenience sample of other adults to look for any issues with the scenarios or questions. The individuals who pre-tested Study 4 did not detect any problems.

Procedure

The scenario-based experiment had 24 cells (3 potential penalties x 2 reasons for the mistake x 2 types of customer situational entitlement x 2 service contexts). Each participant saw only one randomly selected scenario. I list the manipulations in Appendix E. Below is an example of one of the scenarios (credit card context; lack of attention mistake; entitled; pays the penalty):

> *Please imagine yourself in the following situation. All of the questions in this survey will pertain to how you would feel if this situation happened to you.*
>
> You receive a statement from your credit card company. The statement shows a $30 penalty charge because you paid your last bill late. You paid late because you missed the e-mail from the company reminding you to make a payment. You are a long-time and very loyal customer of this credit card company, and this is the first time you have received a late penalty. The company has a good reputation. You decide to pay the $30 charge.

In the scenarios, the participant gets a penalty from either a cell phone company or a credit card company (manipulation: context). The participant is either a very loyal or a new customer of about three months (manipulation: entitlement). The participant makes a mistake because he/she did not know about some part of the service or because he/she was not paying attention (manipulation: reason for mistake). Finally, the participant pays the penalty, asks for a waiver and receives the waiver, or asks for a waiver and the company denies the waiver (manipulation: potential penalty).

After the participants read the scenario, they answered 67 survey items (listed in Appendix G). I randomized the order of the items. The survey started with questions about the attribution of responsibility and ended with demographic questions. To see an example of the actual survey in Qualtrics, see Appendix H. The average time for participants to complete the survey was 15 minutes (the median was 10 minutes; the mode was 9 minutes).

Data Collection

I offered students in a marketing research class an opportunity for extra credit by recruiting up to 15 non-student adults for this study. I instructed students to send the survey link to family members, asking their family members (particularly parents) to send the survey out at work and to other friends. Fifty-four students (78% of the class) chose to participate in the extra credit opportunity (see Appendix F for the recruitment e-mail). The students had 15 days to recruit the participants. I paid close attention to the IP addresses of the completed surveys to ensure that unique IP addresses were associated with the surveys, and I asked students to provide e-mail addresses of the survey participants for verification purposes. I did not detect any problems after writing e-mails to about 15% of these participants. The data collection resulted in 701 participants (after dropping 148 participants for quitting the survey before completing it).

Data Analysis and Results

Data Analysis

In this section, I present the analysis of data and results from Study 4. During the analysis, I first looked at the demographic characteristics of the sample. Next, I examined the characteristics of the potential covariates in the study. I then inspected the realism of the scenarios and the demand check. I performed a confirmatory factor analysis and model fit in LISREL followed by manipulation checks. Finally, I tested each hypothesis in the model.

General Characteristics of the Sample

The demographic characteristics of the participants across the two service contexts appear in Table 6.1. A z-test for two proportions of each demographic variable across contexts shows that there are no differences between the two service contexts (all p's > .07). About 62% of the participants are female, the majority of the participants are between the ages of 36 and 65 (51%), with 45% between the ages of 19 and 35. Almost half of the participants (47%) hold a bachelor's degree, with 24% having some college and 23% holding a graduate degree. Over half of the participants are married (60%). The majority of the participants are white (94%), with other races making up the other 6%.

Table 6.1

Demographic characteristics of the sample

	Cell phone (n=312)		Credit card (n=389)		Total (n=701)	
	freq	%	freq	%	freq	%
Gender						
Male	121	38.8	143	36.8	264	37.7
Female	191	61.2	246	63.2	437	62.3
Age						
19-25	74	23.7	81	20.8	155	22.1
26-35	78	25.0	82	21.1	160	22.8
36-49	61	19.6	77	19.8	138	19.7
50-65	89	28.5	128	32.9	217	31.0
>65	10	3.2	21	5.4	31	4.4
Marital Status						
Single	110	35.3	112	28.8	222	31.7
Married	177	56.7	242	62.2	419	59.8
Divorced	24	7.7	24	6.2	48	6.8
Other	1	0.3	11	2.8	12	1.7
Education						
< HS diploma	1	0.3	1	0.3	2	0.3
HS or equiv	11	3.5	27	6.9	38	5.4
Some college	69	22.1	98	25.2	167	23.8
Bachelor's degree	151	48.4	180	46.3	331	47.2
Graduate degree	80	25.6	83	21.3	163	23.3
Race						
White/Caucasian	292	93.6	370	95.1	662	94.4
Black/African-American	15	4.8	10	2.6	25	3.6
Hispanic/Latino	3	1.0	3	0.8	6	0.9
Asian	0	0.0	0	0.0	0	0.0
Multi-cultural/ multi-racial	1	0.3	2	0.5	3	0.4
Other	1	0.3	4	1.0	5	0.7

General Service Experience Characteristics of the Sample

In addition to the general demographic characteristic variables, I included questions related to participants' prior experience with the service context and penalties. As shown in Table 6.2, participants receiving the credit card penalty viewed it as more common in the industry than the participants receiving the cell phone penalty (t = 11.35, p <.001), although about 100 participants stated that they did not know how standard the penalty was on at least one item. I list the actual items in the perceived standardization of the penalty scale in Table 6.3.

Table 6.2

General service experience characteristics of the sample

	Cell phone (n=312)		**Credit card (n=389)**		**Total (n=701)**	
	Mean	**SD**	**Mean**	**SD**	**Mean**	**SD**
Perceived standardization of the penalty	(n=252)* 3.06	.90	(n=352)* 3.79	.68	(n=604)* 3.49	.86
Do you currently own a cell phone (pay a credit card bill for yourself or someone in your family)?						
	freq	**%**	**freq**	**%**	**freq**	**%**
Yes	311	99.7	326	83.8	637	90.9
No	1	0.3	63	16.2	64	9.1
Have you ever lost your cell phone (accidently paid your credit card bill late)?						
	freq	**%**	**freq**	**%**	**freq**	**%**
Yes	88	28.2	268	68.9	356	50.8
No	224	71.8	121	31.1	345	49.2
In the past 2 years, how many times have you received a penalty from your cell phone provider?						
	freq	**%**	--	--	--	--
Never	238	76.3				
1	27	8.7				
2	9	2.9				
3	2	0.6				
More than 3	2	0.6				
Don’t know or N/A	34	10.9				

*Note: the sample size for perceived standardization is smaller than the actual sample size due to individuals who answered “don’t know” to one or more items.

Table 6.3

Perceived standardization of penalty items

Variable	Actual Items
Perceived standardization of penalty α = 0.94	1. Most cell phone providers have a penalty similar to this one. 2. This penalty amount is common among cell phone providers. 3. This penalty amount seems standard in the industry.

Due to the different nature of the service contexts, participants' prior experience with the service provider shows differences. Participants were more likely to own a cell phone than pay a credit card bill (z = 7.12; p <.001), although the frequencies were very high for both contexts (84% currently pay a credit card bill; 99.7% own a cell phone). The majority of participants in the credit card context had accidentally paid a bill late before (69%), while only 29% of participants had lost their cell phone before (z = 10.63; p<.001). In addition, I asked participants in the cell phone context how many times in the past year they had received a penalty from their cell phone provider. The majority of participants (76%) had never received a penalty, while 13% had received one or more penalties from their cell phone provider. Due to the sensitive nature of asking someone how many times they have received a penalty from their credit card company in the past two years (i.e., a question related to one's credit rating), I did not ask the question in this data collection because each survey includes the student's name who recruited the participant. In Study 5, I will use this question for the credit card context. The two prior experience items are covariates in the data analysis ("Do you currently own a cell phone/pay a credit card bill?" and "Have you ever lost your cell phone/accidentally paid your credit card bill late?").

Perceived Realism and Believability of the Scenarios

I adopted the realism items from McColl-Kennedy and Sparks (2003). I list the items in Table 6.4. Table 6.5 illustrates the perceived realism and believability of the scenarios across the two contexts.

Table 6.4

Realism items

Variable	Actual Items
Realism α = 0.89	1. I could see this situation happening to one of my friends or family members. 2. This situation is realistic. 3. This situation is believable.

Both contexts resulted in means of about four on a 5-point scale (see Table 6.5), indicating strong realism and believability of the scenarios. The two service contexts did not show differences in realism ($t = 1.58$, $p = .11$), indicating that there are no systematic differences between the realism of the scenarios in the two contexts.

Table 6.5

Perceived realism and believability of the scenarios

	Cell phone (n=312)		**Credit card (n=389)**		**Total (n=701)**		
	Mean	**SD**	**Mean**	**SD**	**Mean**	**SD**	**t-value (independent groups t-test of means)**
Perceived realism of the situation α=0.89	4.09	.60	4.02	.57	4.05	.58	1.58 ($p = .11$)

Demand Check

To minimize potential demand effects, I asked participants what they thought the purpose of the study was. I gave the participants three options. Option 1 matched with the cover story, "to understand how customers react to penalties." Option 2 was "other" and the participant had to specify an answer. The last option was "don't know." The majority of the participants chose option 1, the cover story (85%) or option 3, don't know (12%). About 3% of participants (23) chose option 2 and typed an answer to what they believed was the purpose of the study. A close examination of the written answers showed that no one guessed the exact purpose of the study. Most of the guesses had to do with customer service, extra credit, or helping me with my dissertation. Therefore, there is not a demand effect in the current study.

Measurement of Constructs

In this section, I present the dimensionality, reliability, and validity of the constructs used in the study. First, I conducted a confirmatory factor analysis using LISREL. The measurement model examined eight variables from the study: perceived fairness of the penalty outcome, confirmation/disconfirmation of customer expectations, anger, disappointment, desire to switch, intent to stay, positive word-of-mouth, and negative word-of-mouth. After estimating the model, I dropped one of the confirmation/disconfirmation items. The item expect1 did not have a satisfactory item loading (the loading was .33; a satisfactory loading is above .50), indicating that the item should be dropped. After dropping this item, I re-ran the confirmatory factor analysis. A careful examination of the modification indices for the error terms for anger2 and anger4 revealed a high value on the modification index, and thus I allowed these two items to correlate. In addition, the error terms for intent1 and intent3 also had high values on the modification index, and I allowed these two items to correlate. I report all of the individual item loadings, composite reliabilities, and average variance extracted (A.V.E.) in Table 6.7. Each of these measures of reliability proved satisfactory, as the composite reliabilities were all above .80 and exceeded the prescribed limit of 0.70 (Fornell and Larcker 1981). The average variance extracted values were all greater than the acceptable limit of 0.50 (Fornell and Larcker 1981). The individual item loadings provide support for the convergent validity of the measures. Each construct had a significant t-value association, showing convergent validity. Next, I evaluated the discriminant validity of the measures. A construct should share more variance with its measures than with other model constructs, therefore the square root of the AVE should exceed the intercorrelations of the construct with the other model constructs (Fornell and Larcker 1981). None of the intercorrelations of the constructs exceeded the square root of the AVE of the constructs (see Table 6.6). (Fornell and Larcker 1981).

Table 6.6

Discriminant validity

Construct	1	2	3	4	5	6	7	8
1. Fairness	.89							
2. Disconfirmation	.68	.93						
3. Anger	-.50	-.42	.84					
4. Disappointment	-.51	-.41	.72	.77				
5. Desire to switch	-.62	-.52	.49	.55	.88			
6. Intent to stay	.64	.58	-.50	-.50	-.85	.97		
7. Positive WOM	.68	.58	-.52	-.52	.79	.79	.95	
8. Negative WOM	-.62	-.52	.57	.53	.75	-.71	-.79	.93

Note: Square root of the AVE is on the diagonal.

Table 6.7

Confirmatory factor analysis

Scale Item	Standardized Loading	Composite Reliability	Variance Extracted
Perceived fairness of the penalty outcome		.915	.782
Fair1	.83		
Fair2	.90		
Fair3	.92		
Confirmation/disconfirmation of customer expectations		.922	.856
Expect2	.94		
Expect 3	.91		
Anger		.904	.702
Anger1	.89		
Anger2	.82		
Anger3	.81		
Anger4	.83		
Disappointment		.814	.595
Disappoint1	.83		
Disappoint2	.73		
Disappoint3	.75		

Scale Item	Standardized Loading	Composite Reliability	Variance Extracted
Desire to switch		.977	.934
Desire1	.97		
Desire2	.97		
Desire3	.96		
Intent to stay		.914	.781
Intent1	.90		
Intent2	.89		
Intent3	.86		
Positive word-of-mouth		.968	.909
PWOM1	.94		
PWOM2	.96		
PWOM3	.96		
Negative word-of-mouth		.954	.873
NWOM1	.97		
NWOM2	.87		
NWOM3	.96		

Table 6.8 shows the CFA model fit statistics. The model fit indices are acceptable and are within the limits recommended by Kelloway (1998) and Muliak, James, Van Alstine, Bennett, Lind, and Stilwell (1989). First, the RMSEA is below the 0.08 cut-off, the SRMR is below .05, and the GFI, NFI, CFI, IFI, and RFI are all above the 0.90 criteria. The chi-square is significant, but this is common with large sample sizes (the sample in this study is 701).

Table 6.8

Fit indices for the confirmatory factor analysis

Goodness of Fit Statistics (n=701)
Degrees of Freedom = 222
Minimum Fit Function Chi-Square = 791.67 (P = 0.0)
Root Mean Square Error of Approximation (RMSEA) = .061
Standardized RMR = .037
Goodness of Fit Index (GFI) = .91
Normed Fit Index (NFI) = .99
Comparative Fit Index (CFI) = .99
Incremental Fit Index (IFI) = .99
Relative Fit Index (RFI) = .98

Manipulation Checks

Reason for Mistake

I manipulated the reason for the mistake at two levels in this study: lack of attention and lack of knowledge. I list the lack of attention items in Table 6.9 (the same items from Study 3).

Table 6.9

Lack of attention items

Variable	Actual Items
Lack of attention α = 0.89	1. If I made this mistake, I would feel as though I should have been more careful. 2. If I made this mistake, I would feel as though I was not paying enough attention to what I was doing. 3. If I made this mistake, I would feel as though I should have been more attentive.

I submitted the manipulation check for lack of attention to a 2 (reason for mistake: attention and knowledge) by 2 (entitlement: low and high) by 3 (penalty type: penalty, waiver, and waiver refusal) by 2 (context: cell phone and credit card company) ANOVA (see Table 6.10). Results support the manipulation, as the main effects show that the reason for mistake is a predictor of lack of attention ($F = 22.27$, $p < .001$). In addition, perceptions of the lack of attention were higher in the lack of attention condition than in the lack of knowledge condition ($M_{attn} = 4.01$; $M_{know} = 3.72$; $t = 5.34$, $p < .001$).

Table 6.10

ANOVA test for manipulation of reason for mistake

(Dependent variable: lack of attention)

	Source	Type III Sum of Squares	df	Mean Square	F	p-value	Partial eta^2	Observed power
	Corr. model	40.04 (a)	23	1.74	3.51	.00	.11	1.0
	Intercept	10227.45	1	10227.45	20604.60	.00	.97	1.0
Main Effects	**Reason for mistake**	**11.06**	**1**	**11.06**	**22.27**	**.00**	**.03**	**.99**
	Entitlement	.02	1	.02	.03	.86	.00	.05
	Penalty type	.66	2	.33	.66	.52	.00	.16
	Context	1.42	1	1.42	2.85	.09	.00	.39
2-way inter-actions	Reason for mistake*penalty type	6.92	2	3.46	6.97	.00	.02	.93
	Reason for mistake*entitlement	.20	1	.20	.41	.52	.00	.10
	Reason for mistake * context	7.58	1	7.58	15.27	.00	.02	.97
	Entitlement * penalty type	3.21	2	1.61	3.23	.04	.01	.62
	Entitlement * context	.09	1	.09	.18	.67	.00	.07
	Penalty type * context	.42	2	.21	.42	.66	.00	.12
3-way inter-actions	Reason for mistake*penalty type*entitlement	1.37	2	.69	1.38	.25	.00	.30
	Penalty type* entitlement* context	1.35	2	.67	1.36	.26	.00	.29
	Reason for mistake*penalty type*context	1.81	2	.91	1.83	.16	.01	.38
	Reason for mistake*entitlement* context	.45	1	.45	.91	.34	.00	.16
4-way inter-action	Reason for mistake*entitlement* *penalty type*context	.62	2	.31	.62	.54	.00	.15
	Error	336.04	677	.50				
	Total	10875.89	701					
	Corr. Total	376.08	700					

R^2 = .11; Adjusted R^2 = .08

The lack of knowledge items I used for the manipulation check are shown in Table 6.11 (these are the same items used in Study 3).

Table 6.11

Lack of knowledge items

Variable	Actual Items
Lack of knowledge $\alpha = 0.92$	1. If I made this mistake, I would feel as though I was not aware of the company's policies. 2. If I made this mistake, I would feel as though I did not understand some part of the service. 3. If I made this mistake, I would feel as though I did not have all of the information I needed.

I submitted the manipulation check for lack of knowledge to a 2 (reason for mistake: attention and knowledge) by 2 (entitlement: low and high) by 3 (penalty type: penalty, waiver, and waiver refusal) by 2 (context: cell phone and credit card company) ANOVA (see Table 6.12). Results support the manipulation, as the main effects show that the reason for mistake is a predictor of lack of knowledge ($F = 21.26$, $p = < .001$), and perceptions of the lack of knowledge were higher in the lack of knowledge condition than in the lack of attention condition ($M_{\text{know}} = 3.35$; $M_{\text{attn}} = 3.00$; $t = 5.12$, $p<.001$).

Two other main effects (context and entitlement) and one 2-way interaction (type of mistake*context) were significant in this manipulation check. In order to show that context did not impact the dependent variables differently, I ran all of the hypothesis tests by context (see Appendix I) (Perdue and Summers 1986). Each hypothesis had the same results in the cell phone and credit card contexts. In addition to finding no differences in the hypothesis results between contexts, there are no differences in the means for each manipulation by context (i.e., the means always are significant in the same way) (see Appendix I) (Perdue and Summers 1986).

The remaining significant main effect, entitlement, is more difficult to explain. Entitlement did not have a significant main effect in the lack of attention manipulation check ($p = .86$) (see Table 6.10), but it does have a significant main effect here in the lack of knowledge manipulation check. The main effect of entitlement is smaller than the effect of reason for mistake, and the partial eta^2 is closer to zero (where we want it to be) than the type of mistake. There seem to be several possible explanations for the main effect: (1) the less entitled manipulation read that the customer had been with the company for three months, and perhaps participants saw this as a cue that they had made a mistake due to lack of knowledge (when answering the lack of knowledge manipulation check items) or (2) it seems possible that perhaps someone who always feels entitled cannot be manipulated to feel less entitled. This could translate into never thinking that a mistake is one's own fault. The main effect of entitlement in this manipulation check presents three choices for Study 5: (1) measure the attention/knowledge manipulation check in a different way (e.g., create a binary measure where the participants pick from "not paying attention" or "did not know"), (2) change the entitlement manipulation or (3) measure entitlement instead of manipulating it (as a personality variable).

Table 6.12

ANOVA test for manipulation of reason for mistake

(Dependent variable: lack of knowledge)

	Source	**Type III Sum of Squares**	**df**	**Mean Square**	**F**	**p-value**	**Partial eta²**	**Observed power**
	Corr. model	108.46	23	4.72	6.58	.00	.18	1.0
	Intercept	6971.51	1	6971.51	9727.28	.00	.94	1.0
Main Effects	**Reason for mistake**	**15.24**	**1**	**15.24**	**21.26**	**.00**	**.03**	**1.0**
	Entitlement	9.25	1	9.25	12.90	.00	.02	.95
	Penalty type	4.00	2	2.00	2.79	.06	.01	.55
	Context	38.18	1	38.18	53.28	.00	.07	1.0
2-way inter-actions	Reason for mistake*penalty type	1.89	2	.94	1.32	.27	.00	.29
	Reason for mistake*entitlement	.02	1	.02	.02	.88	.00	.05
	Reason for mistake * context	29.05	1	29.05	40.54	.00	.06	1.0
	Entitlement * penalty type	1.15	2	.57	.80	.45	.00	.19
	Entitlement * context	.29	1	.29	.40	.53	.00	.10
	Penalty type * context	.50	2	.25	.35	.71	.00	.11
3-way inter-actions	Reason for mistake*penalty type*entitlement	.01	2	.01	.01	.99	.00	.05
	Penalty type* entitlement* context	2.05	2	1.03	1.43	.24	.00	.31
	Reason for mistake*penalty type*context	.47	2	.23	.33	.72	.00	.10
	Reason for mistake*entitlement* context	1.46	1	1.46	2.04	.15	.00	.30
4-way inter-action	Reason for mistake*entitlement* *penalty type*context	.38	2	.19	.27	.77	.00	.09
	Error	485.20	677	.72				
	Total	7651.67	701					
	Corr. Total	593.67	700					

R^2 = .18; Adjusted R^2 = .16

Entitlement

I manipulated entitlement at two levels in this study: low (customer of the provider for about three months) and high (very loyal customer). I list the entitlement items that I used in Table 6.13 (same as Study 3).

Table 6.13

Entitlement items

Variable	Actual Items
Entitlement α = 0.91	1. If I were in this situation, I would feel that I deserve more attention than a regular customer who would be subject to this penalty. 2. If I were in this situation, I would feel that the cell phone provider should not see me as an average customer who would be subject to this penalty. 3. If I were in this situation, I would feel as though I should receive better treatment than other customers. 4. If I were in this situation, I would feel that the cell phone provider should give me special treatment that it does not give to average customers.

I submitted the manipulation check for entitlement to a 2 (reason for mistake: attention and knowledge) by 2 (entitlement: low and high) by 3 (penalty type: penalty, waiver, and waiver refusal) by 2 (context: cell phone and credit card company) ANOVA (see Table 6.14). Results support the manipulation, as the main effects show that the entitlement manipulation is a predictor of the entitlement manipulation check ($F = 71.83$, $p < .001$). In addition, entitlement was higher in the entitled (loyal customer) condition than in the unentitled (new customer) condition ($M_{\text{entitled}} = 3.02$; $M_{\text{less entitled}} = 2.47$; $t = 8.65$, $p<.001$). The reason for mistake main effect is significant here, although the effect is small when compared to the entitlement main effect (the partial eta^2 is very close to zero (where we want it to be), and the mean square value is much smaller than the entitlement mean square (Perdue and Summers 1986).

Table 6.14

ANOVA test for manipulation of entitlement (Dependent variable: entitlement)

	Source	Type III Sum of Squares	df	Mean Square	F	p-value	Partial eta^2	Observed power
	Corr. model	66.63	23	2.90	4.08	.00	.12	1.0
	Intercept	5169.04	1	5169.04	7283.93	.00	.92	1.0
Main Effects	Reason for mistake	3.38	1	3.38	4.77	.03	.01	.59
	Entitlement	**50.98**	**1**	**50.98**	**71.83**	**.00**	**.10**	**1.0**
	Penalty type	.14	2	.07	.10	.91	.00	.07
	Context	.03	1	.03	.04	.84	.00	.06
2-way inter-actions	Reason for mistake*penalty type	1.34	2	.67	.95	.39	.00	.21
	Reason for mistake*entitlement	.19	1	.19	.26	.61	.00	.08
	Reason for mistake * context	.75	1	.75	1.06	.30	.00	.18
	Entitlement * penalty type	.14	2	.07	.10	.91	.00	.07
	Entitlement * context	.59	1	.59	.83	.36	.00	.15
	Penalty type * context	.13	2	.07	.09	.91	.00	.06
3-way inter-actions	Reason for mistake*penalty type*entitlement	.74	2	.37	.52	.60	.00	.14
	Penalty type* entitlement* context	1.76	2	.88	1.24	.29	.00	.27
	Reason for mistake*penalty type*context	.10	2	.05	.07	.93	.00	.06
	Reason for mistake*entitlement* context	1.22	1	1.22	1.72	.19	.00	.26
4-way inter-action	Reason for mistake*entitlement* *penalty type*context	.61	2	.31	.43	.65	.00	.12
	Error	480.43	677	.71				
	Total	5785.31	701					
	Corr. Total	547.06	700					

$R^2 = .12$; Adjusted $R^2 = .09$

Measures

I list the items, item source, and Cronbach's alpha for each measured variable in Table 6.15. All alphas are above .70, indicating that the items for each scale hold together well. In addition, I measured four other outcome variables in my survey: goodwill, trust, switching costs, and active voice. I list the definitions, items, and source for each of these four variables in Appendix G. I measured all of the items on 5-point scales.

Table 6.15

Measured variables: items

Variable	Source	Actual Items
Attribution of responsibility (personal)	Pagel, Becker, and Coppel (1985); Ward, Miller, Boudens, and Briggs (2001)	1. To what extent do you feel responsible for this mistake? Not at all responsible/a great deal responsible
Attribution of responsibility (firm)	Pagel, Becker, and Coppel (1985); Ward, Miller, Boudens, and Briggs (2001)	1. To what extent do you feel the firm is responsible for this mistake? Not at all responsible/a great deal responsible
Perceived fairness of the penalty outcome α = .91	Hardesty, Carlson, and Bearden (2002)	*Penalty condition:* (F1) Overall, this cell phone provider treated me fairly. SA/SD (F2) This penalty seems fair. SA/SD (F3) This penalty seems reasonable to me. SA/SD *Penalty waiver condition:* (F1) Overall, this cell phone provider treated me fairly. (F2) This penalty waiver seems fair. SA/SD (F3) This penalty waiver seems reasonable to me. SA/SD *Penalty denied condition:* (F1) Overall, this cell phone provider treated me fairly. SA/SD (F2) This penalty waiver refusal seems fair. SA/SD (F3) This penalty waiver refusal seems reasonable to me. SA/SD

Variable	Source	Actual Items
Confirmation/ dis-confirmation of customer expectations α = .71	Wallace, Giese, and Johnson (2004)	*Penalty condition:* (C1) If you were in this situation and received this penalty, would the penalty be: Not at all expected/Very expected Note: C1 was dropped after the CFA analysis (C2) Overall, this penalty is: Much worse than expected/much better than expected (C3) Compared to what I would expect, this penalty from the cell phone provider is: Much worse/much better *Penalty waiver condition:* (C1) If you were in this situation and received this penalty waiver, would the waiver be: Not at all expected/Very expected Note: C1 was dropped after the CFA analysis (C2) Overall, the cell phone provider's response is: Much worse than expected/much better than expected (C3) Compared to what I would expect, this penalty waiver from the cell phone provider is: Much worse/much better *Penalty denied condition:* (C1) If you were in this situation and the cell phone provider refused to grant the waiver, would this be: Not at all expected/Very expected Note: C1 was dropped after the CFA analysis (C2) Overall, the cell phone provider's response is: Much worse than expected/much better than expected (C3) Compared to what I would expect, the cell phone provider's refusal to grant the waiver is: Much worse/much better
Anger α = .92	Forgays et al. 1997; Funches (2007)	If this incident were to happen to you, how much would you feel the following: (A1) angry (A2) furious (A3) irritated (A4) outrage Not at all/Extremely
Disappoint-ment α = .82	Forgays et al. 1997	If this incident were to happen to you, how much would you feel the following: (D1) frustrated (D2) disappointed (D3) discouraged Not at all/Extremely
Desire to switch α = .98	Bougie, Pieters, and Zeelenberg (2003)	Imagining that this situation happened to you, please rate your agreement with the following items. (DS1) If I had the option, I would switch to a different provider. SA/SD (DS2) If I could, I would use another provider. SA/SD (DS3) I would like to switch to a different provider. SA/SD

Variable	Source	Actual Items
Intent to stay α = .93	Maxham and Netemeyer (2002)	(RI1) In the future, I intend to continue using this service provider. SA/SD (RI2) If I were in the market for additional services, I would be likely to choose those services from this service provider. SA/SD (RI3) It is likely that I will stay with this service provider in the future. SA/SD
Positive word-of-mouth α = .97	Verhoef, Franses, and Hoekstra (2002)	(PWOM1) I would say positive things about this service provider to people I know. SA/SD (PWOM2) I would recommend this cell phone provider. SA/SD (PWOM3) I would encourage relatives and friends to do business with this service provider. SA/SD
Negative word-of-mouth α = .95	Jones, Reynolds, Mothersbaugh, and Beatty (2007)	(NWOM1) I would warn my friends and relatives not to do business with this service provider. SA/SD (NWOM2) I would complain to my friends and relatives about this service provider. SA/SD (NWOM3) I would tell my friends and relatives not to use this service provider. SA/SD

Test of Hypotheses

In this section, I present the test results of the hypotheses. Table 6.17 presents the relationships that I tested. For all of the hypotheses I used the potential penalty (penalty/waiver/waiver refusal) and two prior experience items (see Table 6.16) as covariates in order to examine and rule out the potential effects on outcome variables.

Table 6.16

Covariates

Covariate variable	Item
Previous experience (service provider)	Do you currently own a cell phone (pay a credit card bill for yourself or someone in your family)?
Previous experience (mistake)	Have you ever lost your cell phone (accidentally paid your credit card bill late)?
Penalty type	Paid penalty/waiver received/waiver refused

Table 6.17

Hypothesis tests

Hypothesis	Relationship/Effects Tested
H1a	Reason for mistake → Self-attribution → Perceived fairness of the penalty outcome (mediation)
H1b	Reason for mistake → Firm-attribution → Perceived fairness of the penalty outcome (mediation)
H2	Attribution of responsibility → Perceived fairness of the penalty outcome
H3	Penalty type → Perceived fairness of the penalty outcome
H4	Customer situational entitlement →Confirmation/disconfirmation of customer expectations → Perceived fairness of the penalty outcome (mediation)
H5	Confirmation/disconfirmation of customer expectations → Perceived fairness of the penalty outcome
H6a	Perceived fairness of the penalty outcome → Anger/Disappointment → Desire to switch (mediation effect of anger and disappointment)
H6b	Perceived fairness of the penalty outcome → Anger/Disappointment → Intent to stay (mediation effect of anger and disappointment)
H6c	Perceived fairness of the penalty outcome → Anger/Disappointment → Positive word-of-mouth (mediation effect of anger and disappointment)
H6d	Perceived fairness of the penalty outcome → Anger/Disappointment → Negative word-of- mouth (mediation effect of anger and disappointment)
H7a	Anger/Disappointment → Desire to switch
H7b	Anger/Disappointment → Intent to stay
H7c	Anger/Disappointment → Positive word-of-mouth
H7d	Anger/Disappointment → Negative word-of-mouth

Hypothesis 1

Evidence of mediation for hypothesis 1 requires (a) significant effects of the reason for mistake on the mediating variables (self-attribution and firm-attribution) in step 1, (b) significant effects of the reason for mistake on perceived fairness of the penalty outcome in step 2, and (c) a reduction/elimination of the effects of the reason for mistake on perceived fairness of the penalty outcome when the reason for mistake and self-attribution/firm-attribution are tested together as the independent variables. This approach is consistent with Baron and Kenny (1986).

Following Baron and Kenny's (1986) procedure, I used mediated regression analysis to test Hypothesis 1. First, I tested the relationship between the reason for mistake and the mediators, self-attribution and firm-attribution. I show the results of steps 1-3 in Table 6.18. The relationship between type of mistake and self-responsibility is significant ($\beta = -0.51$, $t = -15.78$, $p < .001$) as is the relationship between the reason for mistake and firm responsibility ($\beta = 0.54$, $t = 17.51$, $p < .001$). The means show that an individual who feels like he/she has made a lack of attention mistake is more likely to attribute the responsibility for the mistake to themselves and an individual who makes a lack of knowledge mistake is more likely to attribute the responsibility to the firm. The lack of attention mean is higher for self-responsibility than the lack of knowledge mean ($M_{attn} = 3.93$; $M_{know} = 2.74$; $t = 15.83$, $p < .001$). In addition, the lack of knowledge mean is higher for firm responsibility than the lack of attention mean ($M_{know} = 3.84$; $M_{attn} = 2.38$; $t = 17.52$, $p < .001$). Individuals who feel that their mistake is due to a lack of attention attribute more responsibility to themselves, and individuals who make a lack of knowledge mistake attribute more responsibility to the firm.

In step 2, I tested the relationship between the reason for mistake and perceived fairness of the penalty outcome. This relationship is significant ($\beta = -0.24$, $t = -6.61$, $p < .001$). Individuals who make a lack of attention mistake perceive the fairness of the penalty outcome as fairer than individuals who make a lack of knowledge mistake ($M_{attn} = 3.31$; $M_{know} = 2.73$; $t = 6.65$, $p < .001$).

Step 3 shows that for self-responsibility, the beta weight dropped, but remained significant (at the $p < .05$ level). This indicates partial mediation. Self-responsibility partially mediates the relationship between the reason for mistake and perceived fairness of the penalty outcome. Hypothesis 1a is supported (partial mediation). Firm responsibility fully mediates the relationship between the reason for mistake and the perceived fairness of the penalty outcome (the beta weight dropped and became insignificant). Hypothesis 1b is supported (full mediation).

Table 6.18

Mediated regression analysis for type of mistake → attribution of responsibility → perceived fairness of the penalty outcome

	t	***p*-value**	**Adjusted R^2**	**β**
Step 1				
Reason for mistake → Self responsibility	-15.78	.000	.27	-.51
Reason for mistake → Firm responsibility	17.51	.000	.33	.54
Step 2				
Reason for mistake → Fairness	-6.61	.000	.06	-.24
Step 3				
Reason for mistake → Fairness Self responsibility	-2.23	.026	.12	-.09
Reason for mistake → Fairness Firm responsibility	-1.68	.093	.12	-.07

Hypothesis 2

I tested the relationship between attribution of responsibility and perceived fairness of the penalty outcome using regression analysis. Table 6.19 presents the results of the analysis. The table shows that both self-attribution (β = 0.34, t = 9.57, p <.001) and firm-attribution (β = -0.36, t = -9.84, p <.001) are predictors of perceived fairness. I stated in hypothesis 2 that individuals who attribute more responsibility to themselves will feel as though the penalty situation is fairer than an individual who attributes more responsibility to the firm. This hypothesis is supported, as the beta weights show that as responsibility is attributed to oneself, perceived fairness goes up. As attribution to the firm goes up, perceived fairness goes down. Customers perceive the penalty situation as fairer when they attribute more responsibility to themselves. Hypothesis 2 is supported.

Table 6.19

Regression analysis for attribution of responsibility → perceived fairness of the penalty outcome

	t	p-value	Adjusted R^2	β
DV: Fairness				
Self-attribution	9.57	.000	.11	.34
Firm-attribution	-9.84	.000	.12	-.36

Hypothesis 3

In order to test the relationship between penalty type and perceived fairness of the penalty outcome, I conducted an analysis of variance. Table 6.20 presents the results of the ANOVA for perceived fairness of the penalty outcome. The table shows that the main effects of penalty type (F (2, 698) = 192.78, p<.001) on perceived fairness of the penalty outcome are significant. In Hypothesis 3, I hypothesized that an individual who receives a penalty or penalty waiver refusal will perceive the penalty as less fair than someone who receives a waiver. This hypothesis is supported. The Fisher's Least Significant Difference (LSD) post hoc tests show that there is a significant difference (p = < .001) between the mean for individuals who receive a penalty waiver (M_{waiver} = 4.04) and both the means for the penalty condition (M_{penalty}= 2.62) and the penalty waiver refusal condition ($M_{\text{waiver refusal}}$= 2.46) (although the penalty and penalty waiver refusal are not different at p < .05). Hypothesis 3 is supported.

Table 6.20

ANOVA analysis for penalty type → perceived fairness of the penalty outcome

	F(2, 698)	p-value	Partial eta^2	Observed power
Perceived fairness	192.78	.000	.36	1.0

Hypothesis 4

Following Baron and Kenny's (1986) procedure, I used mediated regression analysis to test Hypothesis 4. First, I tested the relationship between customer situational entitlement and the mediator, confirmation/disconfirmation of customer expectations. I show the results of step 1 in Table 6.21. The relationship between customer situational entitlement and confirmation/ disconfirmation of customer expectations is not significant (β = -0.04, t = -1.15, p = .249). Step 1 did not work, so I cannot move on to steps 2 or 3. In addition, the means for the confirmation/disconfirmation of customer expectations are not different for those individuals who were entitled and those who are unentitled ($M_{entitled}$= 2.87; $M_{unentitled}$ = 2.94; t = 1.04, p = .30). Hypothesis 4 is not supported.

Table 6.21

Mediated regression analysis for entitlement → confirmation/disconfirmation of customer expectations → perceived fairness of the penalty outcome

	t	p-value	Adjusted R^2	β
Step 1				
Customer situational entitlement → confirmation/disconfirmation of customer expectations	-1.15	.249	-.002	-.04

Hypothesis 5

I tested Hypothesis 5 using regression analysis. Table 6.22 presents the results of the analysis. The table shows that the disconfirmation/confirmation of customer expectations is a significant predictor of perceived fairness of the penalty outcome (β = .67; t = 23.68, p <.001). I predicted in Hypothesis 5 that individuals whose expectations are positively disconfirmed by the firm's response are likely to appraise a penalty as fairer than a customer whose expectations are disconfirmed negatively. The more positive an individual's disconfirmation of expectations, the higher the individual's perceptions of fairness. Hypothesis 5 is supported.

Table 6.22

Regression analysis for confirmation/disconfirmation of customer expectations → perceived fairness

	t	p-value	Adjusted R^2	β
DV: Perceived fairness				
Confirmation/ disconfirmation	23.68	.000	.45	.67

Hypothesis 6

Following Baron and Kenny's (1986) procedure, I used mediated regression analysis to test Hypothesis 6. First, I tested the relationship between fairness and the mediators, anger and disappointment. I show the results of steps 1-3 in Table 6.23. The relationship between fairness and anger is significant (β = -.50, t = -15.29, p < .001) as is the relationship between fairness and disappointment (β = -.50, t = -15.41, p < .001). In step 2, I tested the relationship between fairness and the four outcome variables, desire to leave, intent to stay, positive word-of-mouth, and negative word-of-mouth. The desire to switch (β = -0.62, t = -20.95, p < .001), the intent to stay (β = 0.64, t = 22.10, p < .001), positive word-of-mouth (β = 0.67, t = 24.19, p < .001), and negative word-of-mouth (β = -.61, t = -20.60, p < .001) are significant. For both anger and disappointment, the beta weights dropped for each outcome variable, but remained significant. This indicates partial mediation. Anger and disappointment partially mediate the relationship between fairness and the desire to switch, intent to stay, positive word-of-mouth, and negative word-of-mouth. Hypotheses 6a-6d are supported (partial mediation).

Table 6.23

Mediated regression analysis for perceived fairness → negative emotions → outcomes

	t	***p*-value**	**Adjusted R^2**	**β**
Step 1				
Fairness → Anger	-15.29	.000	.26	-.50
Fairness → Disappoint	-15.41	.000	.27	-.50
Step 2				
Fairness → Desire	-20.95	.000	.40	-.62
Fairness → Intent	22.10	.000	.42	.64
Fairness → PWOM	24.19	.000	.46	.67
Fairness → NWOM	-20.60	.000	.38	-.61
Step 3				
Fairness → Desire Anger	-15.22	.000	.44	-.50
Fairness → Intent Anger	16.12	.000	.46	.52
Fairness → PWOM Anger	17.94	.000	.50	.55
Fairness → NWOM Anger	-13.82	.000	.47	-.44
Fairness → Desire Disappointment	-14.51	.000	.46	-.47
Fairness → Intent Disappointment	16.21	.000	.46	.52
Fairness → PWOM Disappointment	17.94	.000	.50	.56
Fairness → NWOM Disappointment	-14.35	.000	.44	-.47

Hypothesis 7

I tested Hypothesis 7 using regression analysis. Table 6.24 presents the results of the analysis. The table shows that anger and disappointment are predictors of the desire to switch, the intent to stay, positive word-of-mouth, and negative word-of-mouth (all $p < .001$). Hypotheses 7a-7d are supported.

Table 6.24

Regression analysis for negative emotions → outcomes

	t	*p*-value	Adjusted R^2	*β*
Anger → Desire	14.69	.000	.25	.48
Anger → Intent	-15.34	.000	.26	-.50
Anger → PWOM	-15.89	.000	.28	-.51
Anger → NWOM	18.20	.000	.32	.57
Disappoint → Desire	16.76	.000	.30	.54
Disappoint → Intent	-14.98	.000	.26	-.49
Disappoint → PWOM	-15.77	.000	.27	-.52
Disappoint → NWOM	16.16	.000	.27	.53

Interpretation of the Results and Changes for Study 5

The results from Study 4 show that the manipulations and the measures are working. Of the 14 hypotheses, eight are supported, five are supported (but with partial mediation), and one was not supported. I list a summary of the hypotheses testing results in Table 6.25. The realism and believability of the scenarios is high. The main problem I see with this study is that participants seem to be using the unentitled manipulation (a customer for 3 months) as an indication that they made a lack of knowledge mistake (when answering the manipulation check items). As I mentioned earlier in this chapter, this finding presents three choices for Study 5: (1) measure the attention/knowledge manipulation check in a different way (e.g., create a binary measure where the participants pick from "not paying attention" or "did not know"), (2) change the entitlement manipulation or (3) measure entitlement instead of manipulating it (as a personality variable). Also, I did not remind participants of the entitlement manipulation before they answered the disconfirmation/confirmation of expectations items, and I feel that this would be helpful for getting Hypothesis 4 to turn out the way I hypothesized. I plan to make this change for Study 5. Also, 148 participants started the survey but did not complete it (an 83% completion rate). While there may be reasons for this beyond my control (e.g., interruptions at work), many participants voiced their unhappiness with the length of the survey (the average time to take the survey was 15 minutes, while the median was 10 minutes and the mode was 9 minutes). By removing the items measuring goodwill, trust, and active voice (these items are not in the model), I will shorten the survey to 55 items (from 67 items), and reduce the survey by 18%, or about 2:42 minutes. Several participants mentioned that they were unable to answer the trust and goodwill questions based on only this one incident, and this indicates that these items are good candidates for removal. Participants in the penalty condition (i.e., did not ask for a waiver) voiced their opinion that they would contact the service provider if the scenario occurred in real life. This seemed to be a point of frustration for many participants, as they felt that if they could have told their side of the story to the service provider, then they could have fixed the situation. In Study 5, I would like to include a question (only for the penalty condition) that asks if the participant would contact the service provider after the penalty. One survey participant suggested that I ask the question "What penalty amount would be fair in this situation?" By including this question in Study 5, I could find if there is a dollar threshold at which participants perceive that the penalty would be fair.

Table 6.25

Hypothesis tests (Study 4)

Hypothesis	Supported?	Relationship/Effects Tested
H1a	Yes (partial mediation)	Reason for mistake → Self-attribution → Perceived fairness of the penalty outcome
H1b	Yes (full mediation)	Reason for mistake → Firm-attribution → Perceived fairness of the penalty outcome
H2	Yes	Attribution of responsibility → Perceived fairness of the penalty outcome
H3	Yes	Penalty type → Perceived fairness of the penalty outcome
H4	No	Customer situational entitlement → confirmation/ disconfirmation of customer expectations → perceived fairness of the penalty outcome (mediation)
H5	Yes	Confirmation/disconfirmation of the penalty outcome → perceived fairness of the penalty outcome
H6a	Yes (partial mediation)	Fairness → Anger/Disappointment → Desire to switch (mediation)
H6b	Yes (partial mediation)	Fairness → Anger/Disappointment → Intent to stay (mediation)
H6c	Yes (partial mediation)	Fairness → Anger/Disappointment → Positive word-of-mouth (mediation)
H6d	Yes (partial mediation)	Fairness → Anger/Disappointment → Negative word-of-mouth (mediation)
H7a	Yes	Anger/Disappointment → Desire to switch
H7b	Yes	Anger/Disappointment → Intent to stay
H7c	Yes	Anger/Disappointment → Positive word-of-mouth
H7d	Yes	Anger/Disappointment → Negative word-of-mouth

Conclusion

Study 4 shows that 13 out of 14 hypotheses are supported. Overall, Study 4 provides evidence that the scenarios and manipulations are ready for testing with a consumer panel (Study 5).

CHAPTER 7

RESEARCH METHOD: STUDY 5

Study 5, the main study, was a scenario-based experiment that was similar in design to Study 4. The purpose of Study 5 was to test the hypotheses with a national sample, ensuring that the results are generalizable to a broad base of consumers. In addition, I made changes and improvements to the manipulations and to the measures in Study 5.

Specific Changes to the Survey

The specific changes that I made in Study 5 are the following:

- the manipulations are different (while still using the same cell phone and credit card contexts): the lack of attention, lack of knowledge, and entitlement manipulations are changed
- the measures for lack of attention and lack of knowledge are different (changed to a semantic differential scale; shorter items; more straight-forward)
- the measure for attribution of responsibility is different (now one item instead of two items)
- measured new variables: psychological entitlement, interpersonal rejection, gratitude, procedural justice, "type A" personality
- deleted the active voice, goodwill, and trust items (11 items total) to reduce survey length (In Study 4, participants could not answer these items based on one incident and these constructs are not in the model and are thus less relevant to maintain.)
- changed the first confirmation/disconfirmation of customer expectations item so that the scale anchors match the other two disconfirmation/confirmation items (now has the anchors much worse than expected – much better than expected)

- asked those in the penalty condition if they would contact the company before paying the penalty; asked all participants what penalty amount is fair in the situation (at the end of the survey)
- added two attention filters (to determine if participants were reading the questions) (e.g., "please select the agree option") Golden and Smith (2010) recommend adding items to a survey that will help the researcher find the "cheaters" within panels (i.e., participants who only take the survey for the incentive).
- added "How interesting did you find this topic?" (5-point not at all interesting/very interesting scale). Golden and Smith (2010) recommend this item because the more interested a participant is in the survey, then the better the data will be.
- Added a reminder of the entire scenario after the halfway point in the survey

Manipulations

The actual manipulations are shown in Table 7.1. As in Study 4, two service contexts (cell phone and credit card) had 12 different scenarios each (3 potential penalties x 2 reasons for the mistake x 2 types of customer situational entitlement) totaling 24 cells. Each participant saw only one randomly selected scenario. Similar to Study 4, the participant gets a penalty from either a cell phone company or a credit card company (manipulation: context). The participant makes a mistake because she did not know about some part of the service or because she was not paying attention (manipulation: reason for the mistake). Finally, the participant receives the penalty, asks for a waiver and receives the waiver, or asks for a waiver and the company denies the waiver (manipulation: potential penalty). I used the same two controls that I used in the previous study (Study 4). I controlled for the number of times the participant had made this mistake (first-time mistake) and the company's reputation (the company has a good reputation) (see Table 7.2 for the exact wording of the controls).

Table 7.1

New manipulations: Study 5

Lack of attention	
Cell phone	Imagine that you receive a statement from your cell phone company. The statement shows a $30 penalty charge because you went over the number of text messages that you were allowed for the month. You went over because you had not paid attention to the number of text messages that you sent out that month. There is a number you can call to check how many text messages you are sending, but you did not think to do this.
Credit card	Imagine that you receive a statement from your credit card company. The statement shows a $30 penalty charge because you paid your last bill late. You paid your credit card bill on-line the day it was due, but you did not read the notice on the payment page, which said that there was a 24-hour processing delay.
Lack of knowledge	
Cell phone	Imagine that you receive a statement from your cell phone company. The statement shows a $30 penalty charge because you went over the number of text messages that you were allowed for the month. You went over because you did not know that there was a limit on your cell phone plan, and the company did not tell you that there was a limit.
Credit card	Imagine that you receive a statement from your credit card company. The statement shows a $30 penalty charge because you paid your last bill late. You paid your credit card bill on-line the day it was due, but the company's website did not clearly indicate that there was a 24-hour processing delay on their payment page.
Entitlement	
Entitled	You are a long-time customer of this company in good standing. You feel as though you are one of the company's best customers.
Less entitled	You do not have much of a history with this company. You do not feel as though you are one of the company's best customers.
Potential penalty	
Penalty	N/A
Penalty waived	You contact the company, explain what happened, and ask them to remove the penalty. The company agrees to remove the penalty.
Penalty waiver refusal	You contact the company, explain what happened, and ask them to remove the penalty. The company refuses to remove the penalty.

Table 7.2

Controls for all conditions: Study 5

Number of times the mistake has occurred
This is the first time you have received this penalty.
Company's reputation
The company has a good reputation.

Manipulation check pre-test

Before starting the main data collection, I conducted a manipulation check pre-test for the new lack of attention/knowledge manipulations, items, and the new one-item attribution of firm responsibility scale (see Table 7.3 for the new items). I conducted this manipulation check with a convenience sample of students from two universities and friends who are non-students. There were four cells: (2 contexts x 2 reasons for mistake). Each participant only saw one scenario. Seventy-seven people participated in the pre-test (an average of 19 people per cell). The alphas for the lack of attention and lack of knowledge scales were high (both above .88), and the means for realism for each manipulation were high (all above 4.13 on a 5-point scale). Each manipulation showed that it was working (i.e., for each cell, the lack of attention mean was different than each lack of knowledge mean; attention was higher in the attention conditions; knowledge was higher in the knowledge conditions). The attribution of firm responsibility item also worked (lack of attention/knowledge means were different).

Table 7.3

New items: lack of attention, lack of knowledge, and attribution of firm responsibility

Variable	Actual Items
Lack of attention	I was paying attention – I was not paying attention I was attentive – I was not attentive I was careful – I was not careful (5-point semantic differential scale; scale points in between anchors were not named)
Lack of knowledge	I had enough information – I did not have enough information I was informed – I was not informed I was knowledgeable – I was not knowledgeable (5-point semantic differential scale; scale points in between anchors were not named)
Attribution of firm responsibility	If you were in this situation, who would you feel is mostly responsible for the mistake? Myself – the company (5-point semantic differential scale; scale points in between anchors were not named)

Main study: Procedure

In the main study, participants answered about 75 survey items after reading the scenario (see Appendix J for the actual survey). I administered the scenario-based experiment in Qualtrics on-line software again, but in this study, participants came from a panel provided by Qualtrics. Qualtrics maintains an online panel of consumers in the U.S. from all 50 states. Panelists are recruited either on the homepage of a partner website, or via pop-ups that are distributed across a network of partner websites. Qualtrics compensates panelists with cash-equivalent points that are traded for incentives (i.e., gift cards; downloads on iTunes). Qualtrics randomly selected 7,500 of its panel members and invited them to the survey. The data collection took nine business days. Eight hundred and seventy-nine participants took the survey (resulting in a 12% response rate). In order to prevent cheating (i.e., participants who click through survey questions without reading the questions), exactly 100 participants were dropped due to careless responding to the first attention filter (i.e., "Please select the agree option"). Seventy-two participants were dropped due to careless responding to the second attention filter. This left me with a sample of

707 participants who made it through both attention filters. Following the best practices of data quality in online survey research (Golden and Smith 2010), I then dropped 155 participants for speeding, cheating, etc. Specifically, I dropped 63 speeders (those who finished the survey in four minutes or less) (the average time to take the survey was 12 minutes; the median and the mode were both nine minutes), 31 who straight-lined their answers or made obvious patterns with their answers (i.e., 1, 2, 3, 1, 2, 3), those who said that the survey was not at all interesting (16) or not interesting (41) (Golden and Smith 2010) (many of these individuals provided an explanation such as they did not own a cell phone or did not have a credit card), and four who wrote something in the feedback section indicating that they could not relate to the scenario for a particular reason. This resulted in a final sample size of 552 participants.

Data Analysis and Results

Data Analysis

In this section, I present the analysis of data and results from Study 5. I first looked at the demographic characteristics of the sample. Next, I examined the realism of the scenarios and the demand check. I then identified the covariates (gender, penalty type, perceived standardization of the penalty, previous experience with the mistake, and previous experience with the provider) in the study (listed in Table 7.11). I performed a confirmatory factor analysis and model fit in LISREL followed by manipulation checks. Then, I tested each hypothesis in the model. Finally, I performed some additional tests relevant to the study.

General Characteristics of the Sample

The demographic characteristics of the participants across the two service contexts appear in Table 7.4. A z-test for two proportions of each demographic variable across contexts shows that there are no differences between the two service contexts (all p's > .24), providing initial support for pooling the two contexts (cell phone and credit card). About 56% of the participants are female, about half of the participants are over the age of 49 (46%), with about half 49 years old or younger. The majority of participants (67%) hold a bachelor's degree or have attended some college, with 24% having a high school diploma or less and 10% holding a graduate degree. Almost half of the participants are married (46%). The majority of the participants are white (85%), and the majority of the participants have a household income of $50,000 or less (57%).

These demographic characteristics are generally very similar to those of the general U.S. population (see Table 7.5 for a comparison), although some differences exist. The general U.S. population consists of about 51% females (this sample is about 56% female). This sample differs slightly from the general population in terms of age. About 30% of the U.S. population (19 or older but under 80) is between 36-49; in my sample, about 20% of my sample is in this age bracket. About 27% of the U.S. adult population is between 50-65, and about 33% of my sample is made up of this age group. Although other small differences exist, the sample is generally similar to the U.S. population.

Table 7.4

Demographic characteristics of the sample

	Cell phone (n=265)		Credit card (n=287)		Total (n=552)	
	freq	%	freq	%	freq	%
Gender						
Male	121	45.7	123	42.9	244	44.2
Female	144	54.3	164	57.1	308	55.8
Age						
19-25	40	15.1	42	14.6	82	14.9
26-35	49	18.5	55	19.2	104	18.8
36-49	49	18.5	62	21.6	111	20.1
50-65	92	34.7	92	32.1	184	33.3
>65	35	13.2	36	12.5	71	12.9
Marital Status						
Single	119	44.9	122	42.5	241	43.7
Married	118	44.5	136	47.4	254	46.0
Other	28	10.6	29	10.1	57	10.3
Education						
< HS diploma	6	2.3	2	0.7	8	1.4
HS or equiv	62	23.4	60	20.9	122	22.1
Some college	105	39.6	123	42.9	228	41.3
Bachelor's degree	67	25.3	74	25.8	141	25.5
Graduate degree	25	9.4	28	9.8	53	9.6
Race						
White/Caucasian	229	86.4	239	83.3	468	84.8
Black/African-American	21	7.9	25	8.7	46	8.3
Hispanic/Latino	9	3.4	7	2.4	16	2.9
Asian	3	1.1	7	2.4	10	1.8
Multi-cultural/ multi-racial	1	0.4	2	0.7	3	0.5
Other	2	0.8	7	2.4	9	1.6
Household Income						
<$25,000	63	23.8	69	24.0	132	23.9
$25,000-$50,000	95	35.8	86	30.0	181	32.8
$50,001-$75,000	49	18.5	62	21.6	111	20.1
$75,001-$100,000	28	10.6	30	10.5	58	10.5
>$100,000	19	7.2	21	7.3	40	7.2
Don't know	11	4.2	19	6.6	30	5.4

Table 7.5

Demographic characteristics of the sample compared with U.S. census data

	Study 5 %	U.S. Census (2009) %
Gender		
Male	44.2	49.3
Female	55.8	50.7
Age		
19-25	14.9	10.2
26-35	18.8	19.6
36-49	20.1	30.3
50-65	33.3	26.7
>65	12.9	13.3 (and less than 80 years)
Marital Status		
Married	46.0	50.3
Education		
< HS diploma	1.4	15.5
HS or equiv	22.1	29.3
Some college	41.3	27.7
Bachelor's degree	25.5	17.4
Graduate degree	9.6	10.1
Race		
White/Caucasian	84.8	74.5
Black/African-American	8.3	12.9
Hispanic/Latino	2.9	6.1
Asian	1.8	4.4
Multi-cultural/ multi-racial	0.5	2.2
Household Income		
<$25,000	23.9	23.8
$25,000-$50,000	32.8	24.9
$50,001-$75,000	20.1	18.7
$75,001-$100,000	10.5	12.3
>$100,000	7.2	20.3
Don't know	5.4	--

Perceived Realism and Believability of the Scenarios

I used the same realism items that I used in Study 4 (adopted from McColl-Kennedy and Sparks 2003). I list the items in Table 7.6. Table 7.7 illustrates the perceived realism and believability of the scenarios across the two contexts. Both contexts resulted in means of about four on a 5-point scale, indicating that participants felt that the scenarios were realistic and believable. The two service contexts did not show differences in realism (t = 1.76, p = .08), indicating that there are no systematic differences between the realism of the scenarios in the two contexts, providing support for pooling the two contexts.

Table 7.6

Realism items

Variable	Actual Items
Realism α = 0.77	1. I could see this situation happening to one of my friends or family members. 2. This situation is realistic. 3. This situation is believable. (5-point SD/SA scale)

Table 7.7

Perceived realism and believability of the scenarios

	Cell phone (n=265)		**Credit card (n=287)**		**Total (n=552)**		
	Mean	**SD**	**Mean**	**SD**	**Mean**	**SD**	**t-value (independent groups t-test of means)**
Perceived realism of the situation	3.92	.79	4.03	.64	3.98	.72	1.76 (p = .08)

Demand Check

I next confirmed that there were not any demand effects. Just as I did in Study 4, I asked participants in the current study what they thought the purpose of the study was. I gave the participants three options. Option 1 matched with the cover story, "to understand how customers react to penalties." Option 2 was "other" and the participant had to specify an answer. The last option was "don't know." The majority of the participants chose option 1, the cover story (92%). About 4% of participants (23) chose option 2 and typed an answer to what they believed was the purpose of the study. About 4% of the participants chose option 3 "don't know." A close examination of the written answers (those who chose option 2) revealed that no one guessed the exact purpose of the story. The guesses were varied, with most people having very different answers (i.e., I did not see the same answer twice). Examples of the guesses included reactions in a stressful situation, to understand how people feel after a conflict, and to explore the ethics of service companies. Therefore, there is not a demand effect in this study.

General Service Experience Characteristics of the Sample

In order to understand some general characteristics pertaining to participants' past service experiences, I included questions related to participants' prior experience with the service context, the mistake, and penalties within the context. Participants were equally likely to pay a cell phone bill and a credit card bill (z = 1.37; p =.17), and the percentages were high for both contexts (66% currently pay a cell phone bill; 72% currently pay a credit card bill). Half of the participants in the credit card context had accidentally paid a credit card bill late before (50%), while only 16% of participants had gone over the number of text messages they are allowed (z = 10.63; p<.001). In addition, I asked participants how many times in the past two years they had received a penalty from their cell phone provider/credit card company. More participants had received a penalty (one or more) from their credit card company (27%) than their cell phone company (14%) (z = 3.15; p<.01). The majority of participants in both contexts had never received a penalty. About 90% of the participants own a cell phone. About 58% of the participants typically pay their credit card bill on-line. Table 7.8 shows the frequencies and percentages just mentioned.

Table 7.8

General service experience characteristics of the sample

	Cell phone (n=265)		Credit card (n=287)		Total (n=552)	
	freq	**%**	**freq**	**%**	**freq**	**%**
Previous experience with the service provider						
Do you currently pay a cell phone (credit card) bill for yourself or someone in your family?						
Yes	175	66.0	206	71.8	443	80.3
No	90	34.0	81	28.2	109	19.7
Previous experience with the service context						
Do you currently own a cell phone?						
Yes	237	89.4				
No	28	10.6				
Do you typically pay your credit card bill on-line?						
Yes			166	57.8		
No			121	42.2		
Previous experience with the mistake						
Have you ever mistakenly gone over the number of text messages you are allowed (accidentally paid your credit card bill late)?						
Yes	41	15.5	143	49.8	184	33.3
No	224	84.5	144	50.2	368	66.7
Previous experience with penalties in the service context						
In the past 2 years, how many times have you received a penalty from your cell phone provider (credit card company)?						
0	188	70.9	177	61.7	365	66.1
1	20	7.5	44	15.3	64	11.6
2	13	4.9	14	4.9	27	4.9
3 or more	8	3.0	19	6.6	27	4.9
Don’t know or N/A	36	13.6	33	11.5	69	12.5

In addition to the general service characteristics mentioned, I also looked at the customer’s perceived standardization of the penalty. I used the same standardization items that I used in Study 4. I list the items in Table 7.9. Table 7.10 illustrates the perceived standardization of the penalty across the two contexts. The penalties appear to be fairly standard in both contexts (both means are above 3). The credit card penalty is perceived as more standard than the cell phone penalty ($t = 7.29$, $p < .001$).

I use three of these general service experience characteristics (previous experience with the mistake, previous experience with the service provider, and perceived standardization of the penalty) as covariates in the data analysis. In addition to these general characteristics, I use gender and penalty type (i.e., penalty, waiver, or waiver refusal) as covariates in the data analysis. See Table 7.11 for a list of the covariates.

Table 7.9

Perceived standardization of penalty items

Variable	Actual Items
Perceived standardization of penalty $\alpha = 0.94$	1. Most cell phone providers have a penalty similar to this one. 2. This penalty amount is common among cell phone providers. 3. This penalty amount seems standard in the industry. (5-point SD/SA scale)

Table 7.10

Perceived standardization of the penalty comparison of means

	Cell phone (n=265)		**Credit card (n=287)**		**Total (n=552)**		
	Mean	**SD**	**Mean**	**SD**	**Mean**	**SD**	**t-value (independent groups t-test of means)**
Perceived standardization of the penalty	3.16	.83	3.65	.75	3.42	.83	7.29 ($p < .001$)

Table 7.11

Covariates

Covariate variable	Item(s)
Previous experience (service provider)	Do you currently pay a cell phone (credit card) bill for yourself or someone in your family?
Previous experience (mistake)	Have you ever mistakenly gone over the number of text messages you are allowed (accidentally paid your credit card bill late)?
Penalty type	Penalty/waiver received/waiver refused
Gender	Male/Female
Perceived standardization of the penalty $\alpha = 0.94$	1. Most cell phone providers have a penalty similar to this one. 2. This penalty amount is common among cell phone providers. 3. This penalty amount seems standard in the industry.

Measurement of Constructs

In this section, I present the dimensionality, reliability, and validity of the constructs used in the study. See Table 7.12 for the correlation matrix and descriptive statistics (and see Appendix K for the correlation matrix and descriptive statistics for the constructs used in the additional analysis section of this chapter). I conducted a confirmatory factor analysis using LISREL. The measurement model examined eight variables from the study: perceived fairness of the penalty outcome, confirmation/disconfirmation of customer expectations, anger, disappointment, desire to switch, intent to stay, positive word-of-mouth, and negative word-of-mouth. After estimating the model, a careful examination of the modification indices for the error terms for anger2 and anger4 revealed a high value on the modification index, and thus I allowed these two items to correlate. I report all of the individual item loadings, composite reliabilities, and average variance extracted values (AVE) in Table 7.13. Each of these measures of reliability proved satisfactory, as the composite reliabilities were all above .89 and exceeded the prescribed limit of 0.70 (Fornell and Larcker 1981). The average variance extracted values were all .73 or higher, greater than the acceptable limit of 0.50 (Fornell and Larcker 1981). The individual item loadings provide support for the convergent validity of the measures. Each construct had a significant t-value association, showing convergent validity. Next, I evaluated the discriminant validity of the measures using the approach of Fornell and Larcker (1981). This approach compares the squared correlation between a pair of constructs against the AVE for each of the two constructs. If the squared correlation of the pair is smaller than both AVEs, then the constructs exhibit discriminant validity. A construct should share more variance with its measures than with other model constructs. None of the squared correlations of the constructs exceeded the AVE of the constructs (Fornell and Larcker 1981), showing discriminant validity for each measure.

Table 7.12

Correlation matrix and descriptive statistics

Construct	*M*	*SD*	1	2	3	4	5	6	7
1. Fairness	2.91	1.33							
2. Disconfirmation	2.73	1.08	.74**						
3. Anger	2.96	1.27	-.55**	-.56**					
4. Disappointment	3.23	1.20	-.56**	-.58**	.81**				
5. Desire to switch	3.37	1.24	-.60**	-.61**	.58**	.60**			
6. Intent to stay	2.89	1.20	.65**	.64**	-.57**	-.58**	-.84**		
7. Positive WOM	2.51	1.15	.65**	.68**	-.57**	-.59**	-.80**	.82**	
8. Negative WOM	3.24	1.15	-.63**	-.66**	.65**	.64**	.82**	-.75**	-.82**

*p<.05; **p<.01

Table 7.13

Confirmatory factor analysis

Scale Item	Standardized Loading	Composite Reliability	Variance Extracted
Perceived fairness of the penalty outcome		.93	.82
Fair1	.87		
Fair2	.91		
Fair3	.93		
Confirmation/disconfirmation of customer expectations		.95	.85
Expect1	.88		
Expect2	.94		
Expect 3	.95		
Anger		.94	.81
Anger1	.94		
Anger2	.89		
Anger3	.86		
Anger4	.90		
Disappointment		.89	.73
Disappoint1	.88		
Disappoint2	.84		
Disappoint3	.84		
Desire to switch		.98	.84
Desire1	.94		
Desire2	.86		
Desire3	.95		
Intent to stay		.94	.95
Intent1	.98		
Intent2	.97		
Intent3	.97		
Positive word-of-mouth		.97	.92
PWOM1	.94		
PWOM2	.97		
PWOM3	.96		
Negative word-of-mouth		.95	.86
NWOM1	.97		
NWOM2	.83		
NWOM3	.97		

Table 7.14 shows the CFA model fit statistics. The model fit indices are acceptable and are within the limits recommended by Kelloway (1998) and Muliak, James, Van Alstine, Bennett, Lind, and Stilwell (1989). First, the RMSEA is below the 0.08 cut-off, the SRMR is

below .05, and the GFI, NFI, CFI, IFI, and RFI are all above the 0.90 criteria. The chi-square is significant, but this is common with large sample sizes (the sample size in this study is 552).

Table 7.14

Fit indices for the confirmatory factor analysis

Goodness of Fit Statistics (n=552)
Degrees of Freedom = 246
Minimum Fit Function Chi-Square = 650.97 (P = 0.0)
Root Mean Square Error of Approximation (RMSEA) = .054
Standardized RMR = .034
Goodness of Fit Index (GFI) = .91
Normed Fit Index (NFI) = .99
Comparative Fit Index (CFI) = .99
Incremental Fit Index (IFI) = .99
Relative Fit Index (RFI) = .99

Manipulation Checks

Reason for Mistake

I manipulated the reason for mistake at two levels in this study: lack of attention and lack of knowledge. I list the lack of attention items in Table 7.15. These items are different from Study 4. These items are more straight-forward and have fewer words than the previous items. (I pre-tested these items before the current study began). The scale is a semantic differential scale (5-point).

Table 7.15

Lack of attention items

Variable	**Actual Items**
Lack of attention α = 0.97	I was paying attention – I was not paying attention I was attentive – I was not attentive I was careful – I was not careful (5-point semantic differential scale)

I submitted the manipulation check for lack of attention to a 2 (reason for mistake: attention and knowledge) by 2 (entitlement: low and high) by 3 (penalty type: penalty, waiver, and waiver refusal) by 2 (context: cell phone and credit card company) ANOVA (see Table 7.16). Results support the manipulation, as the main effects show that the reason for mistake is a predictor of lack of attention ($F = 148.13$, $p < .001$). In addition, perceptions of the lack of attention were higher in the lack of attention condition than in the lack of knowledge condition ($M_{attn} = 4.10$; $M_{know} = 2.84$; $t = 11.71$, $p < .001$). However, the main effect for the context (as well as a three-way interaction and a four-way interaction involving context) is significant. To show that this does not produce any confounding problems with my data, I ran all of the hypothesis tests (and a comparison of means for the manipulations) by context (see Table 7.30) (Perdue and Summers 1986). Each hypothesis had the same result in the cell phone and credit card contexts. In addition to finding no differences in the hypothesis results between contexts, I found no differences in the significance values for each manipulation by context (see Table 7.31) (Perdue and Summers 1986). The main effect for entitlement is also significant here, however, according to the guidelines of Purdue and Summers (1986), the potential confound seems to be minimal concern. The partial eta^2 and the mean square are very small compared with the focal effect.

Table 7.16

ANOVA test for manipulation of reason for mistake (dependent variable: lack of attention)

	Source	Type III Sum of Squares	df	Mean Square	F	p-value	Partial eta^2	Observed power
	Corr. model	292.50 (a)	23	12.72	8.34	.00	.27	1.0
	Intercept	6541.49	1	6541.49	4287.31	.00	.89	1.0
Main Effects	**Reason for mistake**	**226.01**	**1**	**226.01**	**148.13**	**.00**	**.22**	**1.0**
	Entitlement	8.97	1	8.97	5.88	**.02**	.01	.68
	Penalty type	7.86	2	7.86	2.57	.08	.01	.51
	Context	13.94	1	13.94	9.14	**.00**	.02	.86
2-way inter-actions	Reason for mistake*penalty type	.21	2	.11	.07	.93	.00	.06
	Reason for mistake *entitlement	4.35	1	4.35	2.85	.09	.01	.39
	Reason for mistake * context	1.39	1	1.39	.91	.34	.00	.16
	Entitlement * penalty type	.41	2	.20	.13	.88	.00	.07
	Entitlement * context	1.36	1	1.36	.89	.35	.00	.16
	Penalty type * context	.26	2	.13	.09	.92	.00	.06
3-way inter-actions	Reason for mistake *penalty type*entitlement	4.95	2	2.48	1.62	.20	.01	.34
	Penalty type* entitlement* context	8.10	2	4.05	2.66	.07	.01	.53
	Reason for mistake *penalty type*context	3.08	2	1.54	1.01	.37	.00	.23
	Reason for mistake *entitlement* context	6.54	1	6.54	4.29	**.04**	.01	.54
4-way inter-action	Reason for mistake *entitlement* *penalty type*context	13.14	2	6.57	4.31	**.01**	.02	.75
	Error	805.611	528	1.53				
	Total	7806.56	552					
	Corr. Total	1098.12	551					

$R^2 = .27$; Adjusted $R^2 = .23$

The lack of knowledge items I used for the manipulation check are shown in Table 7.17. These items are also different from the items I used in Study 4. These items are simpler and easier to read for the participant (compared with the items I used in Study 4). I pre-tested the new items before the current study. The scale is a semantic differential scale (5-point).

Table 7.17

Lack of knowledge items

Variable	Actual Items
Lack of knowledge $\alpha = 0.90$	I had enough information – I did not have enough information I was informed – I was not informed I was knowledgeable – I was not knowledgeable (5-point semantic differential scale)

I submitted the manipulation check for lack of knowledge to a 2 (reason for mistake: attention and knowledge) by 2 (entitlement: low and high) by 3 (penalty type: penalty, waiver, and waiver refusal) by 2 (context: cell phone and credit card company) ANOVA (see Table 7.18). Results support the manipulation, as the main effects show that the reason for mistake is a predictor of lack of knowledge ($F = 207.00$, $p = < .001$), and perceptions of the lack of knowledge are higher in the lack of knowledge condition than in the lack of attention condition ($M_{\text{know}} = 4.26$; $M_{\text{attn}} = 2.94$; $t = 14.01$, $p<.001$).

One other main effect (penalty) and two 2-way interactions (reason for mistake *entitlement and reason for mistake * context) were significant in this manipulation check. As mentioned previously, I ran all of the hypothesis tests by context and did not find any differences between the contexts (see Tables 7.30-7.31) (Perdue and Summers 1986). The main effect for penalty type shows up significant. The main effect of penalty type is smaller ($F = 5.84$, $p = .01$), than the effect of reason for the mistake ($F = 207.00$, $p = < .001$), and the partial eta^2 is closer to zero (where we want it to be in order to not show a confounding threat) than the reason for mistake (Perdue and Summers 1986). Additionally, penalty type is a covariate in all of the hypotheses tests (see Table 7.11 for a list of covariates).

Also, the main effect for entitlement is significant. The mean square (8.97) and the partial eta^2 (.01) are low compared to the focal effect. The potential confound of penalty type and entitlement seems to be of minimal concern.

Table 7.18

ANOVA test for manipulation of reason for mistake (dependent variable: lack of knowledge)

	Source	Type III Sum of Squares	df	Mean Square	F	p-value	Partial eta^2	Observed power
	Corr. model	311.61[a]	23	13.55	11.89	.00	.34	1.00
	Intercept	7085.78	1	7085.78	6220.48	.00	.92	1.00
Main Effects	**Reason for mistake**	**235.80**	**1**	**235.80**	**207.00**	**.00**	**.28**	**1.00**
	Entitlement	2.94	1	2.94	2.58	.11	.01	.36
	Penalty type	11.69	2	5.84	5.13	**.01**	.02	.82
	Context	.03	1	.03	.03	.87	.00	.05
2-way inter-actions	Reason for mistake*penalty type	3.48	2	1.74	1.53	.22	.01	.33
	Reason for mistake *entitlement	6.51	1	6.51	5.71	**.02**	.01	.67
	Reason for mistake * context	25.18	1	25.18	22.11	**.00**	.04	1.00
	Entitlement * penalty type	.53	2	.26	.23	.79	.00	.09
	Entitlement * context	.01	1	.01	.00	.95	.00	.05
	Penalty type * context	6.62	2	3.31	2.91	.06	.01	.57
3-way inter-actions	Reason for mistake *penalty type*entitlement	2.62	2	1.31	1.15	.32	.00	.25
	Penalty type* entitlement* context	5.73	2	2.86	2.51	.08	.01	.50
	Reason for mistake *penalty type*context	3.29	2	1.65	1.45	.24	.01	.31
	Reason for mistake *entitlement* context	.67	1	.67	.59	.44	.00	.12
4-way inter-action	Reason for mistake *entitlement* *penalty type*context	1.95	2	.98	.86	.43	.00	.20
	Error	601.45	528	1.14				
	Total	7991.33	552					
	Corr. Total	913.05	551					

$R^2 = .34$; Adjusted $R^2 = .31$

Entitlement

I manipulated entitlement at two levels in this study: low (not much history with the company; not one of the company's best customers) and high (long time customer in good standing; one of the company's best customers). I list the entitlement items that I used in Table 7.19 (previously used in Studies 3 and 4).

Table 7.19

Entitlement items

Variable	Actual Items
Entitlement $\alpha = 0.86$	1. If I were in this situation, I would feel that I deserve more attention than a regular customer who would be subject to this penalty. 2. If I were in this situation, I would feel that the cell phone provider should not see me as an average customer who would be subject to this penalty. 3. If I were in this situation, I would feel as though I should receive better treatment than other customers. (5-point SD/SA scale)

I submitted the manipulation check for entitlement to a 2 (reason for mistake: attention and knowledge) by 2 (entitlement: low and high) by 3 (penalty type: penalty, waiver, and waiver refusal) by 2 (context: cell phone and credit card company) ANOVA (see Table 7.20). Results support the entitlement manipulation, as the main effects show that the entitlement manipulation is a predictor of the entitlement manipulation check ($F = 85.02$, $p < .001$). Entitlement is higher in the entitled condition than in the unentitled condition ($M_{\text{entitled}} = 3.30$; $M_{\text{unentitled}} = 2.61$; $t = 8.89$, $p<.001$). The penalty type main effect is significant here, although when compared to the entitlement main effect, the partial eta^2 is close to zero (where we want it to be), and the mean square value (5.50) is smaller than the entitlement mean square (68.09) (Perdue and Summers 1986). In addition, the reason for mistake main effect is significant, although, compared with the focal effect, the partial eta^2 and the mean square values are low. The two-way interaction for reason for mistake and penalty type is significant here as well. Again, the mean square value is lower than the entitlement value, and the partial eta^2 value is close to 0. Based on Purdue and Summers (1986), the partial eta^2 and the mean square relative to the focal effect show that these potential confounds seem to be of minimal concern.

Table 7.20

ANOVA test for manipulation of entitlement (dependent variable: entitlement)

	Source	Type III Sum of Squares	df	Mean Square	F	p-value	Partial eta^2	Observed power
	Corr. model	112.98[a]	23	4.91	6.13	.00	.21	1.00
	Intercept	4763.43	1	4763.43	5947.83	.00	.92	1.00
Main Effects	Reason for mistake	6.67	1	6.67	8.33	**.00**	.02	.82
	Entitlement	**68.09**	**1**	**68.09**	**85.02**	**.00**	**.14**	**1.00**
	Penalty type	10.99	2	5.50	6.86	**.00**	.03	.92
	Context	.15	1	.15	.19	.67	.00	.07
2-way inter-actions	Reason for mistake *penalty type	11.50	2	5.75	7.18	**.00**	.03	.93
	Reason for mistake *entitlement	1.86	1	1.86	2.32	.13	.00	.33
	Reason for mistake * context	.40	1	.40	.50	.48	.00	.11
	Entitlement * penalty type	1.07	2	.54	.67	.51	.00	.16
	Entitlement * context	8.93	1	8.93	11.15	**.00**	.02	.92
	Penalty type * context	.51	2	.26	.32	.73	.00	.10
3-way inter-actions	Reason for mistake *penalty type*entitlement	.37	2	.19	.23	.79	.00	.09
	Penalty type* entitlement* context	.42	2	.21	.26	.77	.00	.09
	Reason for mistake *penalty type*context	.87	2	.43	.54	.58	.00	.14
	Reason for mistake *entitlement* context	.32	1	.32	.40	.53	.00	.10
4-way inter-action	Reason for mistake *entitlement* *penalty type*context	2.08	2	1.04	1.30	.27	.01	.28
	Error	422.86	528	.80				
	Total	5339.22	552					
	Corr. Total	535.84	551					

$R^2 = .21$; Adjusted $R^2 = .18$

Measures

I list the items, item source, and Cronbach's alpha for each measured variable in Table 7.21. All alphas are .89 or higher (above the .70 threshold), indicating that the items for each scale hold together well. The items are the same items that I used in Study 4 (with the exception of the attribution of responsibility and the anchors for the first disconfirmation item). In the previous study (Study 4), I used two items to measure attribution: one to measure self-responsibility and one to measure firm responsibility. Here, I combined attribution of responsibility into one item (and renamed it attribution of firm responsibility). I measured all of the items on 5-point scales.

Table 7.21

Measured variables: items

Variable	Source	Actual Items
Attribution of firm responsibility	Pagel, Becker, and Coppel (1985); Ward, Miller, Boudens, and Briggs (2001)	If you were in this situation, who would you feel was mostly responsible for the mistake? Myself – the company (5-point semantic differential scale)
Perceived fairness of the penalty outcome α = .93	Hardesty, Carlson, and Bearden (2002)	*Penalty condition:* (F1) Overall, this cell phone provider treated me fairly. (F2) This penalty seems fair. (F3) This penalty seems reasonable to me. *Penalty waiver condition:* (F1) Overall, this cell phone provider treated me fairly. (F2) This penalty waiver seems fair. (F3) This penalty waiver seems reasonable to me. *Penalty denied condition:* (F1) Overall, this cell phone provider treated me fairly. (F2) This penalty waiver refusal seems fair. (F3) This penalty waiver refusal seems reasonable to me. (5-point Strongly Disagree/Strongly Agree scale)

Variable	Source	Actual Items
Confirmation/ dis- confirmation of customer expectations α = .95	Wallace, Giese, and Johnson (2004)	*Penalty condition:* (C1) If you were in this situation and received this penalty, would the penalty be: Much worse than expected/much better than expected (C2) Overall, this penalty is: Much worse than expected/much better than expected (C3) Compared to what I would expect, this penalty from the cell phone provider is: Much worse/much better *Penalty waiver condition:* (C1) If you were in this situation and received this penalty waiver, would the waiver be: Much worse than expected/much better than expected (C2) Overall, the cell phone provider's response is: Much worse than expected/much better than expected (C3) Compared to what I would expect, this penalty waiver from the cell phone provider is: Much worse/much better *Penalty denied condition:* (C1) If you were in this situation and the cell phone provider refused to grant the waiver, would this be: Much worse than expected/much better than expected (C2) Overall, the cell phone provider's response is: Much worse than expected/much better than expected (C3) Compared to what I would expect, the cell phone provider's refusal to grant the waiver is: Much worse/much better
Anger α = .95	Forgays et al. 1997; Funches (2007)	If this incident were to happen to you, how much would you feel the following: (A1) angry (A2) furious (A3) irritated (A4) outrage (5-point Not at all/Extremely scale)
Disappoint- ment α = .89	Forgays et al. 1997	If this incident were to happen to you, how much would you feel the following: (D1) frustrated (D2) disappointed (D3) discouraged (5-point Not at all/Extremely scale)
Desire to switch α = .98	Bougie, Pieters, and Zeelenberg (2003)	Imagining that this situation happened to you, please rate your agreement with the following items. (DS1) If I had the option, I would switch to a different provider. (DS2) If I could, I would use another provider. (DS3) I would like to switch to a different provider. (5-point Strongly Disagree/Strongly Agree scale)

Variable	Source	Actual Items
Intent to stay α = .94	Maxham and Netemeyer (2002)	(RI1) In the future, I intend to continue using this service provider. (RI2) If I were in the market for additional services, I would be likely to choose those services from this service provider. (RI3) It is likely that I will stay with this service provider in the future. (5-point Strongly Disagree/Strongly Agree scale)
Positive word-of-mouth α = .97	Verhoef, Franses, and Hoekstra (2002)	(PWOM1) I would say positive things about this service provider to people I know. (PWOM2) I would recommend this cell phone provider. (PWOM3) I would encourage relatives and friends to do business with this service provider. (5-point Strongly Disagree/Strongly Agree scale)
Negative word-of-mouth α = .94	Jones, Reynolds, Mothersbaugh, and Beatty (2007)	(NWOM1) I would warn my friends and relatives not to do business with this service provider. (NWOM2) I would complain to my friends and relatives about this service provider. (NWOM3) I would tell my friends and relatives not to use this service provider. (5-point Strongly Disagree/Strongly Agree scale)

Covariates

I used five covariates in my hypothesis analysis. Table 7.22 presents the covariates that I used. I used two prior experience items (previous experience with the provider; with the mistake), the potential penalty type (penalty/waiver/waiver refusal), gender, and the perceived standardization of the penalty as covariates in order to examine and rule out the potential effects on outcome variables.

Table 7.22

Covariates

Covariate variable	Item(s)
Previous experience (service provider)	Do you currently pay a cell phone (credit card) bill for yourself or someone in your family? Yes/No
Previous experience (mistake)	Have you ever mistakenly gone over the number of text messages you are allowed (accidentally paid your credit card bill late)? Yes/No
Penalty type	Penalty/waiver received/waiver refused
Gender	Male/Female
Perceived standardization of the penalty α = 0.94	1. Most cell phone providers have a penalty similar to this one. 2. This penalty amount is common among cell phone providers. 3. This penalty amount seems standard in the industry. (5-point SD/SA)

Test of Hypotheses

In this section, I present the test results of the hypotheses. Table 7.23 presents the relationships that I tested. For all of the hypotheses I used five covariates in the analysis (see Table 7.22) in order to examine and rule out the potential effects on outcome variables. Importantly, penalty type is a covariate in order to control for the different penalty outcomes in each analysis (i.e., penalty, waiver, or waiver refusal). In addition, I tested each hypothesis by context (i.e., tested the credit card context and cell phone context separately). I did not find any context effects; each hypothesis worked the same way in each context (see Tables 7.30-7.31 for the hypothesis results by context). In Figure 7.1, I show the model that I am testing again.

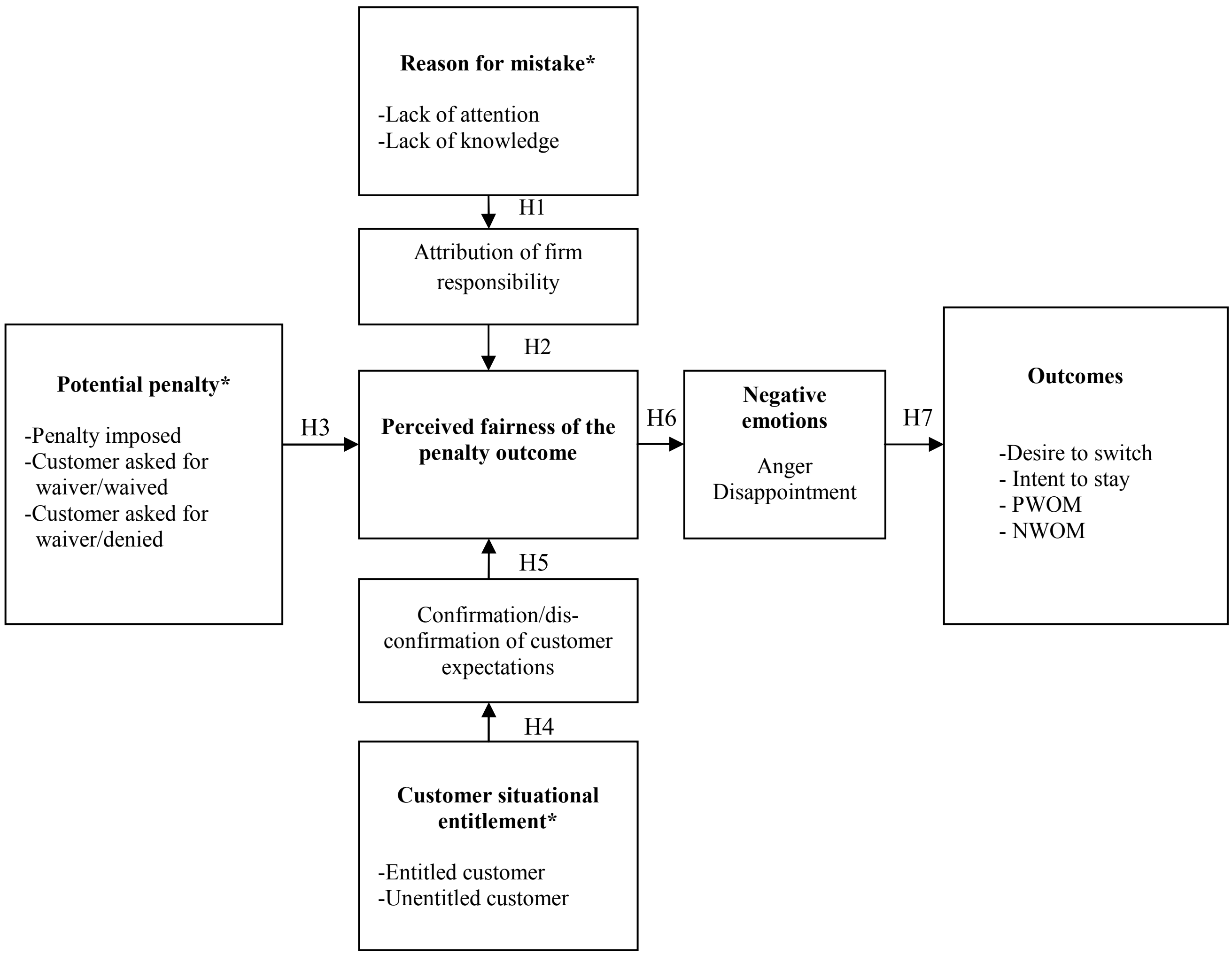
Table 7.23

Hypothesis tests

Hypothesis	Relationship/Effects Tested
H1	Reason for the mistake → Attribution of firm responsibility → Perceived fairness of the penalty outcome (mediation)
H2	Attribution of firm responsibility → Perceived fairness of the penalty outcome
H3	Penalty type → Perceived fairness of the penalty outcome
H4	Customer situational entitlement →Confirmation/disconfirmation of customer expectations → Perceived fairness of the penalty outcome (mediation)
H5	Confirmation/disconfirmation of customer expectations → Perceived fairness of the penalty outcome
H6a	Perceived fairness of the penalty outcome → Anger/Disappointment → Desire to switch (mediation effect of anger and disappointment)
H6b	Perceived fairness of the penalty outcome → Anger/Disappointment → Intent to stay (mediation effect of anger and disappointment)
H6c	Perceived fairness of the penalty outcome → Anger/Disappointment → Positive word-of-mouth (mediation effect of anger and disappointment)
H6d	Perceived fairness of the penalty outcome → Anger/Disappointment → Negative word-of- mouth (mediation effect of anger and disappointment)
H7a	Anger/Disappointment → Desire to switch
H7b	Anger/Disappointment → Intent to stay
H7c	Anger/Disappointment → Positive word-of-mouth
H7d	Anger/Disappointment → Negative word-of-mouth

Figure 7.1

A model of customer mistakes and potential penalties



*manipulated variable

Hypothesis 1 and 2

Evidence of mediation for Hypothesis 1 requires (a) significant effects of the reason for mistake on the mediating variables in step 1, (b) significant effects of the reason for mistake on perceived fairness of the penalty outcome in step 2, and (c) a reduction/elimination of the effects of the reason for mistake on perceived fairness when the reason for mistake and attribution are tested together as the independent variables in step 3. This approach is consistent with Baron and Kenny (1986).

Following Baron and Kenny's (1986) procedure, I used mediated regression analysis to test Hypothesis 1. First, I tested the relationship between the reason for the mistake and the mediator, attribution of firm responsibility. I show the results of steps 1-3 in Table 7.24. The relationship between the reason for the mistake and attribution of firm responsibility is significant ($\beta = .62$, $t = 18.76$, $p < .001$). Individuals who feel that their mistake is due to a lack of attention attribute more responsibility to themselves, and individuals who make a lack of knowledge mistake attribute more responsibility to the firm. The lack of attention mean is lower than the lack of knowledge mean, (the 1-5 item scale asked who is mostly responsible for the mistake – 1 is myself and 5 is the company) ($M_{\text{attn}} = 1.92$; $M_{\text{know}} = 3.86$; $t = 19.38$, $p < .001$).

In step 2, I tested the relationship between the reason for the mistake and perceived fairness of the penalty outcome. This relationship is significant ($\beta = -0.20$, $t = -4.76$, $p < .001$). Individuals who make a lack of attention mistake perceive the fairness of the penalty outcome as fairer than individuals who make a lack of knowledge mistake ($M_{\text{attn}} = 3.20$; $M_{\text{know}} = 2.60$; $t = 5.39$, $p < .001$).

In Step 3, I needed the beta weight to drop and become insignificant for the relationship between the reason for mistake and fairness (when attribution is also tested as an independent variable). The results show that the beta weight dropped and became insignificant ($\beta = 0.00$, $t = -0.003$, $p = .998$) for this relationship. This indicates full mediation. The attribution of firm responsibility fully mediates the relationship between the reason for the mistake and perceived fairness of the penalty outcome. Hypothesis 1 is supported.

Nested in step 3, I tested the relationship between attribution of firm responsibility and perceived fairness of the penalty outcome using regression analysis (Hypothesis 2). Table 7.24 shows that attribution of firm responsibility is a predictor of perceived fairness ($\beta = -0.32$, $t = -6.11$, $p < .001$). Individuals who attribute more responsibility to themselves feel as though the penalty situation is fairer than individuals who attribute more responsibility to the firm. Hypothesis 2 is supported, as the beta weight shows that as attribution to the firm goes up, perceived fairness goes down. Customers perceive the penalty situation as fairer when they attribute more responsibility to themselves.

Table 7.24 also shows the influence of the five covariates. I entered each covariate in the analysis as an independent variable. The table shows that the covariates of perceived standardization of the penalty and previous experience with the mistake influenced the attribution of firm responsibility. Perceived fairness is also influenced by these same two covariates as well as the previous experience with the provider. An individual's attribution of firm responsibility and their perceptions of fairness are affected by how standardized the penalty seems and if the individual has ever inadvertently gone over the allowed text messages or accidentally paid a credit card bill late. Whether or not the individual currently pays a cell phone or credit card bill influenced perceived fairness.

Table 7.24

Mediated regression analysis for reason for the mistake → attribution of firm responsibility → perceived fairness of the penalty outcome

	β	Adjusted R^2	t	p-value
Step 1				
Reason for mistake → Attrib. of firm resp.	.62**	.43	18.76	.000
Covariate (direct effects)				
Gender	-.02		-0.54	.587
Penalty type	.01		0.26	.796
Perceived standardization of the penalty	-.14**		-4.18	.000
Previous experience (mistake)	-.07*		-2.06	.040
Previous experience (provider)	.06		1.74	.083
Step 2				
Reason for mistake → Fairness	-.20**	.10	-4.76	.000
Covariate (direct effects)				
Gender	.04		1.01	.313
Penalty type	.05		1.11	.266
Perceived standardization of the penalty	.22**		5.13	.000
Previous experience (mistake)	.09*		2.04	.042
Previous experience (provider)	-.09*		-2.09	.037
Step 3				
Reason for mistake → Fairness Attrib. of firm resp. → Fairness	.00 -.32**	.15	-0.00 -6.11	.998 .000
Covariate (direct effects)				
Gender	.04		0.90	.368
Penalty type	.05		1.22	.224
Perceived standardization of the penalty	.17**		4.14	.000
Previous experience (mistake)	.07		1.56	.118
Previous experience (provider)	-.07		-1.70	.089

*p<.05; **p<.01

Hypothesis 3

In order to test the relationship between penalty type and perceived fairness of the penalty outcome, I conducted an analysis of covariance. Table 7.25 presents the results of the ANCOVA for perceived fairness of the penalty outcome. The table shows that the main effects of penalty type (F (2, 545) = 245.20, p<.001) on perceived fairness of the penalty outcome are significant. In Hypothesis 3, I hypothesized that an individual who receives a penalty or waiver refusal will perceive the outcome of the penalty situation as less fair than someone who receives a waiver. This hypothesis is supported. The Fisher's Least Significant Difference (LSD) post hoc tests show that there is a significant difference (p = < .001) between the mean for individuals who receive a penalty waiver (M_{waiver} = 4.15) and both the means for the penalty condition (M_{penalty}= 2.21) and the penalty waiver refusal condition ($M_{\text{waiver refusal}}$= 2.32) (although the penalty and penalty waiver refusal are not different at p =.26). Hypothesis 3 is supported.

Two covariates, perceived standardization of the penalty and the previous experience with the mistake, influence perceived fairness. That is, an individual's perceptions of fairness of the penalty outcome are affected by how standardized the penalty seems and if the individual has ever mistakenly gone over the allowed text messages or accidentally paid a credit card bill late.

Table 7.25

ANCOVA analysis for penalty type → perceived fairness of the penalty outcome

	F	***p*-value**	**Partial eta^2**	**Observed power**
DV: Perceived fairness				
Penalty type	$F(2, 545)$= 245.20**	.000	.47	1.00
Covariates				
Gender	$F(1, 545)$= 0.68	.410	.00	0.13
Perceived standardization of the penalty	$F(1, 545)$= 19.73**	.000	.04	0.99
Previous experience (mistake)	$F(1, 545)$= 7.55**	.006	.01	0.78
Previous experience (provider)	$F(1, 545)$= 0.22	.636	.00	0.08

*p<.05; **p<.01

Hypothesis 4

Following Baron and Kenny's (1986) procedure, I used mediated regression analysis to test hypothesis 4. First, I tested the relationship between customer situational entitlement and the mediator, confirmation/disconfirmation of customer expectations. I show the results of step 1 in Table 7.26. The relationship between customer situational entitlement and confirmation/ disconfirmation of customer expectations is not significant (β = -0.05, t = -1.11, p = .27). Step 1 did not work, so I cannot move on to steps 2 or 3. In addition, the means for the confirmation/disconfirmation of customer expectations are not different for those individuals who were entitled and those who are unentitled (M_{entitled}= 2.66; $M_{\text{unentitled}}$ = 2.81; t = 1.66, p = .10). Hypothesis 4 is not supported. However, in the last section of this chapter, additional analysis, I discuss the personality variable, psychological entitlement. In this additional analysis section, I show that the confirmation/disconfirmation of customer expectations fully mediates the relationship between psychological entitlement and perceived fairness of the penalty outcome.

Table 7.26

Mediated regression analysis for customer situational entitlement → confirmation/disconfirmation of customer expectations → perceived fairness of the penalty outcome

	β	Adjusted R^2	t	p-value
Step 1				
Customer situational entitlement → confirmation/disconfirmation of customer expectations	-.05	.07	-1.11	.267
Covariate (direct effects)				
Gender	.06		1.45	.147
Penalty type	.04		0.94	.348
Perceived standardization of the penalty	.27**		6.28	.000
Previous experience (mistake)	.06		1.34	.182
Previous experience (provider)	-.02		-0.47	.638

*p<.05; **p<.01

Hypothesis 5

I tested hypothesis 5 using regression analysis. Table 7.27 presents the results of the analysis. The table shows that the disconfirmation/confirmation of customer expectations is a predictor of perceived fairness of the penalty outcome (β = .73; t = 24.81, p <.001). Again, the covariates of previous experience with the mistake and previous experience with the provider influence an individual's perceptions of fairness. I predicted in Hypothesis 5 that individuals whose expectations are positively disconfirmed by the firm's response are likely to appraise a penalty as fairer than a customer whose expectations are disconfirmed negatively. The more positively an individual's expectations are disconfirmed, the higher the individual's perceptions of fairness. Hypothesis 5 is supported.

Table 7.27

Regression analysis for confirmation/disconfirmation of customer expectations → perceived fairness

	β	**Adjusted *R^2***	***t***	***p*-value**
DV: Perceived fairness				
Confirmation/disconfirmation	.73**	.56	24.81	.000
Covariate (direct effects)				
Gender	.01		0.29	.773
Penalty type	.02		0.63	.527
Perceived standardization of the penalty	.04		1.40	.163
Previous experience (mistake)	.07*		2.39	.017
Previous experience (provider)	-.06*		-2.13	.034

*p<.05; **p<.01

Hypothesis 6 and 7

Following Baron and Kenny's (1986) procedure, I used mediated regression analysis to test Hypothesis 6. First, I tested the relationship between fairness and the mediators, anger and disappointment. I show the results of steps 1-3 for anger in Table 7.28 and for disappointment in Table 7.29. The relationship between fairness and anger is significant (β = -.51, t = -13.94, p < .001) as is the relationship between fairness and disappointment (β = -.55, t = -15.11, p < .001). In step 2, I tested the relationship between fairness and the four outcome variables, desire to leave, intent to stay, positive word-of-mouth, and negative word-of-mouth. The desire to switch (β = -0.57, t = -16.20, p < .001), the intent to stay (β = 0.62, t = 18.88, p < .001), positive word-of-mouth (β = 0.62, t = 19.02, p < .001), and negative word-of-mouth (β = -.61, t = -18.11, p < .001) are significant. In step 3, the beta weight dropped for the relationship between fairness and each outcome variable (for both anger and disappointment), but remained significant. This indicates partial mediation. Thus, the analysis supports Hypotheses 6a-6d. However, rather than fully mediating the relationship between perceived fairness and the firm outcomes, anger and disappointment partially mediate the relationship. Fairness also has a direct and positive effect on intentions to stay and positive word-of-mouth, and a direct and negative effect on the desire to switch and negative word-of-mouth.

Nested in Step 3, I tested Hypothesis 7 using regression analysis. Tables 7.28 and 7.29 show that anger and disappointment are significant predictors of the desire to switch, the intent to stay, positive word-of-mouth, and negative word-of-mouth (all $p < .001$). Hypotheses 7a-7d are supported.

Anger is influenced by two covariates, perceived standardization of the penalty and previous experience with the mistake (i.e., if the individual has ever mistakenly gone over the allowed text messages or accidentally paid a credit card bill late). Disappointment was not influenced by a covariate. All four outcome variables (the desire to switch, the intent to stay, positive word-of-mouth, and negative word-of-mouth) are influenced by the penalty type (penalty, waiver, or waiver refusal) and the perceived standardization of the penalty. The intent to stay and negative word-of-mouth are influenced by gender. Positive word-of-mouth is influenced by the previous experience with the mistake. Using these five variables as covariates throughout the analysis of the hypotheses proved to be useful in regards to controlling these variables (i.e., each covariate is significant in at least one hypothesis test), but the significant effects might suggest important additional questions to ask of the data. This may be especially true relative to the penalty type and gender (mean comparisons for these two covariates are presented later in the chapter, in Tables 7.39 and 7.41).

Table 7.28

Mediated regression analysis for perceived fairness → anger → outcomes

	β	Adjusted R^2	*t*	*p*-value
Step 1				
Fairness → Anger	-.51**	.30	-13.94	.000
Covariate (direct effects)				
Gender				
Penalty type	-.02		-0.63	.527
Perceived standardization of the penalty	-.11**		-2.97	.003
Previous experience (mistake)	-.08*		-2.03	.043
Previous experience (provider)	.02		0.47	.638
Step 2				
Fairness → Desire	-.57**	.38	-16.20	.000
Covariate (direct effects)				
Gender	-.04		-1.27	.205
Penalty type	.10**		2.81	.005
Perceived standardization of the penalty	-.14**		-3.75	.000
Previous experience (mistake)	-.04		-1.04	.300
Previous experience (provider)	.03		0.87	.383
Step 2				
Fairness → Intent	.62**	.45	18.88	.000
Covariate (direct effects)				
Gender	.07*		2.14	.033
Penalty type	-.11**		-3.49	.001
Perceived standardization of the penalty	.15**		4.23	.000
Previous experience (mistake)	.01		0.41	.683
Previous experience (provider)	-.03		-0.97	.333
Step 2				
Fairness → PWOM	.62**	.46	19.02	.000
Covariate (direct effects)				
Gender	.03		0.85	.397
Penalty type	-.12**		-3.84	.000
Perceived standardization of the penalty	.17**		5.05	.000
Previous experience (mistake)	.07*		2.02	.044
Previous experience (provider)	.01		0.33	.741
Step 2				
Fairness → NWOM	-.61**	.42	-18.11	.000
Covariate (direct effects)				
Gender	-.09**		-2.65	.008
Penalty type	.07*		2.01	.045
Perceived standardization of the penalty	-.09*		-2.46	.014
Previous experience (mistake)	-.06		-1.80	.072
Previous experience (provider)	-.02		-0.42	.677
Step 3				
Fairness → Desire Anger → Desire	-.38** .36**	.46	-10.14 9.50	.000 .000
Covariate (direct effects)				
Gender	-.04		-1.35	.177

	β	Adjusted R^2	*t*	*p*-value
Penalty type	.10**		3.29	.001
Perceived standardization of the penalty	-.10**		-2.82	.005
Previous experience (mistake)	-.01		-0.30	.767
Previous experience (provider)	.03		0.75	.453
Step 3				
Fairness → Intent Anger → Intent	.47** -.30**	.51	12.95 -8.23	.000 .000
Covariate (direct effects)				
Gender	.07*		2.26	.024
Penalty type	-.12**		-3.92	.000
Perceived standardization of the penalty	.11**		3.41	.001
Previous experience (mistake)	-.01		-0.28	.779
Previous experience (provider)	-.03		-0.86	.390
Step 3				
Fairness → PWOM Anger → PWOM	.47** -.29**	.52	13.13 -8.08	.000 .000
Covariate (direct effects)				
Gender	.03		0.88	.377
Penalty type	-.13**		-4.27	.000
Perceived standardization of the penalty	.14**		4.28	.000
Previous experience (mistake)	.05		1.43	.155
Previous experience (provider)	.02		0.51	.609
Step 3				
Fairness → NWOM Anger → NWOM	-.39** .43**	.54	-11.27 12.23	.000 .000
Covariate (direct effects)				
Gender	-.09**		-2.97	.003
Penalty type	.08*		2.60	.010
Perceived standardization of the penalty	-.04		-1.21	.226
Previous experience (mistake)	-.03		-0.96	.335
Previous experience (provider)	-.02		-0.72	.474

*p<.05; **p<.01

Table 7.29

Mediated regression analysis for perceived fairness → disappointment → outcomes

	β	Adjusted R^2	*t*	*p*-value
Step 1				
Fairness → Disappointment	-.55**	.31	-15.11	.000
Covariate (direct effects)				
Gender	.06		1.65	.099
Penalty type	.05		1.28	.200
Perceived standardization of the penalty	-.04		-0.98	.328
Previous experience (mistake)	-.04		-1.01	.315
Previous experience (provider)	.01		0.20	.842
Step 2				
Fairness → Desire	-.57**	.38	-16.20	.000
Covariate (direct effects)				
Gender	-.04		-1.27	.205
Penalty type	.10**		2.81	.005
Perceived standardization of the penalty	-.14**		-3.75	.000
Previous experience (mistake)	-.04		-1.04	.300
Previous experience (provider)	.03		0.87	.383
Step 2				
Fairness → Intent	.62**	.45	18.88	.000
Covariate (direct effects)				
Gender	.07*		2.14	.033
Penalty type	-.11**		-3.49	.001
Perceived standardization of the penalty	.15**		4.23	.000
Previous experience (mistake)	.01		0.41	.683
Previous experience (provider)	-.03		-0.97	.333
Step 2				
Fairness → PWOM	.62**	.46	19.02	.000
Covariate (direct effects)				
Gender	.03		0.85	.397
Penalty type	-.12**		-3.84	.000
Perceived standardization of the penalty	.17**		5.05	.000
Previous experience (mistake)	.07*		2.02	.044
Previous experience (provider)	.01		0.33	.741
Step 2				
Fairness → NWOM	-.61**	.42	-18.11	.000
Covariate (direct effects)				
Gender	-.09**		-2.65	.008
Penalty type	.07*		2.01	.045
Perceived standardization of the penalty	-.09*		-2.46	.014
Previous experience (mistake)	-.06		-1.80	.072
Previous experience (provider)	-.02		-0.42	.677
Step 3				
Fairness → Desire Disappointment → Desire	-.36** .38**	.47	-9.33 10.04	.000 .000
Covariate (direct effects)				
Gender	-.07*		-2.08	.038

	β	Adjusted R^2	t	p-value
Penalty type	.08*		2.51	.012
Perceived standardization of the penalty	-.12**		-3.65	.000
Previous experience (mistake)	-.02		-0.70	.486
Previous experience (provider)	.03		0.87	.388
Step 3				
Fairness → Intent Disappointment → Intent	.45** -.31**	.52	12.21 -8.55	.000 .000
Covariate (direct effects)				
Gender	.09**		2.88	.004
Penalty type	-.10**		-3.24	.001
Perceived standardization of the penalty	.13**		4.14	.000
Previous experience (mistake)	.00		0.07	.947
Previous experience (provider)	-.03		-0.96	.339
Step 3				
Fairness → PWOM Disappointment → PWOM	.44** -.32**	.53	12.24 -8.91	.000 .000
Covariate (direct effects)				
Gender	.05		1.53	.126
Penalty type	-.11**		-3.61	.000
Perceived standardization of the penalty	.16		5.02	.000
Previous experience (mistake)	.06		1.77	.077
Previous experience (provider)	.01		0.43	.668
Step 3				
Fairness → NWOM Disappointment → NWOM	-.38** .42**	.54	-10.55 12.02	.000 .000
Covariate (direct effects)				
Gender	-.11**		-3.82	.000
Penalty type	.05		1.60	.111
Perceived standardization of the penalty	-.07*		-2.26	.024
Previous experience (mistake)	-.05		-1.50	.133
Previous experience (provider)	-.02		-0.57	.568

*p<.05; **p<.01

Hypothesis Testing by Context

In order to establish that the results hold in both contexts, I ran the hypotheses tests by context (i.e., ran all of the hypothesis tests in the cell phone context and the credit card context separately). Table 7.30 shows that the two contexts did not differ. The cell phone and credit card contexts produce the same results for each hypothesis. Table 7.31 shows that the means for both contexts are significant and non-significant for the same dependent variables and always in the same way (i.e., if the mean for the lack of attention manipulation is higher than the lack of knowledge manipulation, this holds in both contexts).

Table 7.30

Hypothesis tests by context

Hypothesis	Supported? Combined contexts	Supported? Cell phone context	Supported? Credit card context	Relationship/Effects Tested
H1	Yes (fully mediated)	Yes (fully mediated)	Yes (fully mediated)	Reason for mistake → Attribution of firm responsibility → Perceived fairness of the penalty outcome (mediation)
H2	Yes	Yes	Yes	Attribution of firm responsibility → Perceived fairness of the penalty outcome
H3	Yes	Yes	Yes	Penalty type → Perceived fairness of the penalty outcome
H4	No	No	No	Customer situational entitlement → confirmation/ disconfirmation of customer expectations → perceived fairness of the penalty outcome (mediation)
H5	Yes	Yes	Yes	Confirmation/disconfirmation of the penalty outcome → perceived fairness of the penalty outcome
H6a	Yes (partially mediated)	Yes (partially mediated)	Yes (partially mediated)	Fairness → Anger/Disappointment → Desire to switch (mediation)
H6b	Yes (partially mediated)	Yes (partially mediated)	Yes (partially mediated)	Fairness → Anger/Disappointment → Intent to stay (mediation)
H6c	Yes (partially mediated)	Yes (partially mediated)	Yes (partially mediated)	Fairness → Anger/Disappointment → Positive word-of-mouth (mediation)
H6d	Yes (partially mediated)	Yes (partially mediated)	Yes (partially mediated)	Fairness → Anger/Disappointment → Negative word-of-mouth (mediation)
H7a	Yes	Yes	Yes	Anger/Disappointment → Desire to switch
H7b	Yes	Yes	Yes	Anger/Disappointment → Intent to stay
H7c	Yes	Yes	Yes	Anger/Disappointment → Positive word-of-mouth
H7d	Yes	Yes	Yes	Anger/Disappointment → Negative word-of-mouth

Table 7.31

Comparison of means by context

Measure	**Context**	**Manipulation**	**M**	***t***
Attribution of firm responsibility: lack of attention/knowledge				
	Combined contexts	Lack of attn Lack of know	1.92 3.86	t = 19.38 p < .001
	Cell phone	Lack of attn Lack of know	1.65 3.92	t = 17.00 p < .001
	Credit card	Lack of attn Lack of know	2.17 3.81	t = 11.30 p< .001
Fairness: lack of attention/knowledge				
	Combined contexts	Lack of attn Lack of know	3.20 2.60	t = 3.88 p < .001
	Cell phone	Lack of attn Lack of know	3.26 2.65	t = 3.77 p < .001
	Credit card	Lack of attn Lack of know	3.14 2.55	t = 3.80 p < .001
Fairness: penalty				
	Combined contexts	Penalty Waiver Waiver refusal	2.19 4.19 2.30	Penalty and waiver p < .001 (all) Waiver and waiver refusal p < .001 (all)
	Cell phone	Penalty Waiver Waiver refusal	2.27 4.16 2.51	
	Credit card	Penalty Waiver Waiver refusal	2.11 4.21 2.10	
Confirmation/Disconfirmation of customer expectations: entitlement				
	Combined contexts	Entitled Unentitled	2.81 2.66	t = 1.66 p = .10
	Cell phone	Entitled Unentitled	2.75 2.64	t = 0.81 p = .42
	Credit card	Entitled Unentitled	2.86 2.66	t = 1.56 p = .12

Additional Analysis

Testing Hypothesis 4 with Psychological Entitlement

In the following sections, I run additional analysis on the data. Although not hypothesized, this additional analysis helps to shed light on some of the hypotheses (e.g., Hypothesis 4) and demonstrates new relationships. First, I tested Hypothesis 4 using the personality variable psychological entitlement. As discussed in Chapter 6, it may not be possible to manipulate someone's feelings of entitlement because it may be an inherent personality characteristic. Psychological entitlement is defined as a stable and invariant personality characteristic in which an individual feels that he or she deserves more and is entitled to more than others (Butori 2010). Table 7.32 presents the psychological entitlement scale (adapted from Butori 2010; Raskin and Terry 1988). Following Baron and Kenny's (1986) procedure, I used mediated regression analysis to test Hypothesis 4. First, I tested the relationship between psychological entitlement and the mediator, confirmation/disconfirmation of customer expectations. (I show the results of steps 1-3 in Table 7.33.) The relationship between psychological entitlement and confirmation/ disconfirmation of customer expectations is significant ($\beta = -0.09$, $t = -2.07$, $p < .05$). In step 2, I tested the relationship between psychological entitlement and perceived fairness of the penalty outcome. This relationship is significant ($\beta = -0.09$, $t = -2.16$, $p < .05$). As the beta shows, the higher an individual's entitlement, the lower the individual's perceptions of fairness of the penalty outcome.

In Step 3, the results show that the beta weight for the relationship between psychological entitlement and fairness dropped and became insignificant ($\beta = -0.03$, $t = -0.96$, $p = .34$). This indicates full mediation. The confirmation/disconfirmation of expectations fully mediates the relationship between psychological entitlement and perceived fairness of the penalty outcome. (The covariate analysis shows that the confirmation/disconfirmation of customer expectations and perceived fairness are influenced by the perceived standardization of the penalty; while perceived fairness is influenced by the previous experience with the provider.)

Table 7.32

Psychological entitlement items

Variable	Actual Items
Psychological entitlement α = 0.89	1. In general, I feel that I should be treated like someone special. 2. In general, I feel that I should receive more respect than an average person. 3. In general, I feel that I should get special treatment. (5-point SD/SA scale)

Table 7.33

Mediated regression analysis for psychological entitlement → confirmation/disconfirmation of customer expectations → perceived fairness of the penalty outcome

	β	Adjusted R^2	*t*	*p*-value
Step 1				
Psychological entitlement →Confirmation/ disconfirmation of customer expectations	-.09*	.08	-2.07	.039
Covariate (direct effects)				
Gender	.05		1.28	.201
Penalty type	.04		0.97	.332
Perceived standardization of the penalty	.27**		6.32	.000
Previous experience (mistake)	.04		0.79	.428
Previous experience (provider)	-.05		-1.11	.269
Step 2				
Psychological entitlement → Fairness	-.09*	.07	-2.16	.031
Covariate (direct effects)				
Gender	.04		1.05	.294
Penalty type	.05		1.12	.262
Perceived standardization of the penalty	.25**		5.81	.000
Previous experience (mistake)	.07		1.52	.129
Previous experience (provider)	-.11*		-2.41	.016
Step 3				
Psychological entitlement → Fairness Confirmation/disconfirm. → Fairness	-.03 .73**	.56	-0.96 24.56	.340 .000
Covariate (direct effects)				
Gender	.01		0.18	.861
Penalty type	.02		0.61	.544
Perceived standardization of the penalty	.05		1.71	.087
Previous experience (mistake)	.04		1.34	.172
Previous experience (provider)	-.07*		-2.33	.020

**p*<.05; ***p*<.01

Additional Analysis: Confirmation/Disconfirmation of Customer Expectations Mediates the Perceived Standardization of the Penalty—Perceived Fairness Relationship

I used perceived standardization of the penalty as a covariate throughout the hypothesis analysis, but theory would also suggest that the degree of standardization of the penalty would have an effect on the perceived fairness of the penalty outcome (mediated by confirmation/ disconfirmation of expectations). The more standardized a penalty seems, then the more fair it should seem (because customers feel like everyone receives this type of penalty). Table 7.34 shows the results of the mediation test. In step 1, the relationship between perceived standardization of the penalty and confirmation/disconfirmation of customer expectations is significant ($\beta = .28$, $t = 6.33$, $p < .001$). In step 2, I tested the relationship between perceived standardization of the penalty and perceived fairness of the penalty outcome. This relationship is also significant ($\beta = .26$, $t = 5.93$, $p < .001$). As the beta shows, the more standardized the customer perceives the penalty to be, the higher the customer perceives the fairness of the penalty outcome. (The covariate analysis shows that perceived fairness is influenced by previous experience with the provider – whether the individual pays a cell phone or credit card bill.)

In Step 3, the results show that the beta weight for the relationship between perceived standardization and fairness dropped and became insignificant ($\beta = 0.06$, $t = 1.87$, $p = .06$), while the beta weight for the mediator, confirmation/disconfirmation of expectations, remained significant. This indicates full mediation. The confirmation/disconfirmation of expectations fully mediates the relationship between the perceived standardization of the penalty and perceived fairness of the penalty outcome.

Table 7.34

Mediated regression analysis for perceived standardization of the penalty → confirmation/disconfirmation of customer expectations → perceived fairness of the penalty outcome

	β	Adjusted R^2	*t*	*p*-value
Step 1				
Standardization →Confirmation/ disconfirmation of customer expectations	.28**	.07	6.33	.000
Covariate (direct effects)				
Gender	.06		1.42	.155
Penalty type	.04		0.95	.340
Previous experience (mistake)	.04		0.93	.352
Previous experience (provider)	-.05		-1.08	.279
Step 2				
Standardization → Fairness	.26**	.06	5.93	.000
Covariate (direct effects)				
Gender	.05		1.20	.231
Penalty type	.05		1.11	.269
Previous experience (mistake)	.07		1.66	.097
Previous experience (provider)	-.11*		2.38	.018
Step 3				
Standardization → Fairness Confirmation/disconfirm. → Fairness	.06 .73**	.56	1.87 24.78	.063 .000
Covariate (direct effects)				
Gender	.01		0.24	.813
Penalty type	.02		0.59	.550
Previous experience (mistake)	.04		1.43	.153
Previous experience (provider)	-.07*		-2.31	.021

*p<.05; **p<.01

Additional Analysis: Testing Hypothesis 6 with Gratitude

I tested the negative emotions, anger and disappointment in Hypothesis 6, but here I test the positive emotion, gratitude. Individuals who receive the waiver are likely to feel gratitude toward the company (although I test this hypothesis with all penalty types, not just those who received the waiver). The items measuring gratitude come from Palmatier, Jarvis, Bechkoff, and Kardes (2009) and are shown in Table 7.35. Again, following Baron and Kenny's (1986) procedure, I used mediated regression analysis. First, I tested the relationship between fairness and the mediator, gratitude. I show the results of steps 1-3 in Table 7.36. In step 1, the relationship between fairness and gratitude is significant ($\beta = .61$, $t = 18.13$, $p < .001$). The covariate analysis shows that gratitude is influenced by how standardized the individual perceives the penalty to be. In step 2, I tested the relationship between fairness and the four outcome variables, desire to leave, intent to stay, positive word-of-mouth, and negative word-of-mouth. The desire to switch ($\beta = -0.57$, $t = -16.20$, $p < .001$), the intent to stay ($\beta = 0.62$, $t = 18.88$, $p < .001$), positive word-of-mouth ($\beta = 0.62$, $t = 19.02$, $p < .001$), and negative word-of-mouth ($\beta = -.61$, $t = -18.11$, $p < .001$) are significant. In step 3, the beta weight dropped for the relationship between fairness and each outcome variable, but remained significant for the desire to switch ($\beta = -0.34$, $t = -8.19$, $p < .001$), the intent to stay ($\beta = 0.44$, $t = 11.12$, $p < .001$), positive word-of-mouth ($\beta = 0.34$, $t = 9.39$, $p < .001$), and negative word-of-mouth ($\beta = -.36$, $t = -9.20$, $p < .001$). This indicates partial mediation. Gratitude partially mediates the relationship between fairness and the desire to switch, intent to stay, positive word-of-mouth, and negative word-of-mouth (just as anger and disappointment partially mediated the relationship between fairness and these outcome variables). The fairer the customer perceives the outcome to be, then the more gratitude the customer feels. The higher the gratitude, the less likely the customer is to have a desire to switch, and the more likely the customer is to intend to stay and participate in positive word-of-mouth (and the less likely the customer will participate in negative word-of-mouth).

Table 7.35

Gratitude items

Variable	Actual Items
Gratitude $\alpha = 0.99$	1. I feel grateful to this company. 2. I feel thankful toward this company. 3. I feel appreciative toward this company. (5-point SD/SA scale)

Table 7.36

Mediated regression analysis for perceived fairness → gratitude → outcomes

	β	Adjusted R^2	*t*	*p*-value
Step 1				
Fairness → Gratitude	.61**	.42	18.13	.000
Covariate (direct effects)				
Gender	.02		0.55	.584
Penalty type	-.05		-1.40	.161
Perceived standardization of the penalty	.12**		3.34	.001
Previous experience (mistake)	.01		0.30	.767
Previous experience (provider)	.01		0.34	.733
Step 2 (for the covariate analysis, see step 2 of Table 7.29)				
Fairness → Desire	-.57**	.38	-16.20	.000
Fairness → Intent	.62**	.45	18.88	.000
Fairness → PWOM	.62**	.46	19.02	.000
Fairness → NWOM	-.61**	.42	-18.11	.000
Step 3				
Fairness → Desire Gratitude → Desire	-.34** -.37**	.46	-8.19 -8.98	.000 .000
Covariate (direct effects)				
Gender	-.04		-1.15	.252
Penalty type	.08*		2.47	.014
Perceived standardization of the penalty	-.09**		-2.70	.007
Previous experience (mistake)	-.03		-1.00	.319
Previous experience (provider)	.04		1.07	.287
Fairness → Intent Gratitude → Intent	.44** .29**	.50	11.12 7.32	.000 .000
Covariate (direct effects)				
Gender	.06*		2.07	.039
Penalty type	-.10**		-3.21	.001
Perceived standardization of the penalty	.11**		3.35	.001
Previous experience (mistake)	.01		0.34	.738
Previous experience (provider)	-.04		-1.12	.263
Fairness → PWOM Gratitude → PWOM	.34** .45**	.58	9.39 12.43	.000 .000
Covariate (direct effects)				
Gender	.02		0.67	.504
Penalty type	-.10**		-3.59	.000
Perceived standardization of the penalty	.12**		3.90	.000
Previous experience (mistake)	.06*		2.12	.034
Previous experience (provider)	.01		0.19	.847
Fairness → NWOM Gratitude → NWOM	-.36** -.41**	.52	-9.20 -10.59	.000 .000
Covariate (direct effects)				
Gender	-.08**		-2.66	.008
Penalty type	.05		1.56	.119
Perceived standardization of the penalty	-.04		-1.17	.241
Previous experience (mistake)	-.06		-1.84	.066
Previous experience (provider)	-.01		-0.30	.763

Additional Analysis: Perceived Standardization of the Penalty Moderates the Disappointment—Desire to Switch Relationship and the Disappointment—Positive Word-of-Mouth Relationship

Although not hypothesized, I ran several moderation tests involving the perceived standardization of the penalty. The more standardized a penalty seems, the more it should reduce the effect of the negative emotions on the outcomes (i.e., the customer will feel as though all providers give out this penalty). I used hierarchical moderated regression analysis to test the relationships between negative emotions (anger and disappointment) and the outcome variables (desire to switch, intent to stay, positive word-of-mouth, and negative word-of-mouth) moderated by the perceived standardization of the penalty. I used mean centered independent variables for all of the regression analyses. Perceived standardization of the penalty moderated the relationships between disappointment and the desire to switch and positive word-of-mouth. Tables 7.37 – 7.38 show the results of the regression analysis. The cross-product term of disappointment and perceived standardization explained a significant portion of the variance ($\Delta R^2 = .01$, $p < .01$, $F(3, 548) = 116.62$, $p < .001$) for desire to switch. This effect size is within the typical range (e.g., $\Delta R^2 = .01\text{-}.03$). The effect size for the cross-product term for positive word-of-mouth ($\Delta R^2 = .01$, $p < .05$, $F(3, 548) = 120.14$, $p < .001$) was similar to the desire to switch ($\Delta R^2 = .01$). The interactive effects are surprising. Perceived standardization actually increases the negative effect of disappointment on the desire to switch and positive word-of-mouth. I expected perceived standardization to decrease the negative effect because it seems that this is "just standard policy" or "everyone has this penalty." However, the analysis shows that customers who feel high levels of disappointment are more likely to have a desire to switch (and engage in less positive word-of-mouth) when perceived standardization is high. This may illustrate a disappointment with the industry standard of giving out penalties. Perhaps customers see penalties that are highly standardized as easily removable, and therefore disappointment is higher when the penalty is highly standardized (i.e., the company does not need the money from this penalty because they charge everyone; I am disappointed that they cannot treat me better).

Table 7.37

Hierarchical moderated regression results for desire to switch

	β	***t***	***p*-value**	**Adjusted R^2**	**ΔR^2**
Step 1					
Disappointment	.60**	17.40	.000	.35	.35
Covariate (direct effects)					
Gender	-.10**	-2.89	.004		
Penalty type	.06	1.65	.099		
Previous experience (mistake)	-.01	-0.15	.883		
Previous experience (provider)	.01	0.38	.703		
Step 2					
Standardization	-.16**	-4.83	.000	.38	.03
Covariate (direct effects)					
Gender	-.09**	-2.65	.008		
Penalty type	.06	1.73	.084		
Previous experience (mistake)	-.03	-0.96	.337		
Previous experience (provider)	.05	1.50	.133		
Step 3					
Disappointment x Standardization	.09**	2.75	.006	.39	.01
Covariate (direct effects)					
Gender	-.09*	-2.58	.010		
Penalty type	.06	1.80	.072		
Previous experience (mistake)	-.03	-0.92	.356		
Previous experience (provider)	.05	1.28	.200		

*p<.05; **p<.01

Table 7.38

Hierarchical moderated regression results for positive word-of-mouth

	β	*t*	*p*-value	Adjusted R^2	ΔR^2
Step 1					
Disappointment	-.59**	-17.09	.000	.34	.35
Covariate (direct effects)					
Gender	.09*	2.53	.012		
Penalty type	-.08*	-2.31	.021		
Previous experience (mistake)	.03	0.89	.373		
Previous experience (provider)	.03	0.95	.343		
Step 2					
Standardization	.22**	6.38	.000	.38	.04
Covariate (direct effects)					
Gender	.08*	2.25	.025		
Penalty type	-.08*	-2.45	.015		
Previous experience (mistake)	.07	1.96	.050		
Previous experience (provider)	-.02	-0.49	.623		
Step 3					
Disappointment x Standardization	-.07*	-2.11	.036	.39	.01
Covariate (direct effects)					
Gender	.07*	2.19	.029		
Penalty type	-.08*	-2.51	.013		
Previous experience (mistake)	.07	1.94	.054		
Previous experience (provider)	-.01	-0.32	.751		

*p<.05; **p<.01

Additional Analysis: Gender Differences

In order to show any gender differences, I compared the gender means by the lack of knowledge/attention and by the penalty/waiver/waiver refusal conditions. Overall, the results show that men and women do not differ, although I did find three differences (all in the penalty condition). Men were more likely than women to report being angry if they receive a penalty ($M_{\text{penalty (males)}}$= 3.53; $M_{\text{penalty (females)}}$= 3.16, $p < .05$), report feeling interpersonal rejection if they receive a penalty ($M_{\text{penalty (males)}}$= 2.86; $M_{\text{penalty (females)}}$= 2.42, $p < .01$), and report engaging in negative word-of-mouth if they receive a penalty ($M_{\text{penalty (males)}}$= 3.80; $M_{\text{penalty (females)}}$= 3.46, $p < .05$). Table 7.39 shows the comparison of means by gender.

Table 7.39

Comparison of means by gender

Measure	Manipulation	Gender	*M*	*t*
Attribution of firm responsibility: lack of attn/know				
	Lack of attention	Male Female	1.98 1.88	$t = 0.73$ p = ns
	Lack of knowledge	Male Female	3.87 3.85	$t = 0.14$ p = ns
Fairness: lack of attn/know				
	Lack of attention	Male Female	3.05 3.31	$t = 1.85$ p = ns
	Lack of knowledge	Male Female	2.61 2.60	$t = 0.06$ p = ns
Fairness: penalty				
	Penalty	Male Female	2.06 2.31	$t = 1.63$ p = ns
	Waiver	Male Female	4.22 4.17	$t = 0.43$ p = ns
	Waiver Refusal	Male Female	2.31 2.29	$t = 0.13$ p = ns
Confirmation/Disconfirmation of customer expectations: entitlement				
	Entitled	Male Female	2.55 2.73	$t = 1.38$ p = ns
	Less entitled	Male Female	2.72 2.87	$t = 1.20$ p = ns
Confirmation/Disconfirmation of customer expectations: penalty				
	Penalty	Male Female	2.06 2.23	$t = 1.54$ p = ns
	Waiver	Male Female	3.75 3.81	$t = 0.55$ p = ns
	Waiver Refusal	Male Female	2.22 2.22	$t = 0.02$ p = ns
Anger: penalty				
	Penalty	Male Female	**3.53** **3.16**	**$t = 2.17$*** **$p < .05$**
	Waiver	Male Female	2.23 2.42	$t = 1.06$ p = ns
	Waiver Refusal	Male Female	3.16 3.26	$t = 0.51$ p = ns
Disappointment: penalty				
	Penalty	Male Female	3.53 3.58	$t = 0.31$ p = ns
	Waiver	Male Female	2.40 2.59	$t = 1.17$ p = ns

Measure	**Manipulation**	**Gender**	***M***	***t***
	Waiver Refusal	Male Female	3.59 3.69	$t = 0.69$ p = ns
Gratitude: penalty				
	Penalty	Male Female	1.23 1.20	$t = 0.37$ p = ns
	Waiver	Male Female	3.27 3.46	$t = 1.08$ p = ns
	Waiver Refusal	Male Female	1.10 1.11	$t = 0.18$ p = ns
Interpersonal rejection: penalty				
	Penalty	Male Female	**2.86** **2.42**	$\boldsymbol{t = 2.64^{**}}$ $\boldsymbol{p < .01}$
	Waiver	Male Female	1.65 1.62	$t = 0.25$ p = ns
	Waiver Refusal	Male Female	2.93 2.86	$t = 0.44$ p = ns
Psychological entitlement: penalty				
	Penalty	Male Female	2.47 2.37	$t = 0.91$ p = ns
	Waiver	Male Female	2.32 2.30	$t = 0.18$ p = ns
	Waiver Refusal	Male Female	2.56 2.34	$t = 1.60$ p = ns
Desire to switch: penalty				
	Penalty	Male Female	3.85 3.58	$t = 1.68$ p = ns
	Waiver	Male Female	2.55 2.48	$t = 0.45$ p = ns
	Waiver Refusal	Male Female	3.98 3.28	$t = 0.47$ p = ns
Intent to stay: penalty				
	Penalty	Male Female	2.43 2.66	$t = 1.49$ p = ns
	Waiver	Male Female	3.64 3.86	$t = 1.62$ p = ns
	Waiver Refusal	Male Female	2.20 2.36	$t = 1.02$ p = ns
PWOM: penalty				
	Penalty	Male Female	2.04 2.28	$t = 1.71$ p = ns
	Waiver	Male Female	3.43 3.46	$t = 0.20$ p = ns
	Waiver Refusal	Male Female	1.88 1.86	$t = 0.13$ p = ns

Measure	Manipulation	Gender	*M*	*t*
NWOM: penalty				
	Penalty	Male Female	**3.80** **3.46**	***t* = 2.52*** ***p* <.05**
	Waiver	Male Female	2.50 2.32	*t* = 1.23 *p* = ns
	Waiver Refusal	Male Female	3.83 3.70	*t* = 0.88 *p* = ns

Additional Analysis: Penalty Type Differences

In order to show the differences in penalty type (i.e., penalty, waiver, waiver refusal) on emotional outcomes and outcomes for the firm, I compared the means for each measure by penalty type. The mean comparisons are shown in Table 7.41. I point out some of the interesting findings here. First, the analysis shows that customers who receive a waiver refusal feel more interpersonal rejection (items listed in Table 7.40) than individuals who receive a penalty or a waiver. Interestingly, customers feel an equal amount of anger, disappointment, and equally engage in negative word-of-mouth if they receive a penalty or a waiver refusal. Customers in the refusal condition are more likely to have a desire to switch, less likely to stay, and less likely to engage in positive word-of-mouth than those in the penalty or the waiver condition.

Table 7.40

Interpersonal rejection items

Variable	Actual Items
Interpersonal rejection α = 0.92	If this situation happened to me, I would feel: 1. personally hurt 2. rejected 3. rebuffed (5-point SD/SA scale)

Table 7.41

Comparison of means by penalty type

Measure	Penalty type	*M*	*p*	
Anger				
	Penalty	3.34	Penalty and waiver	$p < .001$
	Waiver	2.34	Waiver and refusal	$p < .001$
	Waiver Refusal	3.22	Penalty and refusal	$p =$ ns
Disappointment				
	Penalty	3.56	Penalty and waiver	$p < .001$
	Waiver	2.51	Waiver and refusal	$p < .001$
	Waiver Refusal	3.65	Penalty and refusal	$p =$ ns
Gratitude				
	Penalty	1.21	Penalty and waiver	$p < .001$
	Waiver	3.38	Waiver and refusal	$p < .001$
	Waiver Refusal	1.11	Penalty and refusal	$p =$ ns
Interpersonal rejection				
	Penalty	2.63	Penalty and waiver	$p < .001$
	Waiver	1.63	Waiver and refusal	$p < .001$
	Waiver Refusal	2.89	Penalty and refusal	$p < .05$
Perceived fairness of the penalty outcome				
	Penalty	2.21	Penalty and waiver	$p < .001$
	Waiver	4.15	Waiver and refusal	$p < .001$
	Waiver Refusal	2.32	Penalty and refusal	$p =$ ns
Procedural justice				
	Penalty	2.64	Penalty and waiver	$p < .001$
	Waiver	4.10	Waiver and refusal	$p < .001$
	Waiver Refusal	2.51	Penalty and refusal	$p =$ ns
Desire to switch				
	Penalty	3.70	Penalty and waiver	$p < .001$
	Waiver	2.51	Waiver and refusal	$p < .001$
	Waiver Refusal	3.94	Penalty and refusal	$p < .05$
Intent to stay				
	Penalty	2.55	Penalty and waiver	$p < .001$
	Waiver	3.77	Waiver and refusal	$p < .001$
	Waiver Refusal	2.29	Penalty and refusal	$p < .05$
Positive word-of-mouth				
	Penalty	2.16	Penalty and waiver	$p < .001$
	Waiver	3.45	Waiver and refusal	$p < .001$
	Waiver Refusal	1.87	Penalty and refusal	$p < .01$
Negative word-of-mouth				
	Penalty	3.62	Penalty and waiver	$p < .001$
	Waiver	2.39	Waiver and refusal	$p < .001$
	Waiver Refusal	3.75	Penalty and refusal	$p =$ ns

Summary

In this chapter, I presented the details of the experimental design and method for Study 5 (including the pre-test conducted prior to Study 5). I first presented the descriptive statistics of the sample profile including general demographic characteristics and general service experience characteristics of the participants. There were no differences in the demographic characteristics between the two contexts. I also presented the realism and believability of the scenarios as well as the demand check. The realism and believability of the scenarios was high, and the demand check showed no demand effects. Next, I presented the results of the confirmatory factor analysis. The model fit indices were acceptable and were within the limits recommended. Following this, I presented the manipulation check analysis. The manipulation checks showed strong focal effects (all hypotheses were run in both service contexts to ensure context was not a potential confound). Next, I conducted a series of regression and ANCOVA tests in order to test the proposed hypotheses (each test included five covariates). All hypotheses except one (Hypothesis 4) were supported. I then conducted additional analysis including three other mediation tests and two other moderation tests. Finally, I presented mean comparisons for the measures by gender and by penalty type.

Conclusion

I present a summary of the hypothesis testing results for Study 5 in Table 7.42. All of the hypotheses are supported with the exception of Hypothesis 4. Hypothesis 4 proposes that the confirmation/disconfirmation of expectations mediates the relationship between customer situational entitlement and perceived fairness of the penalty outcome. I showed that this hypothesis is confirmed when the measure psychological entitlement (a personality variable) is used instead of customer situational entitlement manipulation. In Figure 7.2, I show the new model based on the results of the analysis in this chapter.

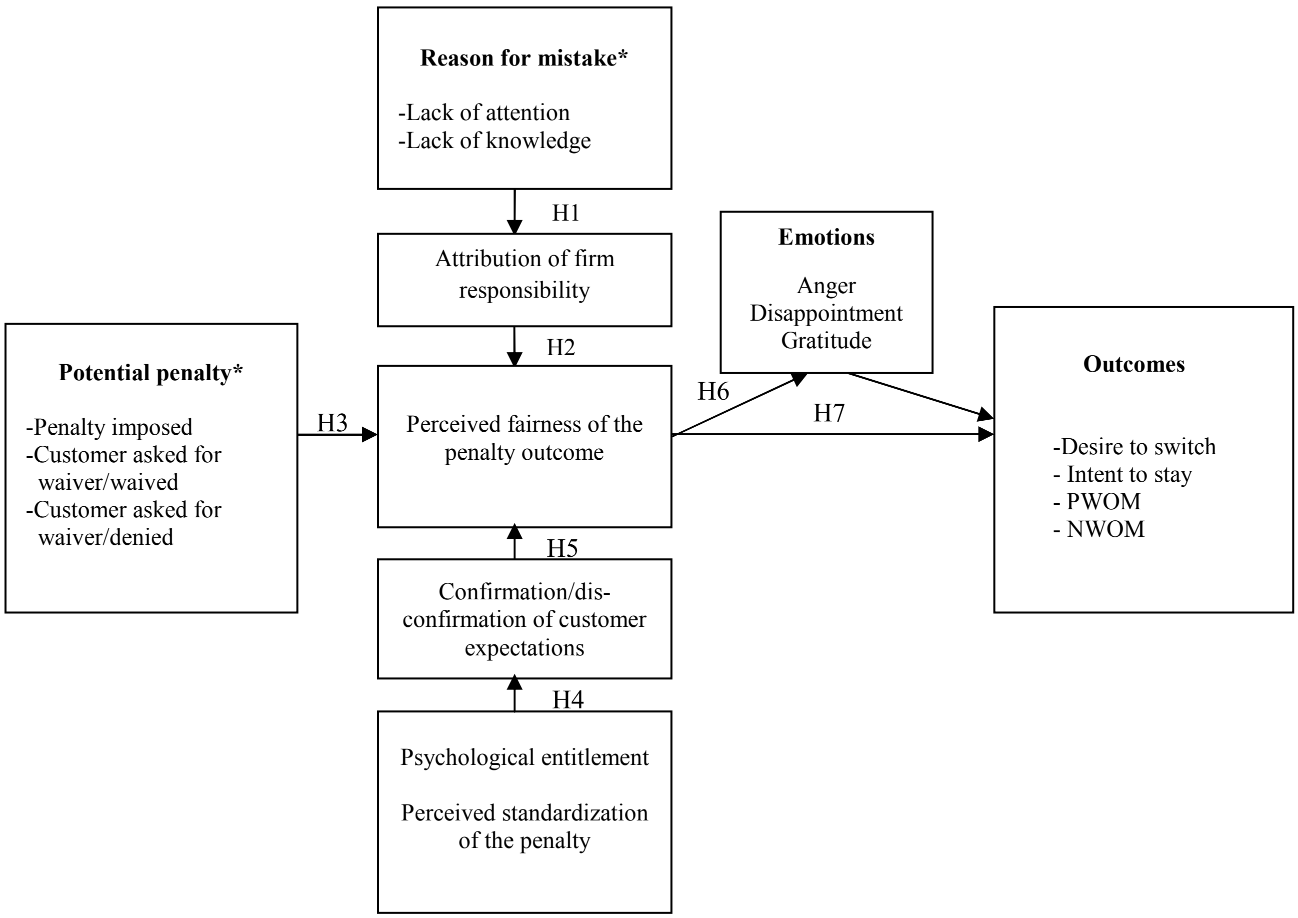
Table 7.42

Hypothesis tests (Study 5)

Hypothesis	Supported?	Relationship/Effects Tested
H1	Yes (full mediation)	Reason for mistake → Attribution of firm responsibility → Perceived fairness of the penalty outcome (mediation)
H2	Yes	Attribution of firm responsibility → Perceived fairness of the penalty outcome
H3	Yes	Penalty type → Perceived fairness of the penalty outcome
H4	No	Customer situational entitlement → confirmation/ disconfirmation of customer expectations → perceived fairness of the penalty outcome (mediation)
H5	Yes	Confirmation/disconfirmation of the penalty outcome → perceived fairness of the penalty outcome
H6a	Yes (partial mediation)	Fairness → Anger/Disappointment → Desire to switch (mediation)
H6b	Yes (partial mediation)	Fairness → Anger/Disappointment → Intent to stay (mediation)
H6c	Yes (partial mediation)	Fairness → Anger/Disappointment → Positive word-of-mouth (mediation)
H6d	Yes (partial mediation)	Fairness → Anger/Disappointment → Negative word-of-mouth (mediation)
H7a	Yes	Anger/Disappointment → Desire to switch
H7b	Yes	Anger/Disappointment → Intent to stay
H7c	Yes	Anger/Disappointment → Positive word-of-mouth
H7d	Yes	Anger/Disappointment → Negative word-of-mouth

Figure 7.2

New model based on analysis (Study 5)



*manipulated variable

CHAPTER 8

DISCUSSION AND IMPLICATIONS

In this chapter, I first discuss the findings from the five studies conducted in this dissertation. Next, I discuss the theoretical and managerial implications of the results. Finally, I address some of the potential limitations and future research directions.

General Discussion of Research Findings

This research included two phases (a qualitative phase and a quantitative phase) with a total of five studies in order to investigate service provider penalties after a customer mistake. The goal of this research was to determine how customers react to penalties from service providers after they make a mistake. There are very few studies on penalties in marketing (no research studies that examine penalties after a customer mistake), so I began my dissertation with an exploratory/qualitative research phase. The goals of the qualitative research phase were (1) to find what the mistakes are that customers make when interacting with a service provider and (2) to find what the penalties are that customers receive after a mistake. The qualitative phase gave me a better understanding of customer mistakes and their resulting penalties in a service context. This phase also allowed me to develop the lack of attention/lack of knowledge framework.

There were two studies involved in the qualitative phase. In Study 1, I used the critical incident technique (CIT) to find what the mistakes are that customers make when interacting with a service provider. This study provided a broad group of customer mistakes (n = 222 incidents) that I categorized into lack of attention or lack of knowledge mistakes. I also created subcategories for these major categories. In Study 2, I set out to learn more about customer penalties after a mistake. I wanted to find out what types of penalties people typically receive in services (after making a mistake) and how these penalties affect the person’s relationship with the service provider. Again, I used the critical incident technique in this study in order to collect the data (n = 126 incidents). Study 2 provided real-world data in which customers made a mistake and then received a penalty for that mistake from their service provider. Study 2 allowed me to see the most common service providers that penalties occur with (useful for creating the scenarios), the prevalence of asking for a waiver and receiving it (or not receiving the waiver), and the penalty amount prevalence. One of the most important findings from Study 2 was that none of the customers who received a waiver left their provider, but 43% of those who received a penalty waiver refusal left (while 21% of those who received the penalty and did not ask for a waiver left). This allowed me to see the implications of the penalty/waiver/waiver refusal for the service provider. In addition, each of the three penalty outcomes resulted in different perceptions of fairness in this study. Study 2 provided the basis for writing realistic scenarios.

The quantitative phase began with Study 3. Study 3 started with four different service contexts, and I narrowed this to three different service contexts (after a pre-test) for the study. I tested lack of attention and lack of knowledge mistakes in a cell phone, credit card, and hotel context. One hundred and fifty-nine people participated in this manipulation check. Study 3 provided evidence that the scenarios and manipulations were working and these were ready for testing in a full scenario-based experiment.

The purpose of Study 4 was to conduct a large pre-test of the scenarios and measures to determine if the manipulations and the measures were working. I chose the cell phone and credit card contexts for the final scenario-based experiment (based on the results from Study 3). Seven hundred and one non-students (recruited by students) participated in this pre-test. Study 4 showed that 13 out of the 14 hypotheses were supported. After Study 4, I revised the manipulations (specifically the lack of attention/lack of knowledge and entitlement) and added new measures, while deleting some that did not seem as relevant.

The purpose of Study 5 was to test my hypotheses with a national sample with the revised survey and manipulations. Five hundred and fifty-two participants from a national consumer panel participated in this study. Twelve of the 13 hypotheses were supported. I found support for these hypotheses in two different contexts (cell phone and credit card) using five covariates (gender, penalty type, perceived standardization of the penalty, previous experience with the mistake, and previous experience with the provider). I found support for the hypothesis that was not supported using a psychological entitlement (personality) measure instead of the situational entitlement manipulation. I found three gender effects: men are more likely to report feeling angry, interpersonal rejection, and engaging in negative word-of-mouth than women after receiving a penalty. Customers who receive a waiver refusal are more likely to experience interpersonal rejection, have a desire to switch, less likely to stay, and less likely to engage in positive word-of-mouth than those in the penalty or the waiver condition. Individuals feel an equal amount of anger, disappointment, and equally engage in negative word-of-mouth if they receive a penalty or a waiver refusal. In addition, the analysis supports two other mediations (gratitude partially mediates the relationship between perceived fairness and the outcomes for the firm; confirmation/disconfirmation of customer expectations fully mediates the relationship between the perceived standardization of the penalty and the outcomes for the firm). The analysis also supports two moderations (perceived standardization of the penalty moderates the relationship between disappointment and the desire to switch; positive word-of-mouth).

Discussion of Findings

In this section, I further discuss the findings from the hypothesis testing of this study. The purpose of Study 5 was to test customers' reactions to penalties, penalty waivers, and penalty waiver refusals with a national sample of consumers. I will discuss the hypotheses in order, and then discuss the additional analysis conducted (mediation and moderation tests).

In Hypothesis 1, I proposed that the attribution of firm responsibility would fully mediate the relationship between the reason for the mistake and the perceived fairness of the penalty outcome. In Hypothesis 2, I proposed a main effect of the attribution of firm responsibility on perceived fairness of the penalty outcome. The analysis provides support for these hypotheses. This suggests that when customers feel as though they have caused a service problem to happen (by not paying attention), they feel personally responsible for the problem. On the other hand, if the customer makes a mistake but feels as though the service provider should have provided them with the information, the customer feels that the company is more responsible for the mistake. The finding from Hypothesis 1 is new in marketing. The finding in Hypothesis 2, that attribution of firm responsibility directly affects the perceived fairness of the penalty outcome, is similar to Maxham and Netemeyer's (2002) finding that the attribution of blame toward the firm (after a service failure) has a direct effect on satisfaction with the recovery (the appraisal).

In Hypothesis 3, I proposed a main effect of penalty type (penalty, waiver, waiver refusal) on perceived fairness of the penalty outcome and hypothesized that a customer who received a penalty or waiver refusal would be likely to appraise the penalty as less fair than a customer who receives a penalty waiver. The analysis provides support for this hypothesis. After the firm responds with a penalty, waiver, or waiver refusal, the customer appraises the response and decides to what degree the response is deserved (fair/reasonable) or undeserved (unfair/excessive). Individuals who received a penalty or penalty waiver refusal perceived the penalty outcome to be unfair (the means for both were around 2), whereas individuals who received a waiver perceived the waiver to be fair (mean of about 4). This finding shows that customers who receive a penalty or a wavier refusal appraise the firm's action as unreasonable or undeserved (after a mistake). This is a new finding in the marketing literature.

Hypothesis 4 stated that confirmation/disconfirmation of customer expectations would mediate the relationship between customer situational entitlement (manipulated as a customer with a long history with the company who feels like one of the company's best customers) and perceived fairness of the penalty outcome. The analysis did not support this hypothesis. (I discuss the potential reasons for this in the limitations and future research section.) However, when I tested Hypothesis 4 with the psychological entitlement scale (a personality variable), the analysis supported the hypothesis. This finding shows there are customers who feel owed special treatment or benefits. It is harder for a firm to disconfirm positively an entitled customer's expectations because the customer feels that the company owes them a penalty waiver, or feels that they have a right to a penalty waiver. This is a new finding, as marketing researchers seem to have overlooked this personality variable. In Hypothesis 5, I stated that a customer whose expectations were disconfirmed positively by the firm's response were likely to appraise a penalty as fairer than a customer whose expectations were disconfirmed negatively. The analysis supported this hypothesis. If the penalty outcome is better than the customer's expectations, the customer perceives that the outcome is fairer than if the outcome was worse than his/her expectations. This finding is consistent with work in psychology. van den Bos, Vermunt, and Wilke (1996) found that individuals whose expectations are positively disconfirmed perceived a decision-making procedure as fairer than did those individuals with negatively disconfirmed expectations.

In Hypothesis 6, I predicted that a customer's emotional response (anger and disappointment) would fully mediate the relationship between the customer's perceived fairness appraisal and the outcomes for the firm (desire to switch, intent to stay, positive and negative word-of-mouth). The analysis produced results suggesting a partial mediation rather than a full mediation. In addition, perceived fairness of the penalty outcome had a direct relationship with each of the outcomes for the firm. Finding that emotions partially mediate the relationship between an appraisal and behavior is consistent with the work of Zhang (2005) in marketing. Finding partial mediation with the specific emotions of anger and disappointment is a new finding in marketing. The finding of a direct relationship between perceived fairness and the outcomes for the firm is consistent with Campbell (1999)'s work in marketing. She found that perceived price unfairness (the appraisal) had a direct (negative) effect on the willingness of the customer to conduct business with the firm. In Hypothesis 7, I predicted that customers who experience high levels of anger or disappointment would be more likely to desire to switch, less likely to stay, less likely to engage in positive word-of-mouth, and more likely to engage in negative word-of-mouth. The analysis supported Hypothesis 7. This finding is similar to Westbrook's (1987) work that shows that positive and negative affect predict complaint behavior and word-of-mouth transmission. In addition, this finding supports the work of Funches (2007) who found that higher levels of anger lead to higher levels of exit and complaining. The findings related to disappointment are new to marketing.

Mean comparisons for the penalty type show that individuals who receive a penalty waiver refusal are more likely to have a desire to switch, and less likely to intend to stay or engage in positive word-of-mouth than those who receive a penalty or a waiver. Individuals who receive a waiver refusal or a penalty are equally likely to engage in negative word-of-mouth.

In addition, I ran analysis showing that gratitude partially mediates the relationship between fairness of the penalty outcome and the outcome variables (desire to switch, intent to stay, positive and negative word-of-mouth). This shows that customers who appraise the penalty outcome as fair are more likely to behave in positive ways toward the service firm (and have higher positive emotions) than those customers who appraise the penalty outcome as less fair. This is likely true because the customer feels that the penalty outcome was fair or reasonable (i.e., deserved) and not unfair or excessive (i.e., undeserved). Individuals who received a waiver were more likely to intend to stay with the provider and engage in positive word-of-mouth, and less likely to desire to switch or to engage in negative word-of-mouth than those who received a penalty or a waiver refusal.

Finally, in addition to the analysis with the psychological entitlement variable and the gratitude variable, I ran analyses with the perceived standardization of the penalty as a mediator and a moderator. I determined that the confirmation/disconfirmation of expectations should mediate the relationship between perceived standardization of the penalty and perceived fairness of the penalty outcomes. The analysis provides support for this. The higher the perceived standardization, the more positively disconfirmed a customer's expectations are, and the higher the customer's perceptions of fairness. Thus, the more the customer feels that a penalty is standard throughout the industry, the greater his/her perceptions of fairness of the penalty outcome. The additional moderation analysis I conducted shows surprising findings. Customers who experience high levels of disappointment and perceive the standardization of the penalty to be high are more likely to desire to switch (and engage in less positive word-of-mouth) than those who perceive the penalty to be less standard. This may illustrate two possible issues: (1) the customer is disillusioned with the industry and its penalty norms and/or (2) the customer perceives highly standardized penalties as easily removable and therefore is more likely to be disappointed when the penalty is enforced.

Study 5 shows that penalty waivers overcome the negative effects of a penalty (producing gratitude) and waiver refusals make the effect of a penalty worse on the service relationship (producing interpersonal rejection). Customers who receive a penalty waiver feel less anger and disappointment and more gratitude toward the firm than customers who receive a penalty. In addition, customers who receive a penalty waiver perceive the outcome of the situation as fairer than customers who receive a penalty (and do not ask for a waiver). A penalty waiver results in a customer who is less likely to desire to switch, more likely to intend to stay, more likely to engage in positive word-of-mouth, and less likely to engage in negative word of mouth. On the other hand, a customer who asks for a waiver and does not receive the waiver feels more interpersonal rejection than a customer who receives a penalty. Customers who are refused a penalty waiver are more likely to desire to switch, less likely to intend to stay, and less likely to engage in positive word-of-mouth than a customer who receives a penalty. This indicates that if a customer asks for a waiver and the firm refuses to grant the waiver, the negative effects of the penalty are increased. By granting a penalty waiver, a service firm can overcome the possible negative effects on the service relationship.

Theoretical Implications

There are four main theoretical contributions of this dissertation. First, this dissertation develops a framework for understanding *the underlying reasons* for customer mistakes in services. The lack of attention/lack of knowledge dichotomy originated in my qualitative work for this dissertation in which consumers explained different types of mistakes that they had made when interacting with service providers. The framework for these two reasons for mistakes fits well with Reason's (1990) generic error-modeling system (GEMS), which classifies the origins of basic error types. The lack of attention category is comparable to Reason's (1990) slips and lapses, and the lack of knowledge category is comparable to Reason's knowledge-based mistakes. No research in marketing examines customer mistakes, while no penalty research considers the reason for the customer's mistake. Thus, this research breaks new ground. This research provides a framework for how these different reasons for making a mistake affect customer reactions to penalty types. To customers, a penalty is perceived as fairer (i.e., deserved) when they feel personally responsible for the mistake, and less fair if they feel the firm is responsible for the mistake. Customers who make a lack of knowledge mistake attribute more responsibility to the firm, and less responsibility to themselves. These findings (specifically the connections between the reason for the mistake and the attribution) contribute to the attribution of responsibility framework.

Second, this dissertation adds to the *fairness* literature by showing that perceived fairness has both a direct effect on the outcomes for the firm, while also being partially mediated by emotional responses. Previous research on cognition and emotions shows that emotions mediate the relationship between an appraisal and a behavior. Following the cognitive model of emotion proposed by Lazarus (1991), Nyer (1997) showed that emotions fully mediated the relationship between a cognitive appraisal and behavior. Thus, in the present study, I proposed a full mediation of the relationship between perceived fairness of the penalty outcome (the appraisal) and the outcomes for the firm (mediated by anger and disappointment). However, I found partial mediation, as perceived fairness had a direct relationship with the outcomes for the firm.

In the previous literature on price fairness, Campbell (1999) found that perceived price unfairness (the appraisal) had a direct (negative) effect on the willingness of the customer to conduct business with the firm (the outcome). On the other hand, Bolton, Keh, and Alba (2010) found that emotional responses mediated the relationship between fairness and firm outcomes. More specifically, Bolton and her colleagues found that anger fully mediated the relationship between price fairness and repurchase intentions among American participants, while shame fully mediated this relationship among Chinese participants. Thus, in the marketing literature whether emotional responses partially or fully mediate the relationship between fairness and behavioral responses is not clear.

This issue is also not resolved in the management literature. Fox, Spector, and Miles (2001) found that negative emotions fully mediate the relationship between procedural justice (the appraisal) and counterproductive work behaviors (e.g., theft). However, other studies have found results similar to this dissertation (i.e., that an emotional response partially mediates the appraisal-behavior relationship). Rupp and Spencer (2006) found that anger partially mediated the relationship between interactional justice (defined as employees' perceptions of fairness; treated with dignity and respect) and emotional labor (i.e., degree of effort employees must expend to modify outward emotional displays) in a laboratory study. Further, Spencer and Rupp (2009) found that respondents' emotional labor increased both when they were treated unfairly by customers, as well as when their coworkers were treated unfairly, and this tendency was partially mediated by anger. Also in the management literature, among terminated workers, Goldman (2003) found that anger partially mediated the relationship between justice (the appraisal) and filing a discrimination claim (the behavior). Thus, it would appear that most management research would support a partial mediation model.

In psychology, Chan and Arvey (2011) found that anger partially mediated the relationship between perceived unfairness severity (the appraisal) and revenge and avoidance (the behaviors). Within the same study, the authors found that anger fully mediated the relationship between perceived unfairness severity and reconciliation. Respondents in this study answered questions after thinking of “the most intense event” in which someone treated them unfairly. In the social sciences, Mazerolle, Piquero and Capowich (2003) found that anger partially mediated the relationship between experiencing an inequitable situation (appraisal) and the intent to assault and the intent to shoplift (the behaviors) among youth (using scenarios). So again, it is not always clear when emotions partially versus fully mediate the effect of cognitive appraisals on behaviors (or behavioral intentions).

The finding in this dissertation that emotions partially mediate the relationship between perceived fairness and behavior is consistent with other research in services (i.e., Zhang 2005). In a service failure context, Zhang (2005) also finds partial mediation of emotions. The author shows that the customer’s evaluation of the firm’s response to the problem (the cognitive appraisal) directly affects the customer’s behavioral intentions. Additionally, the cognitive appraisal also goes through the emotional response, showing that the emotional response partially mediates the relationship between the appraisal and repurchase intentions.

Thus, the cognitive model of emotion suggests that emotions should fully mediate relationships between appraisals and behavior; however, emotions often partially mediate the relationship between fairness and behavior (as indicated by the results of this study and multiple others that find partial mediation of emotions). The issue seems unresolved in the marketing, management, and psychology literatures. The partial mediation found here provides support for the argument that emotions partially mediate the relationship between perceived fairness and behavior.

The third theoretical contribution of this dissertation is to the *confirmation/ disconfirmation* framework. I used this framework in a different way than in the past. Traditionally, marketing researchers use the confirmation/disconfirmation of customer expectations to determine a customer's level of satisfaction with the service (e.g., Anderson and Sullivan 1993; Churchill and Suprenaut 1982) or the customer's service quality expectations (e.g., Parasuraman, Zeithaml, and Berry 1985) by comparing the expected service and the perceived service performance. In this study, I used the confirmation/disconfirmation framework to establish the degree to which the customer feels that the firm positively or negative disconfirmed his/her expectations relative to a penalty/waiver. The participants in this study compared their penalty situation to their prior expectations of what should happen in a penalty situation (a comparison to a general standard or expected norm) (Oliver and Swan 1989). If the firm's penalty treatment towards them was above their expected standard, then this produced positive disconfirmation and higher levels of perceived fairness. Likewise, if the firm's penalty treatment towards them was below their expected standard, this treatment produced negative disconfirmation and lower levels of perceived fairness.

The psychology literature links disconfirmation and perceived fairness. For example, in a laboratory setting, van den Bos, Vermunt, and Wilke (1996) found that individuals whose expectations are positively disconfirmed perceived a decision-making procedure as fairer than did those individuals with negatively disconfirmed expectations. While psychological researchers have found a link between disconfirmation of expectations and perceived fairness, marketers have not yet established this connection. In marketing, if disconfirmation of customer expectations and perceived fairness are together in a conceptual model, marketing researchers usually hypothesize independent effects on satisfaction (e.g., Smith, Bolton, and Wagner 1999; Varela-Neira, Vazquez-Casielles, and Iglesias-Arguelles 2008) (i.e., marketing researchers do not link disconfirmation to perceived fairness). This linkage is a theoretical contribution of this dissertation.

I expected customer situational entitlement to lead directly to the confirmation/ disconfirmation of customer expectations. I show that this effect (when the customer is psychologically entitled) carried over to a penalty situation and the confirmation/disconfirmation of expectations fully mediated the relationship between psychological entitlement and perceived fairness of the outcome. Psychological entitlement is a stable and invariant personality characteristic in which an individual feels that he/she deserves more and is entitled to more than others are. If an individual is psychologically entitled, their expectations for the penalty outcome will be higher and the firm will be less likely to positively disconfirm the customer's expectations. The connection between psychological entitlement and the disconfirmation of expectations is an important link that marketers have not heretofore examined.

Fourth, the dissertation contributes to our understanding of *gender differences*. McCarthy and Fram (2000) found that men tend to view penalties as fairer than women do. In addition, they found that women are less willing to patronize a penalizing firm than men. While my research does not find a difference between the genders on perceived fairness, desire to switch, or intent to stay with a penalizing firm, the results do provide some additional insights. In my study, men reported higher levels of anger, higher levels of negative word-of-mouth, and higher levels of interpersonal rejection than women did if they receive a penalty from a service provider. These were the only gender effects found. This suggests that men may have more negative reactions to penalties than women do.

Managerial Implications

The findings of this dissertation also offer several implications for marketing practitioners in service industries. First, an overall conclusion from this dissertation is that penalties, waivers, and waiver refusals have implications for the firm. In Study 2, 43% of the customers who asked for a penalty waiver and did not receive it left the firm, but everyone who received the waiver stayed with the firm. In Study 5, the mean for the desire to switch providers was 3.94 for customers who received a waiver refusal, 3.70 for customers who received a penalty, and 2.51 for those who received a waiver. A provider cannot assume that a penalty will not affect their relationship with the customer. For first-time offenders, the penalty waiver produces gratitude and positive outcomes for the firm; the penalty and waiver refusal produce disappointment, anger, feelings of rejection, and negative outcomes for the firm. Service providers should be flexible with customers who make mistakes, especially the first time. By offering these customers a waiver, the service firm is investing in the relationship (Palmatier, Jarvis, Bechkoff, and Kardes 2009).

Service providers should consider how imposing a penalty would affect its relationship with its customers. Men report higher levels of anger, rejection, and engage in more negative word-of-mouth than women after receiving a penalty. Service firms must keep this in mind when making decisions about whether to enforce penalties or waive them.

Providers have to be aware that emotions such as anger have strong affective traces in memory (Cohen and Areni 1991). Consumers remember incidents that make them angry for a long time, which leads to negative outcomes for the firm. In contrast, gratitude toward the company (for the penalty waiver) is a catalyst that promotes relationship development, influencing pro-social behavior as long as the emotion lasts and having long-term relationship-building effects (Palmatier, Jarvis, Bechkoff, and Kardes 2009). Anger, disappointment, and gratitude affected the respondent's desire to switch, the intent to stay, positive word-of-mouth, and negative word-of-mouth by partially mediating the relationship between perceived fairness and the four outcomes. Thus, service providers should recognize the negative repercussions of penalties.

Additionally, service providers should carefully listen to a customer's explanation when he/she makes a mistake before deciding whether to impose a penalty. The goal would be to interpret whether the mistake was due to a lack of attention or to a lack of knowledge. The more the provider can learn about why and how the customer made the mistake, the better. Customers who did not feel that the company provided the information that they needed will hold the provider more responsible for the problem than those who felt they should have paid more attention to what they were doing. If a service company does not want to waive penalties every time a customer makes a mistake, training customer service representatives to distinguish between a lack of attention and a lack of knowledge mistake is one way to determine when to offer a waiver. This will also potentially be useful in evaluating what information the company provides to customers and how the company provides this information. For example, firms will be able to better ascertain which information needs more emphasis and how to increase the probability that the customer will see or understand that information.

Third, even if a penalty is standard across the industry, the customer may be disappointed that the provider has the penalty and that the provider enforces the penalty. This disappointment results in negative outcomes for the firm. The moderation analyses showed that, counterintuitively, when a customer experiences high levels of disappointment and the perceived standardization is high, they say they will be more likely to switch and less likely to engage in positive word-of-mouth. Again, front-line service employees should have the flexibility (and be empowered) to waive industry-standard penalties, especially for first-time offenders or for those who feel that the mistake was due to a lack of knowledge and who would thus attribute more fault to the firm.

Finally, some customers feel that they have the right to better or special treatment that other customers do not receive. I tried to manipulate and capture this with situational entitlement (operationalized as the customer having a long history with the company and being one of the company's best customers), but when that did not work, I used a measure of psychological entitlement, capturing the personality trait of entitlement. This association could be an important segmentation variable. Several recent articles (e.g., Clift 2011) have alluded to the fact that society, in general, seems more entitled than ever before. As service providers may have to deal with this reality in a variety of ways, the current research alerts providers to the issue of an entitled customer who does not receive a penalty waiver: the customer will perceive the outcome as less fair than a less entitled customer will. As the research on entitlement progresses, service providers may find that certain groups of customers think of themselves as more entitled than others (i.e., young, affluent customers). The provider may need to offer additional services or plans to meet the needs of entitled customers, if they wish to keep this segment happy. Service firms may consider offering special "high-service" plans that target entitled customers who feel that they should receive special treatment. Some banks offer "private banking" services to customers who pay a yearly fee (i.e., anyone who pays the fee has access to the service). This service allows the customer to get special attention and faster service from a specific employee in the bank who oversees the private banking customers.

Limitations and Future Research

I note some limitations of the study here. To explore customers' reactions to penalties from service providers, I conducted a scenario-based experiment. The use of a hypothetical scenario is common in service research and generally deemed acceptable, however, the use of a real-life situation would provide results that are more externally valid. While there are always trade-offs between what is gained and lost in experimental approaches versus real-world data approaches, it would be beneficial to corroborate the findings in this dissertation with archived company data. This would further illustrate the validity of the findings (i.e., company data would allow me to see the penalty action a company takes and how the customer behaves (defected or not) after the penalty outcome).

Secondly, this research tested customers' reactions to penalties from two service contexts, a cell phone provider and a credit card company. I carefully chose these contexts because they represent the most prevalent service providers that customers usually receive penalties from after a mistake. However, these providers are generally low- to moderate-contact services, and research that explores customer reactions to penalties from high-contact services (i.e., a penalty for missing a hair appointment) would be beneficial. Finally, this dissertation examined customer penalties from the customer's perspective. Some of the qualitative data in Study 1 came from students who work in the service industry, but it would be useful to explore the employee or company view of penalties received after a mistake.

There are many areas for future research related to the topic of penalties. First, research should be done to find what makes people feel psychologically entitled, if it is associated with certain demographic segments, and how this affects retailers and service providers in a consumer setting. As mentioned earlier, researchers (Clift 2011) seem to believe that society is becoming more entitled. Psychological entitlement was correlated with situational entitlement (operationalized as having a long history with the company and being one of the company's best customers) in my sample, so perhaps situational entitlement simply incrementally adds to or takes away from one's natural levels of entitlement.

Research should also be done to find if customers feel entitled in certain consumer situations (e.g., due to a long relationship). The customer situational entitlement manipulation I used did not produce the hypothesized results. Perhaps situational entitlement cannot be manipulated in an experiment. Although it seems probable that a customer's background with the company (e.g., history with the company) contributes to a customer's feelings of entitlement, the fact that the manipulation did not work here raises the question of how to measure entitlement (i.e., a personality variable or a situational variable). In the management literature, psychological entitlement is described as "a stable tendency toward highly favorable self-perceptions and a tendency to feel deserving of high levels of praise and reward, regardless of actual performance levels" (Harvey and Harris 2010). This definition suggests that an individual's history with the company would not matter if a person feels psychologically entitled. On the other hand, Butori (2010) states that consumer entitlement is the degree to which the buyer perceives himself or herself to be a special customer for the firm and expects immediate compliance with his or her needs, which suggests that a customer can feel entitled based on a self-perception that he or she is a special customer. Thus, this construct begs for more attention in the marketing literature.

Second, more research should be done to understand the gender differences of penalty outcomes. I found that men were more likely to report anger, interpersonal rejection, and engage in negative word-of-mouth after receiving a penalty, but the topic is unexplored at this point. More research should be done to better understand how men and women react differently to penalties.

Third, researchers could examine the standardization issue. The level of standardization affected many of the outcome variables in this research, and more work should be done to understand how a customer views standardization issues and how it affects their reactions to penalties. The standardization issue could be studied relative to when penalties are imposed, as well as the amount of the penalty.

Fourth, the penalty in this manipulation was a first-time penalty with the service provider. Future research should consider repeated penalties (i.e., receiving a penalty from the provider for the second or third time). Future research should also consider recurring mistakes that result in repeated penalties.

Future research could also include a control condition in which the participant makes a mistake but does not receive a penalty. The manipulation could say that the service provider normally gives a penalty for the mistake, but that the company will not hold the customer responsible because it is a first offense. This would show whether the firm benefits more from not giving a penalty at all to a first-time offender, or giving a penalty, and then waiving it.

Fram and Callahan (2001) found that customers sometimes felt that a penalty charge was fair, but that the amount was unjustified. Marketing researchers could examine what makes a penalty amount seem unjustified. Examining justifiable/unjustifiable penalty amounts relative to income and service context would be beneficial.

Researchers in this area should also look more at the firm responsibility issue and ways in which the customer perceives that the firm's responsibility increases or decreases. Other factors than the reason for the mistake may contribute to the customer attributing more responsibility to the firm. Researchers could examine whether the customer's feelings of attribution are toward the employee or toward the firm. Building on Kim's work (2007), the underlying reasons that the customer feels like the firm is using the penalty (i.e., to correct customer behaviors versus to profit from penalties) should be studied (i.e., customer's perceptions of firm intent).

The issues addressed in this research should be addressed relative to fees. Usage fees (for services such as airlines) differ in some ways from penalties, because the customer receives something in exchange for the fee. However, as fees continue to increase for many services, customers have become angry. Fees (particularly airline fees) have become a national public policy issue.

Future research could also include studying the underlying reasons that customers ask for a waiver. Some customers may be more likely to ask for a waiver (similar to Chebat, Davidow, and Codjovi's (2005) seeking redress propensity), or there may be certain situational characteristics that cause customers to seek a penalty waiver. Perhaps asking for a waiver is similar to complaining, and certain individuals are more likely to complain, while others may suffer in silence (Beatty, Reynolds, Noble, and Harrison 2011). Understanding the reasons that customers ask for the penalty waiver and expect one would help service providers know how to react to these waiver requests.

In addition, the idea of interpersonal rejection in services is interesting and deserving of more attention. There are other ways in which a customer may feel rejected in a service context (e.g., a custom order is denied; a product return is denied; a special favor is denied), and the outcomes for the firm that occur after a customer feels rejected by the service provider should be explored.

In conclusion, this dissertation examined customer reactions to penalties received after the customer made a mistake. Understanding customer reactions to penalties is important for service providers and is a topic that is highly understudied in the marketing and services literature. This dissertation offers a number of meaningful implications for both marketing theory and practice. My hope is that this dissertation will motivate and assist others in their own exploration and understanding of this topic.

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APPENDIX A

Appendix A: Instructions and e-mail sent by students to recruit participants

To: All students

From: Mary Harrison

Subject: Extra credit opportunity

Please copy and paste the information below into the e-mail you use to recruit participants. This will give them time to think about customer mistakes before they get into the survey.

The study you have been asked to participate in is about customer mistakes. We are trying to learn more about what mistakes customers make when dealing with service providers and the effect the mistake has on future behavior.

Examples of customer mistakes are ordering the wrong thing, making reservations for the wrong day, losing something during the service experience, giving the wrong information (i.e., writing down the wrong account number), or not understanding the expectations when returning something that was rented.

In this survey, you will be asked to describe memorable customer mistakes (up to 3), and then answer a few questions about each situation. Click on the link below to take the survey. This survey will probably take about 5-6 minutes to complete. Thank you!

<u>Link</u>

APPENDIX B

Appendix B. Mistake survey (launched using Qualtrics)

Sometimes customers have bad experiences with service providers, but it is because the customer has made a mistake. For example, a customer might order something without fully reading what it is, make reservations for the wrong day, check out of a hotel at the wrong time, or not understand the expectations when returning something that was rented.

Below are some examples of service providers. You will be asked to think of at least one memorable mistake, fully describe the situation, and answer a few questions pertaining to the situation.

Service providers:

Accountant	Dry cleaner or seamstress
Airline	Hotel or vacation rental
Attorney	Landlord or real estate agent
Bank or financial advisor	Landscaper
Barber or hairdresser	Nail or tanning salon
Car or home maintenance	Printer
Car rental	Restaurant or bar
Caterer	Retailer
Doctor, dentist, or pharmacist	Tuxedo rental

1. Please describe a memorable mistake you have made below.

2. After the mistake occurred, how did you change your behavior the next time you needed the service?

3. For this mistake, rate how severe you would say it was:
Not severe at all 1 2 3 4 5 6 7 Extremely Severe

4. Do you feel like this mistake was more your fault or the service provider's fault?
Completely my fault 1 2 3 4 5 6 7 Completely the service provider's fault

5. Did your mistake affect other people?
Only me 1 2 3 4 5 6 7 Lots of other people

6. After this situation occurred, did you tell anyone else about what happened?
Yes, I told others about this situation
No, I did not tell others about this situation

7. Can you think of a second (third) memorable mistake? Yes (asked questions again) No (complete)

The following questions are for classification purposes only.
8. What is your gender?
9. In which age category does your age fall?
10. What is the highest level of education you have completed?
11. What is your race or ethnicity?
12. If you are taking this survey for a student to receive extra credit, please write the student's name below.

APPENDIX C

Appendix C. Extra credit opportunity e-mail: customer penalty study

What do I have to do to earn extra credit?

Read these instructions, answer the open-ended questions located in the survey link below, and recruit others to take the survey.

What is the survey about?

This study is about receiving a penalty due to a customer mistake. A penalty due to a customer mistake is a fine or punishment resulting from an unintentional customer action. In this survey, you will be asked to describe a penalty that you received (or had waived) after a mistake and then answer a few questions about the situation. I am trying to learn more about what mistakes customers make when dealing with service providers and the resulting penalty (or penalty waiver) the customer receives.

Examples of customer penalties are when a customer has to pay a $25 overdraft penalty for accidentally overdrawing their checking account, losing a cleaning deposit after failing to clean something in their apartment, or paying a $100 airline change fee for making a mistake while booking a flight. Other examples of penalties due to mistakes are receiving a penalty charge after forgetting about a service appointment or receiving a penalty charge for losing a something, such as a hotel key. In addition, unintentional actions that lead to late payment fees, late check-out fees, or restocking fees are examples of penalties resulting from customer mistakes.

Can I recruit others to take the survey to get extra points?

Yes. In addition to taking the survey yourself, you can recruit up to 4 non-students who are 19 or older (friends, relatives, co-workers, etc.) to take the survey for you. To recruit others, forward this information along with the link to those who you think would be willing to take the survey.

What if I cannot think of an example of a penalty I have made due to a mistake?

If you cannot think of an example, then you can recruit five others.

How do I know how many people have taken the survey for me?

People who take the survey for you will be prompted at the end of the survey to enter the student's name that they are taking the survey for. You may e-mail me at anytime to ask how many people have taken the survey for you, or if you have any other questions about the survey. My e-mail address is mharriso@cba.ua.edu

How long does the survey take?

After you think of an example penalty due to a mistake, this survey will probably take about 6-8 minutes to complete.

Where do I go to take the survey?

Follow this link or paste this into your browser:
Link

APPENDIX D

Appendix D. Penalty survey (launched using Qualtrics)

Introduction
Customer Mistakes and Penalties Study

This research study is about customer penalties that result from customer mistakes. You will be asked to describe a penalty that you have experienced due to a mistake you made (or you almost got a penalty but the firm waived it for you). A penalty due to a customer mistake is a fine or punishment resulting from an unintentional customer action.

Some examples of this are when a customer has to pay a $25 overdraft penalty for accidentally overdrawing their checking account, losing a cleaning deposit after failing to clean something in their apartment, or paying a $100 airline change fee for making a mistake while booking a flight. Other examples of penalties due to mistakes are receiving a penalty charge after forgetting about a service appointment or receiving a penalty charge for losing something, such as a hotel key. In addition, unintentional actions that lead to late payment fees, late check-out fees, or restocking fees are examples of penalties resulting from customer mistakes.

1. Below are some examples of service establishments. Can you think of a time when you made a mistake that led to a penalty? (Or you almost got a penalty but the company waived it?)

Service establishments:

Airline	Hairdresser/barber
Bank	Hotel
Cell phone company	Landlord
Credit card company	Nail salon
Cruise (or other vacation package)	Rentals (car, condo, furniture, handbag, dress, tuxedo, video, etc.)
Daycare	Restaurant
Dentist	Retailer
Doctor	University
Dry cleaner	

Yes, I can think of an example of a penalty (or waiver of penalty) due to a mistake I made
No, I cannot think of an example of a penalty (or waiver of penalty) due to a mistake I made

2. Thinking about your penalty example, were you charged a penalty by the company, or did the company waive the penalty?
I was charged a penalty
The company waived the penalty

3. (If charged a penalty) Please fully describe the mistake you made and the resulting penalty that you received.

4. (If waiver received) Please fully describe the mistake you made, what the penalty would have been, and how the penalty was waived (i.e., how the waiver was obtained).

5. (If waiver received) How did the company handle the waiver (i.e., how easy or difficult was it to obtain the waiver; how did the employee act; what did the employee say)?

6. (If penalty charged) Did you ask the company to waive the penalty?

7. (If did not ask for a waiver) You answered that you did not ask the company to waive the penalty. Why not?

8. (If asked for a waiver) Please explain how you made the decision to ask for the waiver of the penalty.

9. (If asked for a waiver) After you asked the company to waive the penalty, what happened? How did the company handle the situation?

10. (All) What are your feelings toward this company now? Do you still use their services? Why or why not?

(If received a penalty) Please indicate how much you agree or disagree with the following statements. (the order of the following questions was randomized)
11. The possibility of receiving this type of penalty in the future makes me take extra steps to avoid another penalty.
12. In my situation, I felt the penalty was fair.

(If received a waiver) Please indicate how much you agree or disagree with the following statements. (the order of the following questions was randomized)
11. In my situation, I felt the penalty wavier was fair.
12. The possibility of receiving this type of penalty in the future makes me take extra steps to avoid the penalty.

Please indicate how much you agree or disagree with the following statements. (order of questions was randomized)
13. This company uses this type of penalty to punish its customers.
14. This company uses this type of penalty to encourage customers to comply with its rules in the future.
15. This company uses this type of penalty as a way to raise revenues.
16. This company uses this type of penalty to protect itself from financial losses.

17. How long ago would you say this situation occurred?
Within the past year
1-4 years ago
5+ years ago

The following questions are for classification purposes only.
18.In which category does your age fall?
19. Are you currently an undergraduate student?
20. What is your gender?
21. If you are taking this survey for a student, please write the student's name below.

APPENDIX E

Appendix E. Manipulations for Study 4.

Lack of attention	
Cell phone	Imagine that you lose your cell phone. You go to the cell phone company and purchase a new phone. On your next statement, you notice a $40 penalty fee for losing your phone and reactivating a new one. You don't remember anything about the $40 penalty charge. As you look back over everything that the customer service representative gave you, you realize that she wrote down that a $40 charge would be added to your account. You did not listen to everything that the customer service representative was going over that day.
Credit card	Imagine that you receive a statement from your credit card company. The statement shows a $30 penalty charge because you paid your last bill late. You paid late because you missed the e-mail from the company reminding you to make a payment.
Lack of knowledge	
Cell phone	Imagine that you lose your cell phone. You go to the cell phone company and purchase a new phone. On your next statement, you notice a $40 penalty fee for losing your phone and reactivating a new one. When you purchased your new phone, they did not say anything to you about the penalty. You wish that you had asked more questions because you might have purchased a different phone if you had known about the penalty.
Credit card	Imagine that you receive a statement from your credit card company. The statement shows a $30 penalty charge because you paid your last bill late. You scheduled your last payment for the due date, but the due date was a holiday. Before you scheduled your payment, you looked on the website for any announcements about a holiday closure, but you did not find any information on it.
Entitlement	
Entitled	You are a very loyal customer of many years of this credit card company, and this is the first time you have received a late penalty.
Less entitled	You have been with this cell phone company for about three months.
Potential penalty	
Penalty	You decide to pay the $40 penalty charge.
Penalty waived	You call the company, explain what happened, and ask them to remove the penalty. The company agrees to remove the penalty.
Penalty waiver refusal	You contact the company, explain what happened, and ask them to remove the penalty. The company refuses to remove the penalty, and you pay the penalty charge.

APPENDIX F

Appendix F. Penalty survey recruitment e-mail

Extra credit opportunity:
What is it?
Recruit up to 15 non-student adults (people who are not undergraduates) over the age of 22 to take a survey.

What do the people I recruit have to do?
They take an on-line survey (that takes about 6-8 minutes). The survey is about how they would react in a certain situation if they were to receive a penalty from a service provider.

What do I do?
E-mail a link to potential participants (parents, parents' friends, siblings, co-workers, aunts, uncles, grandparents, neighbors, friends who have graduated, etc.)

How many extra credit points do I get?
You receive 1 point for every person recruited (up to 5 points). These extra credit points are added to a test grade.

How long do I have to do this?
Two weeks.

How do you now that they have taken the survey for me?
At the end of the survey, the participant is asked the question, "If you are taking this survey for a marketing research student to receive extra credit, please write their name here." I get those names.

Example recruitment e-mail:
Hi _______,
Would you take this on-line survey for me? I am recruiting friends and family members for extra credit points. The survey takes 6-8 minutes. You will read a scenario and then answer questions about how you would feel if that situation happened to you. My professor in the marketing department is studying how customers react to penalties from service firms. At the end of the survey, there is a question that asks for the name of the student who you are helping to get extra credit. You enter my name there, and I will receive extra credit.
Here is the link (you may need to cut and paste into your browser): Link
Thanks!

APPENDIX G

Variable source list and actual items				
Variable	**Source**	**Source items**	**Actual items used in Study 4**	**Actual items used in Study 5**
Measured variables				
Attribution of responsibility (personal) The degree of liability that the customer assigns to themselves for the mistake	Pagel, Becker, and Coppel (1985) *JAP*; Ward, Miller, Boudens, and Briggs (2001) *BASP* 9-point scale; Not at all responsible/a great deal responsible	1. To what extent do you feel responsible?	(PR1: Personal responsibility) To what extent do you feel responsible for this mistake?	If you were in this situation, who would you feel is mostly responsible for the mistake? Myself—the company (5-item semantic differential)
Attribution of responsibility (firm) The degree of liability that the customer assigns to the firm for the mistake	Pagel, Becker, and Coppel (1985) *JAP*; Ward, Miller, Boudens, and Briggs (2001) *BASP* 9-point scale; Not at all responsible/a great deal responsible	1. To what extent do you feel responsible?	(FR1: Firm responsibility) To what extent do you feel the firm is responsible for this mistake? Not at all responsible/a great deal responsible	

Variable	Source	Source items	Actual items used in Study 4	Actual items used in Study 5
Confirmation/Disconfirmation of Customer expectations The degree to which the outcome is the same as, falls short of, or proves better than the customer's expectations	Wallace, Giese, and Johnson (2004) *JR*, Disconfirmation Scale anchors vary	1. Thinking about the problems you encountered during your purchase experience, were they: Much more serious than expected/much less serious than expected 2. Overall, the benefits you received from your purchase were: Much worse than expected/much better than expected 3. Overall, was your purchase experience: Much worse than expected/much better than expected	*Penalty condition:* (C1) If you were in this situation and received this penalty, would the penalty be: Not at all expected/Very expected (C2) Overall, this penalty is: Much worse than expected/much better than expected (C3) Compared to what I would expect, this penalty from the provider is: Much worse/much better *Penalty waiver condition:* (C1) If you were in this situation and received this penalty waiver, would the waiver be: Not at all expected/Very expected (C2) Overall, the provider's response is: Much worse than expected/much better than expected (C3) Compared to what I would expect, this penalty waiver from the provider is: Much worse/much better *Penalty denied condition:* (C1) If you were in this situation and the provider refused to grant the waiver, would this be: Not at all expected/Very expected (C2) Overall, the provider's response is: Much worse than expected/much better than expected (C3) Compared to what I would expect, the provider's refusal to grant the waiver is: Much worse/much better	*Penalty condition:* (C1) If you were in this situation and received this penalty, would the penalty be: Much worse than expected/much better than expected (C2) Overall, this penalty is: Much worse than expected/much better than expected (C3) Compared to what I would expect, this penalty from the provider is: Much worse/much better *Penalty waiver condition:* (C1) If you were in this situation and received this penalty waiver, would the waiver be: Much worse than expected/much better than expected (C2) Overall, the provider's response is: Much worse than expected/much better than expected (C3) Compared to what I would expect, this penalty waiver from the provider is: Much worse/much better *Penalty denied condition:* (C1) If you were in this situation and the provider refused to grant the waiver, would this be: Much worse than expected/much better than expected (C2) Overall, the provider's response is: Much worse than expected/much better than expected (C3) Compared to what I would expect, the provider's refusal to grant the waiver is: Much worse/much better

Variable	Source	Source items	Actual items used in Study 4	Actual items used in Study 5
Perceived Fairness The degree to which the customer believes the firm's response is reasonable, acceptable, or justifiable (not excessive or extreme).	Hardesty, Carlson, and Bearden (2002) *JA,* Fairness of the offer	1. Overall, how fair is the sale price for the ___? Very fair/very unfair 2. The sale price for the ____ represents a fair price. SA/SD 3. The sale price does not seem fair to me. SA/SD 4. How fair/unfair do you think the price offered to consumers is? Extremely fair/extremely unfair	*Penalty condition:* (F1) Overall, this cell phone provider treated me fairly. SA/SD (F2) This penalty seems fair. SA/SD (F3) This penalty seems reasonable to me. SA/SD *Penalty waiver condition:* (F1) Overall, this cell phone provider treated me fairly. (F2) This penalty waiver seems fair. SA/SD (F3) This penalty waiver seems reasonable to me. SA/SD *Penalty denied condition:* (F1) Overall, this cell phone provider treated me fairly. SA/SD (F2) This penalty waiver refusal seems fair. SA/SD (F3) This penalty waiver refusal seems reasonable to me. SA/SD	*Penalty condition:* (F1) Overall, this cell phone provider treated me fairly. SA/SD (F2) This penalty seems fair. SA/SD (F3) This penalty seems reasonable to me. SA/SD *Penalty waiver condition:* (F1) Overall, this cell phone provider treated me fairly. (F2) This penalty waiver seems fair. SA/SD (F3) This penalty waiver seems reasonable to me. SA/SD *Penalty denied condition:* (F1) Overall, this cell phone provider treated me fairly. SA/SD (F2) This penalty waiver refusal seems fair. SA/SD (F3) This penalty waiver refusal seems reasonable to me. SA/SD
Anger A strong feeling of belligerence aroused by wrong or injustice **Disappointment** A feeling of frustration when the service provider fails to fulfill expectations or hopes	Spielberger's State-Trait Anger Expression Inventory (Forgays et al. *Journal of Personality Assessment,* 1997) and Venessa Funches dissertation (2007) 5-point scale 1=not at all/5=very much	1. I felt angry. 2. I was furious. 3. I felt irritated. 4. I felt like hitting something. 5. I felt like breaking something. 6. I felt like yelling at someone. 7. I felt like swearing. 8. I felt outrage. 9. I felt frustrated. 10. I felt inconvenienced by this incident.	If this incident were to happen to you, how much would you feel the following: 1. angry 2. furious 3. irritated 4. outrage 1. frustrated 2. disappointed 3. discouraged Not at all/Extremely	If this incident were to happen to you, how much would you feel the following: 1. angry 2. furious 3. irritated 4. outrage 1. frustrated 2. disappointed 3. discouraged Not at all/Extremely

Variable	Source	Source items	Actual items used in Study 4	Actual items used in Study 5
Gratitude The quality of being thankful and appreciative	Palmatier et al. (2009)	1. I feel grateful to this company. 2. I feel thankful toward this company. 3. I feel appreciative toward this company. (5-point SD/SA scale)	Omitted	1. I feel grateful to this company. 2. I feel thankful toward this company. 3. I feel appreciative toward this company. (5-point SD/SA scale)
Psychological entitlement A stable and invariant personality characteristic in which an individual feels that he/she deserves more and is entitled to more than others	Adapted from Raskin and Terry (1988)	Pick which statement best matches you: **1.** A. The thought of ruling the world frightens the hell out of me./B. If I ruled the world it would be a better place. **2.** A. I insist upon getting the respect that is due me./B. I usually get the respect that I deserve. **3.** A. I just want to be reasonably happy./B. I want to amount to something in the eyes of the world. **4.** A. I expect a great deal from other people./B. I like to do things for other people. **5.** A. I will never be satisfied until I get all that I deserve./B. I take my satisfactions as they come. **6.** A. I have a strong will to power./B. Power for its own sake doesn't interest me.	Omitted	(PE1) In general, I think that I should be treated like someone special. (PE2) In general, I feel that I should receive more respect than an average person. (PE3) In general, I feel that I should get special treatment.
Goodwill A belief that the company is compassionate and kind	Bove, Pervan, Beatty, and Shiu (2009) *JBR* SD/SA	1. This organization goes out of its way for customers. 2. This organization always tries to do the right things for customers. 3. This organization has a genuine concern for customers.	1. This company goes out of its way for customers. 2. This company seems to try to do the right thing for customers. 3. This company seems to have a genuine concern for customers.	Omitted

Variable	Source	Source items	Actual items used in Study 4	Actual items used in Study 5
Trust A reliance on the service provider in which the customer has confidence (Morgan and Hunt 1994)	Bansal, Taylor, and St. James, (2005) 7-point scale, SD/SA, alpha = .912, 6-item scale	1. I feel that ___ does not show me enough consideration. 2. I feel that I can trust ____ completely. 3. _____ is truly sincere in his/her promises. 4. _____ is honest and truthful with me. 5. ____ treats me fairly and justly. 6. I feel that ___ can be counted on to help me, when I need it.	(T1) I feel that I can trust this service provider completely. (T2) This service provider is truly sincere in their promises. (T3) This service provider is honest and truthful with me. (T4) This service provider treats me fairly and justly. (T5) I feel that this service provider can be counted on to help me, when I need it.	Omitted
Desire to switch A customer's longing to receive the service from a different provider.	Bougie, Pieters, and Zeelenberg (2003), Switching Intention 8-item scale SD/SA	1. I use the services of this service provider because it is the best choice for me.(r) 2. To me, the service quality this service provider offers is higher than the service quality of other service providers. (r) 3. I have grown to like this service provider more than other service providers in this category. (r) 4. This service provider is my preferred service provider in this category.(r) 5. I have acquired the services of this organization less frequently than before. 6. I have switched to a competitor of this service organization. 7. I will not acquire services of this organization anymore in the future. 8. I intend to switch to a competitor of this service organization in the future.	(D1) If I had the option, I would switch to a different provider. (D2) If I could, I would use another provider. (D3) I would like to switch to a different provider.	(D1) If I had the option, I would switch to a different provider. (D2) If I could, I would use another provider. (D3) I would like to switch to a different provider.

Variable	Source	Source items	Actual items used in Study 4	Actual items used in Study 5
Switching costs	Jones, Mothersbaugh, and Beatty, *JR,* (2000) 7-point scale, SD/SA	1. In general, it would be a hassle changing banks. 2. It would take a lot of time and effort changing banks. 3. For me, the costs in time, money, and effort to switch banks would be high.	Thinking about the possibility of switching cell phone providers after this incident, please rate your agreement with the following items. (H1) In general, it would probably be a hassle changing service providers. (H2) For me, the costs in time, money, and effort to switch service providers would probably be high. (H3) It would most likely take a lot of time and effort to change service providers.	Thinking about the possibility of switching cell phone providers after this incident, please rate your agreement with the following items. (H1) In general, it would probably be a hassle changing service providers. (H2) For me, the costs in time, money, and effort to switch service providers would probably be high. (H3) It would most likely take a lot of time and effort to change service providers.
Interpersonal Rejection A feeling of devaluation or dismissal	New		Omitted	If this situation happened to me, I would feel: 1. personally hurt. 2. rejected. 3. rebuffed.
Active voice Propensity to complain to the company or offer suggestions for improvement	Bove, Pervan, Beatty, and Shiu (2009) SD/SA	1. If I had a complaint, I would discuss it with my… 2. If I had a problem I would complain to my… 3. If I had a complaint I would contact my… and ask him/her to take care of it 4. I would not be afraid to discuss a complaint with my…	Thinking about this situation happening to you, please continue to rate the following items. (AV1) If I had a complaint, I would discuss it with this provider. (AV2) If I had a problem, I would complain to this provider. (AV3) I would not be afraid to discuss a complaint with this provider. (AV4) I would feel comfortable providing suggestions to this provider to help them improve their service.	Omitted

Variable	Source	Source items	Actual items used in Study 4	Actual items used in Study 5
Intent to stay The customer's desire to stay with the service provider	Maxham and Netemeyer (2002) Volume 66, No. 4 SA/SD 7-point scale	1. In the future, I intend to use banking services firm [firm name]. 2. If you were in the market for additional banking services, how likely would you be to use those services from [firm name]? 3. In the near future, I will not use [firm name] as my provider.	(RI1) In the future, I intend to continue using this service provider. (RI2) If I were in the market for additional services, I would be likely to choose those services from this service provider. (RI3) It is likely that I will stay with this service provider in the future.	(RI1) In the future, I intend to continue using this service provider. (RI2) If I were in the market for additional services, I would be likely to choose those services from this service provider. (RI3) It is likely that I will stay with this service provider in the future.
Positive word-of-mouth The positive, informal, person-to-person communication between a perceived noncommercial communicator and a receiver regarding the service provider	Verhoef, Franses, and Hoekstra (2002) SA/SD 7-point scale	1. I say positive things about XYZ to persons in my environment. 2. If somebody seeks for advice with regard to a good insurance company, I recommend XYZ. 3. I encourage relatives and friends to do business with XYZ.	(PWOM1) I would say positive things about this service provider to people I know. (PWOM2) I would recommend this cell phone provider. (PWOM3) I would encourage relatives and friends to do business with this service provider.	(PWOM1) I would say positive things about this service provider to people I know. (PWOM2) I would recommend this cell phone provider. (PWOM3) I would encourage relatives and friends to do business with this service provider.
Negative Word-of-mouth The negative, informal, person-to-person communication between a perceived noncommercial communicator and a receiver regarding the service provider	Jones, Reynolds, Mothersbaugh, and Beatty (2007) SA/SD 5-point scale	1. I have warned my friends and relatives not to do business with this company. 2. I have complained to my friends and relatives about this company. 3. I have told my friends and relatives not to use this company.	(NWOM1) I would warn my friends and relatives not to do business with this service provider. (NWOM2) I would complain to my friends and relatives about this service provider. (NWOM3) I would tell my friends and relatives not to use this service provider.	(NWOM1) I would warn my friends and relatives not to do business with this service provider. (NWOM2) I would complain to my friends and relatives about this service provider. (NWOM3) I would tell my friends and relatives not to use this service provider.

Variable	Source	Source items	Actual items used in Study 4	Actual items used in Study 5
Procedural Justice The extent to which a customer believes that a company has responded to a problem fairly	Maxham and Netemeyer (2002)	1. Despite the hassle caused by the problem, ______ responded fairly and quickly. 2. I feel _____ responded in a timely fashion to the problem. 3. I believe ______ has fair policies and practices to handle problems. 4. With respect to its policies and procedures, ______ handled the problem in a fair manner.	Omitted	(J1) The company responded fairly. (J2) I believe this company has fair policies and practices to handle problems. (J3) With respect to its policies and procedures, this company handled the problem in a fair manner.
Manipulation Check				
Lack of attention Not giving the amount of care and concentration needed to a task	New		Thinking about the mistake of overlooking the $40 charge, please rate how much you agree or disagree with the following statements. (LA1) If I made this mistake, I would feel as though I should have been more careful. (LA2) If I made this mistake, I would feel as though I was not paying enough attention to what I was doing. (LA3) If I made this mistake, I would feel as though I should have been more attentive.	I was paying attention – I was not paying attention I was attentive – I was not attentive I was careful – I was not careful (5-point semantic differential scale)

Variable	Source	Source items	Actual items used in Study 4	Actual items used in Study 5
Lack of knowledge Having insufficient information needed to properly perform a task leading to a customer mistake	New		Thinking about the mistake of overlooking the $40 charge, please rate how much you agree or disagree with the following statements. (LK1) If I made this mistake, I would feel as though I was not aware of the company's policies. (LK2) If I made this mistake, I would feel as though I did not understand some part of the service. (LK3) If I made this mistake, I would feel as though I did not have all of the information I needed.	I had enough information – I did not have enough information I was informed – I was not informed I was knowledgeable – I was not knowledgeable
Customer situational entitlement The propensity to expect special treatment (distinction between one's own treatment and that of others)	New		(CSE1) If I were in this situation, I would feel that I deserve more attention than a regular customer who would be subject to this penalty. (CSE2) If I were in this situation, I would feel that the cell phone provider should not see me as an average customer who would be subject to this penalty. (CSE3) If I were in this situation, I would feel as though I should receive better treatment than other customers. (CSE4) If I were in this situation, I would feel that the cell phone provider should give me special treatment that it does not give to average customers.	(CSE1) If I were in this situation, I would feel that I deserve more attention than a regular customer who would be subject to this penalty. (CSE2) If I were in this situation, I would feel that the cell phone provider should not see me as an average customer who would be subject to this penalty. (CSE3) If I were in this situation, I would feel as though I should receive better treatment than other customers.

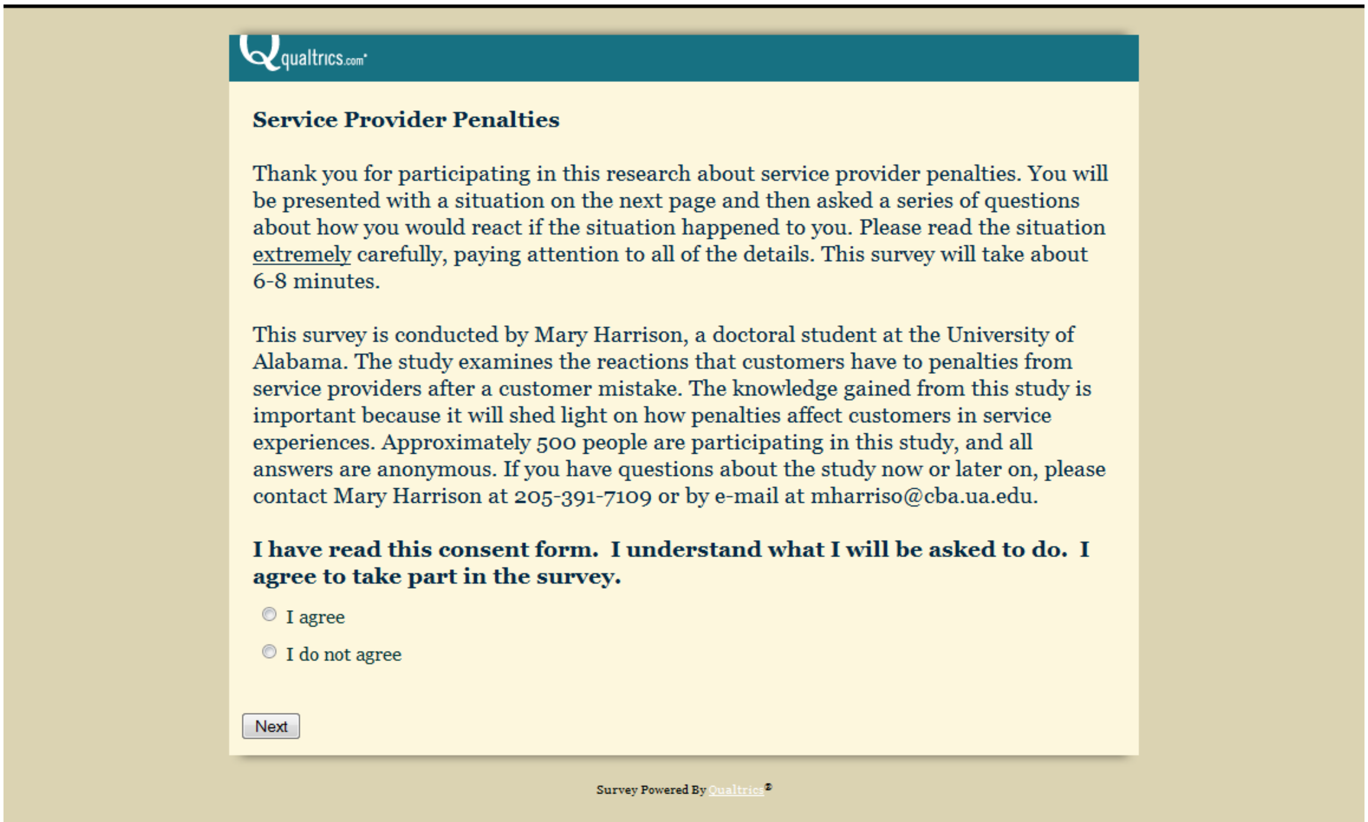
Variable	Source	Source items	Actual items used in Study 4	Actual items used in Study 5
Type "A" personality A hardworking, ambitious, and aggressive personality.	Friedman and Rosenman (1974)		Omitted	1. I like to associate with people who are dedicated to getting ahead/I like people who are easygoing and take life as it comes 2. When it comes to waiting in line (at banks, at stores, etc.), I really get impatient and frustrated/ Waiting in line doesn't bother me. 3. When it comes to getting ahead at work, nothing is more important/Many things are more important than work 4. Someone who knows me very well would say that I would rather work than play/I would rather play than work 5.I always feel rushed/I never feel rushed
Covariates				
Prior penalty experience The previous number of penalties that a customer has received from a service provider	New		In the past two years, how many times have you received a penalty from a service provider for <u>losing your cell phone?</u> None/1/2/3/more than 3/don't know/N/A	In the past two years, how many times have you received a penalty from a service provider for <u>losing your cell phone/paying your credit card bill late</u>? None/1/2/3/more than 3/don't know/N/A
Prior experience with service context The frequency in which a customer uses this type of service provider	New		Do you currently own a cell phone? Have you ever lost your cell phone? Do you currently pay a credit card bill for yourself or someone in your family? Have you ever accidentally paid your credit card bill late?	Do you currently own a cell phone? Have you ever lost your cell phone? Do you currently pay a credit card bill for yourself or someone in your family? Have you ever accidentally paid your credit card bill late?

Perceived standardization of penalty The customer's perception of how common the penalty is perceived to be in the industry	New		Please continue to rate your agreement with the following items. (PS1) Most _____s (service provider) have a penalty similar to this one. (PS2) This penalty amount is common among ___s (provider). (PS3) This penalty amount seems standard in the industry.	Please continue to rate your agreement with the following items. (PS1) Most _____s (service provider) have a penalty similar to this one. (PS2) This penalty amount is common among ___s (provider). (PS3) This penalty amount seems standard in the industry.
Realism and Demand Check				
Realism check	New (adapted from Kay Zhang's dissertation) and McColl-Kennedy and Sparks (2003)		Thinking about the overall situation, please rate how much you agree or disagree with the following statements. (R1) I could see this situation happening to one of my friends or family members. (R2) This situation is realistic. (R3) This situation is believable.	Thinking about the overall situation, please rate how much you agree or disagree with the following statements. (R1) I could see this situation happening to one of my friends or family members. (R2) This situation is realistic. (R3) This situation is believable.
Demand check	New (adapted from Zhang 2005)		I think the purpose of this study was: To understand how customers react to penalties Other (please specify) Don't Know	I think the purpose of this study was: To understand how customers react to penalties Other (please specify) Don't Know
Demographics				
Gender			What is your gender? Male – Female	What is your gender? Male – Female
Age			In which category does your age fall? 19-25/26-35/36-49/50-65 Over 65	In which category does your age fall? 19-25/26-35/36-49/50-65 Over 65
Marital Status			Are you: Single/Married/ Divorced/Other	Are you: Single/Married/ Divorced/Other

Variable	Source	Source items	Actual items used in Study 4	Actual items used in Study 5
Education			Highest education level completed: Less than high school diploma High school graduate or equivalent Some college Bachelor's degree Graduate degree	Highest education level completed: Less than high school diploma High school graduate or equivalent Some college Bachelor's degree Graduate degree
Income			Omitted	Annual household income: Less than $25,000 $25,001-$50,000 $50,001-$75,000 $75,001-$100,000 More than $100,000 Don't know/Prefer not to answer
Race			What is your race or ethnicity? White/Caucasian Black/African-American Hispanic/Latino Asian Multi-cultural/multi-racial Other (please specify) _______	What is your race or ethnicity? White/Caucasian Black/African-American Hispanic/Latino Asian Multi-cultural/multi-racial Other (please specify) ________
Additional penalty questions				
Fair penalty amount	New		Omitted	What penalty amount would be fair in this situation? Less than $10, $11-20, $21-30, $31-40, $41-50, $51 or more, other
Contact with company	New		Omitted	(*Penalty manipulation only*)If you were in this situation would you contact the cell phone company before paying the penalty?
Content of contact with company	New		Omitted	(*Penalty manipulation only*) What would you say when you contact the cell phone company?
Participant interest/behavior questions				
Participant Interest	New		Omitted	How interesting did you find this survey topic? Not at all interesting/Very interesting
Attention Filter	New		Omitted	If you are reading this survey, select strongly agree.

APPENDIX H

Appendix H. Example of actual survey (Study 4)



Service Provider Penalties

Thank you for participating in this research about service provider penalties. You will be presented with a situation on the next page and then asked a series of questions about how you would react if the situation happened to you. Please read the situation extremely carefully, paying attention to all of the details. This survey will take about 6-8 minutes.

This survey is conducted by Mary Harrison, a doctoral student at the University of Alabama. The study examines the reactions that customers have to penalties from service providers after a customer mistake. The knowledge gained from this study is important because it will shed light on how penalties affect customers in service experiences. Approximately 500 people are participating in this study, and all answers are anonymous. If you have questions about the study now or later on, please contact Mary Harrison at 205-391-7109 or by e-mail at mharriso@cba.ua.edu.

I have read this consent form. I understand what I will be asked to do. I agree to take part in the survey.

- I agree
- I do not agree

Next

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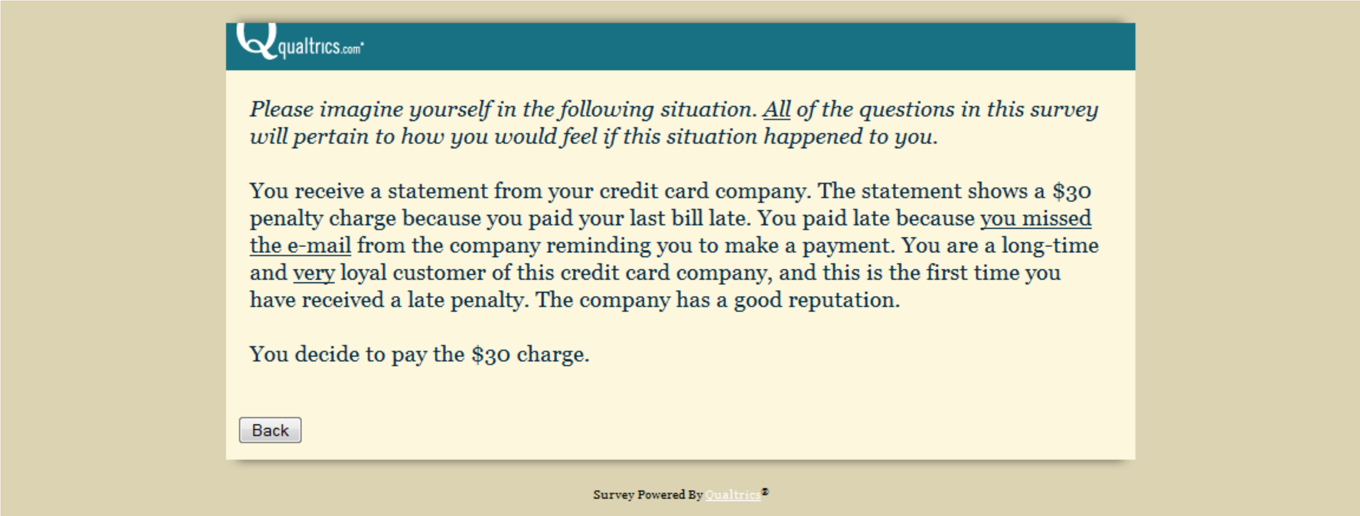

Please imagine yourself in the following situation. All of the questions in this survey will pertain to how you would feel if this situation happened to you.

You receive a statement from your credit card company. The statement shows a $30 penalty charge because you paid your last bill late. You paid late because you missed the e-mail from the company reminding you to make a payment. You are a long-time and very loyal customer of this credit card company, and this is the first time you have received a late penalty. The company has a good reputation.

You decide to pay the $30 charge.

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If this situation happened to you, how responsible would you feel for overlooking the e-mail reminder to pay?

Not at all responsible	Not responsible	Neutral	Responsible	Very responsible
○	○	○	○	○

To what extent would you feel that the credit card company is responsible for you overlooking the e-mail reminder to pay?

Not at all responsible	Not responsible	Neutral	Responsible	Very responsible
○	○	○	○	○

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Imagining yourself in this situation, please rate your level of agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
This penalty seems reasonable to me.	○	○	○	○	○
Overall, this credit card company treated me fairly.	○	○	○	○	○
This penalty seems fair.	○	○	○	○	○

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If you were in this situation and received this penalty, would the penalty be:

Not at all expected	Not expected	Neutral	Expected	Very expected
○	○	○	○	○

Overall, this penalty is:

Much worse than expected	Worse than expected	Same as expected	Better than expected	Much better than expected
○	○	○	○	○

Compared to what I would expect, this penalty from the credit card company is:

Much worse	Worse	The same as I would expect	Better	Much better
○	○	○	○	○

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If this incident were to happen to you, how much would you feel the following:

	Not at all	Slightly	Moderately	Very much	Extremely
Disappointed	○	○	○	○	○
Discouraged	○	○	○	○	○
Frustrated	○	○	○	○	○
Outraged	○	○	○	○	○
Angry	○	○	○	○	○
Furious	○	○	○	○	○
Irritated	○	○	○	○	○

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Please continue to rate your agreement with the following items as if this situation had happened to you.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
If I were in the market for additional services, I would likely choose those services from this credit card company.	○	○	○	○	○
In the future, I would continue using this credit card company.	○	○	○	○	○
It is likely that I would stay with this credit card company.	○	○	○	○	○

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Imagining that this situation happened to you, please rate your agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
I would like to switch to a different credit card company than this one.	○	○	○	○	○
If I could, I would use another credit card company.	○	○	○	○	○
If I had the option, I would switch to a different credit card company.	○	○	○	○	○

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Imagining that this situation happened to you, please rate your agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
I would encourage friends and relatives to do business with this credit card company.	○	○	○	○	○
I would recommend this credit card company.	○	○	○	○	○
I would say positive things about this credit card company to people I know.	○	○	○	○	○

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Please continue to rate your agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
I would complain to my friends and relatives about this credit card company.	○	○	○	○	○
I would tell my friends and relatives not to use this credit card company.	○	○	○	○	○
I would warn my friends and relatives not to do business with this credit card company.	○	○	○	○	○

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Thinking about this situation happening to you, please continue to rate the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
If I had a problem, I would complain to this credit card company.	○	○	○	○	○
If I had a complaint, I would discuss it with this credit card company.	○	○	○	○	○
I would not be afraid to discuss a complaint with this credit card company.	○	○	○	○	○

Imagining that this situation happened to you, please rate your agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
I would feel that this credit card company can be counted on to help me when I need it.	○	○	○	○	○
I would feel that this credit card company treats me fairly and justly.	○	○	○	○	○
I would feel that this credit card company is truly sincere in their promises.	○	○	○	○	○
I would feel that this credit card company is honest and truthful with me.	○	○	○	○	○
I would feel that I could trust this credit card company completely.	○	○	○	○	○

Based on the situation you read, please continue to rate your agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
This credit card company goes out of its way for its customers.	○	○	○	○	○
This credit card company seems to try to do the right thing for its customers.	○	○	○	○	○
This credit card company seems to have a genuine concern for its customers.	○	○	○	○	○

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Thinking about the possibility of switching credit card companies after this incident, please rate your agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
It would most likely take a lot of time and effort to change credit card companies.	○	○	○	○	○
For me, the costs in time, money, and effort to switch credit card companies would probably be high.	○	○	○	○	○
In general, it would probably be a hassle changing credit card companies.	○	○	○	○	○

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Thinking about the mistake of overlooking the e-mail reminder to pay, please rate how much you agree or disagree with the following statements.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
If I made this mistake, I would feel as though I should have been more attentive.	○	○	○	○	○
If I made this mistake, I would feel as though I was not paying enough attention to what I was doing.	○	○	○	○	○
If I made this mistake, I would feel as though I should have been more careful.	○	○	○	○	○

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Keeping in mind that you are a very loyal customer of this credit card company, please answer the following questions.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
If I were in this situation, I would feel that the credit card company should not see me as an average customer who would be subject to this penalty.	○	○	○	○	○
If I were in this situation, I would feel that I deserve more attention than a regular customer who would be subject to this penalty.	○	○	○	○	○

Keeping in mind that you are a very loyal customer of this credit card company, please answer the following questions.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
If I were in this situation, I would feel that the credit card company should give me special treatment that it does not give to average customers.					
If I were in this situation, I would feel as though I should receive better treatment than other customers.					

Thinking about the mistake of overlooking the e-mail reminder to pay, please rate how much you agree or disagree with the following statements.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
If I made this mistake, I would feel as though I did not understand some part of the service.					
If I made this mistake, I would feel as though I did not have all of the information I needed.					
If I made this mistake, I would feel as though I was not aware of the company's policies.					

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Please continue to rate your agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Don't Know
This penalty amount seems standard in the industry.	○	○	○	○	○	○
This penalty amount is common among credit card companies.	○	○	○	○	○	○
Most credit card companies have a penalty similar to this one.	○	○	○	○	○	○

Thinking about the overall situation, please rate how much you agree or disagree with the following statements.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
I could see this situation happening to one of my friends or family members.	○	○	○	○	○
This situation is realistic.	○	○	○	○	○
This situation is believable.	○	○	○	○	○

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Do you currently pay a credit card bill for yourself or someone in your family?

Have you ever accidentally paid your credit card bill late?

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The following questions are for demographic purposes only.

What is your gender?

In what category does your age fall?

Are you:

Highest education level completed:

What is your race/ethnicity?

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If you are taking this survey for a student to receive extra credit points, please enter the student's name below:

Student's first name	
Student's last name	

The purpose of this study was:

- To understand how customers react to penalties from service firms
- Other (please specify)
- Don't Know

If you would like to provide any additional feedback regarding this survey, please enter it here. Clicking the 'next' button will complete the survey. Use the 'back' button below to review and/or edit your selections. Thank you for your help!

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APPENDIX I

Appendix I. Hypothesis test comparison between contexts (Study 4)

Hypothesis	Supported? Combined contexts	Supported? Cell phone context	Supported? Credit card context	Relationship/Effects Tested
H1a	Yes (partially mediated)	Yes (partially mediated)	Yes (partially mediated)	Type of mistake → Self-attribution → Perceived fairness of the penalty outcome
H1b	Yes	Yes (partially mediated)	Yes (partially mediated)	Type of mistake → Firm-attribution → Perceived fairness of the penalty outcome
H2	Yes	Yes	Yes	Attribution of responsibility → Perceived fairness of the penalty outcome
H3	Yes	Yes	Yes	Penalty type → Perceived fairness of the penalty outcome
H4	No	No	No	Customer situational entitlement → confirmation/ disconfirmation of customer expectations → perceived fairness of the penalty outcome (mediation)
H5	Yes	Yes	Yes	Confirmation/disconfirmation of the penalty outcome → perceived fairness of the penalty outcome
H6a	Yes (partially mediated)	Yes (partially mediated)	Yes (partially mediated)	Fairness → Anger/Disappointment → Desire to switch (mediation)
H6b	Yes (partially mediated)	Yes (partially mediated)	Yes (partially mediated)	Fairness → Anger/Disappointment → Intent to stay (mediation)
H6c	Yes (partially mediated)	Yes (partially mediated)	Yes (partially mediated)	Fairness → Anger/Disappointment → Positive word-of-mouth (mediation)
H6d	Yes (partially mediated)	Yes (partially mediated)	Yes (partially mediated)	Fairness → Anger/Disappointment → Negative word-of-mouth (mediation)
H7a	Yes	Yes	Yes	Anger/Disappointment → Desire to switch
H7b	Yes	Yes	Yes	Anger/Disappointment → Intent to stay
H7c	Yes	Yes	Yes	Anger/Disappointment → Positive word-of-mouth
H7d	Yes	Yes	Yes	Anger/Disappointment → Negative word-of-mouth

Note: The two contexts did not differ; the cell phone and credit card contexts produce the same results for each hypothesis.

Appendix I (continued). Hypothesis test comparison between contexts (Study 4)

<table>
<tr><th colspan="5">Comparison of manipulation means by context</th></tr>
<tr><td colspan="5">Self-responsibility</td></tr>
<tr><td></td><td>Combined contexts</td><td>Lack of attn
Lack of know</td><td>3.93
2.74</td><td>$t = 15.83$
$p < .001$</td></tr>
<tr><td></td><td>Cell phone</td><td>Lack of attn
Lack of know</td><td>3.78
2.66</td><td>$t = 9.77$
$p < .001$</td></tr>
<tr><td></td><td>Credit card</td><td>Lack of attn
Lack of know</td><td>4.05
2.81</td><td>$t = 12.63$
$p < .001$</td></tr>
<tr><td colspan="5">Firm responsibility</td></tr>
<tr><td></td><td>Combined contexts</td><td>Lack of attn
Lack of know</td><td>2.38
3.84</td><td>$t = 17.52$
$p < .001$</td></tr>
<tr><td></td><td>Cell phone</td><td>Lack of attn
Lack of know</td><td>2.74
4.28</td><td>$t = 13.88$
$p < .001$</td></tr>
<tr><td></td><td>Credit card</td><td>Lack of attn
Lack of know</td><td>2.09
3.48</td><td>$t = 12.57$
$p < .001$</td></tr>
<tr><td colspan="5">Fairness</td></tr>
<tr><td></td><td>Combined contexts</td><td>Lack of attn
Lack of know</td><td>3.31
2.73</td><td>$t = 6.65$
$p < .001$</td></tr>
<tr><td></td><td>Cell phone</td><td>Lack of attn
Lack of know</td><td>3.16
2.66</td><td>$t = 3.83$
$p < .001$</td></tr>
<tr><td></td><td>Credit card</td><td>Lack of attn
Lack of know</td><td>3.43
2.80</td><td>$t = 5.40$
$p < .001$</td></tr>
<tr><td colspan="5">Fairness</td></tr>
<tr><td></td><td>Combined contexts</td><td>Penalty
Waiver
Waiver refusal</td><td>2.62
4.04
2.46</td><td rowspan="3">Penalty and waiver
$p < .001$ (all)
Waiver and waiver refusal
$p < .001$ (all)</td></tr>
<tr><td></td><td>Cell phone</td><td>Penalty
Waiver
Waiver refusal</td><td>2.39
3.91
2.45</td></tr>
<tr><td></td><td>Credit card</td><td>Penalty
Waiver
Waiver refusal</td><td>2.78
4.14
2.47</td></tr>
<tr><td colspan="5">Confirmation/Disconfirmation of customer expectations</td></tr>
<tr><td></td><td>Combined contexts</td><td>Entitled
Less entitled</td><td>2.87
2.94</td><td>$t = 1.04$
$p = .30$</td></tr>
<tr><td></td><td>Cell phone</td><td>Entitled
Less entitled</td><td>2.90
2.94</td><td>$t = 0.38$
$p = .70$</td></tr>
<tr><td></td><td>Credit card</td><td>Entitled
Less entitled</td><td>2.84
2.95</td><td>$t = 1.26$
$p = .20$</td></tr>
</table>

Note: the means for both contexts are significant/non-significant for the same dependent variables and always in the same way.

APPENDIX J

Appendix J. Study 5 actual survey. (Bolded boxes show changes from Study 4)

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Service Provider Penalties

Thank you for participating in this research about service provider penalties. This study is conducted by a doctoral student at the University of Alabama as part of her dissertation research. You will be presented with a situation on the next page and then asked a series of questions about how you would react if the situation happened to you. Please read the situation extremely carefully, paying attention to all of the details. This survey will take about 8-10 minutes.

This study examines the reactions that customers have to penalties from service providers. This knowledge is important because it will shed light on how penalties affect customers in service experiences. This study will help service providers understand customers better.

No personally identifying information is asked on the survey instrument. The answers of the respondents will be presented in aggregated form, and no one but the researcher will be able to view individual responses. Taking part in this study is voluntary—it is your free choice. You may choose not to take part at all. If you start the study, you can stop at any time. The University of Alabama Institutional Review Board (IRB) is the committee that protects the rights of people in research studies. The IRB may review study records from time to time to be sure that people in research studies are being treated fairly and that the study is being carried out as planned. If you have questions about the study right now or later on, please call Mary Harrison at 205-391-7109 or e-mail at mharriso@cba.ua.edu. If you have any questions about your rights as a research participant you may contact Ms. Tanta Myles, The University of Alabama Research Compliance Officer, at (205)-348-8461 or 1-877-820-3066.

I have read this consent form. I understand what I will be asked to do. I agree to take part in the survey.

- I agree
- I do not agree

Next

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Imagine that you receive a statement from your credit card company. The statement shows a $30 penalty charge because you paid your last bill late.

You paid your credit card bill on-line the day it was due, but the company's website did not clearly indicate that there was a 24-hour processing delay on their payment page.

You are a long-time customer of this company in good standing. You feel as though you are of the company's best customers. This is the first time you have received this penalty. The company has a good reputation.

Thinking about the overall situation, I would feel as though:

I was paying attention	○	○	○	○	○	I was not paying attention
I was attentive	○	○	○	○	○	I was not attentive
I was careful	○	○	○	○	○	I was not careful

Thinking about the overall situation, I would feel as though:

I had enough information	○	○	○	○	○	I did not have enough information
I was informed	○	○	○	○	○	I was not informed
I was knowledgeable	○	○	○	○	○	I was not knowledgeable

If you were in this situation, who would you feel was mostly responsible for the mistake?

Myself	○	○	○	○	○	The company

Keeping in mind that you feel as though you are one of the company's best customers, please answer the following questions.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
If I were in this situation, I would feel that I deserve more attention than a regular customer who would be subject to this penalty.	○	○	○	○	○
If I were in this situation, I would feel that the credit card company should not see me as an average customer who would be subject to this penalty.	○	○	○	○	○
If I were in this situation, I would feel as though I should receive better treatment than other customers.	○	○	○	○	○

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Imagining yourself in this situation, please rate your level of agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
Overall, this credit card company treated me fairly.	○	○	○	○	○
This penalty seems fair.	○	○	○	○	○
This penalty seems reasonable to me.	○	○	○	○	○

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Please answer the following questions recalling that you feel as though you are one of the best customers of this credit card company, and this is the first time you have received a late penalty.

If you were in this situation and received this penalty, would the penalty be:

Much worse than expected	Worse than expected	Same as expected	Better than expected	Much better than expected
○	○	○	○	○

Overall, this penalty is:

Much worse than expected	Worse than expected	Same as expected	Better than expected	Much better than expected
○	○	○	○	○

Compared to what I would expect, this penalty from the credit card company is:

Much worse	Worse	The same as I would expect	Better	Much better
○	○	○	○	○

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Imagining that this incident happened to you, please rate the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
The company responded fairly.	○	○	○	○	○
I believe this company has fair policies and practices to handle problems.	○	○	○	○	○
With respect to its policies and procedures, this company handled the problem in a fair manner.	○	○	○	○	○

If this incident were to happen to you, how much would you feel the following:

	Not at all	Slightly	Moderately	Very much	Extremely
Outraged	○	○	○	○	○
Discouraged	○	○	○	○	○
Irritated	○	○	○	○	○
Frustrated	○	○	○	○	○
Disappointed	○	○	○	○	○
Furious	○	○	○	○	○
Angry	○	○	○	○	○

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Please continue to rate your agreement with the following items as if this situation had happened to you.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
If I were in the market for additional services, I would likely choose those services from this credit card company.					
In the future, I would continue using this credit card company.					
It is likely that I would stay with this credit card company.					

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Imagining that this situation happened to you, please rate your agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
If I had the option, I would switch to a different credit card company.					
If I could, I would use another credit card company.					
I would like to switch to a different credit card company than this one.					

Please select the agree option.

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

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Imagining that this situation happened to you, please rate your agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
I would say positive things about this credit card company to people I know.	○	○	○	○	○
I would recommend this credit card company.	○	○	○	○	○
I would encourage friends and relatives to do business with this credit card company.	○	○	○	○	○

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Please continue to rate your agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
I would warn my friends and relatives not to do business with this credit card company.	○	○	○	○	○
I would complain to my friends and relatives about this credit card company.	○	○	○	○	○
I would tell my friends and relatives not to use this credit card company.	○	○	○	○	○

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Thinking about the possibility of switching credit card companies after this incident, please rate your agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
For me, the costs in time, money, and effort to switch credit card companies would probably be high.	○	○	○	○	○
In general, it would probably be a hassle changing credit card companies.	○	○	○	○	○
It would most likely take a lot of time and effort to change credit card companies.	○	○	○	○	○

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For the following questions, please recall the situation that you have been responding to thus far. Here it is again if you would like to review it:

Imagine that you receive a statement from your credit card company. The statement shows a $30 penalty charge because you paid your last bill late.

You paid your credit card bill on-line the day it was due, but the company's website did not clearly indicate that there was a 24-hour processing delay on their payment page.

You are a long-time customer of this company in good standing. You feel as though you are of the company's best customers. This is the first time you have received this penalty. The company has a good reputation.

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If this situation happened to me, I would feel:

	Not at all	Slightly	Moderately	Very much	Extremely
personally hurt					
rejected					
rebuffed					

If this situation happened to me, I would feel:

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
grateful to this company.					
thankful toward this company.					
appreciative toward this company.					

Please select the strongly agree option.

Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree

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Please continue to rate your agreement with the following items.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Don't Know
This penalty amount seems standard in the industry.	○	○	○	○	○	○
This penalty amount is common among credit card companies.	○	○	○	○	○	○
Most credit card companies have a penalty similar to this one.	○	○	○	○	○	○

Thinking about the overall situation, please rate how much you agree or disagree with the following statements.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
I could see this situation happening to one of my friends or family members.	○	○	○	○	○
This situation is realistic.	○	○	○	○	○
This situation is believable.	○	○	○	○	○

What penalty amount would be fair in this situation?

○ $10 or less

○ $11- $20

○ $21-$30

○ $31-$40

○ $41-$50

○ $51 or more

○ Other

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If you were in this situation, would you contact the credit card company before paying the penalty?

- Yes
- No

What would you say to the credit card company when you talk to them?

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Please answer the following questions about yourself as honestly as you can.

	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree
In general, I think that I should be treated like someone special.	○	○	○	○	○
In general, I feel that I should receive more respect than an average person.	○	○	○	○	○
In general, I feel that I should get special treatment.	○	○	○	○	○

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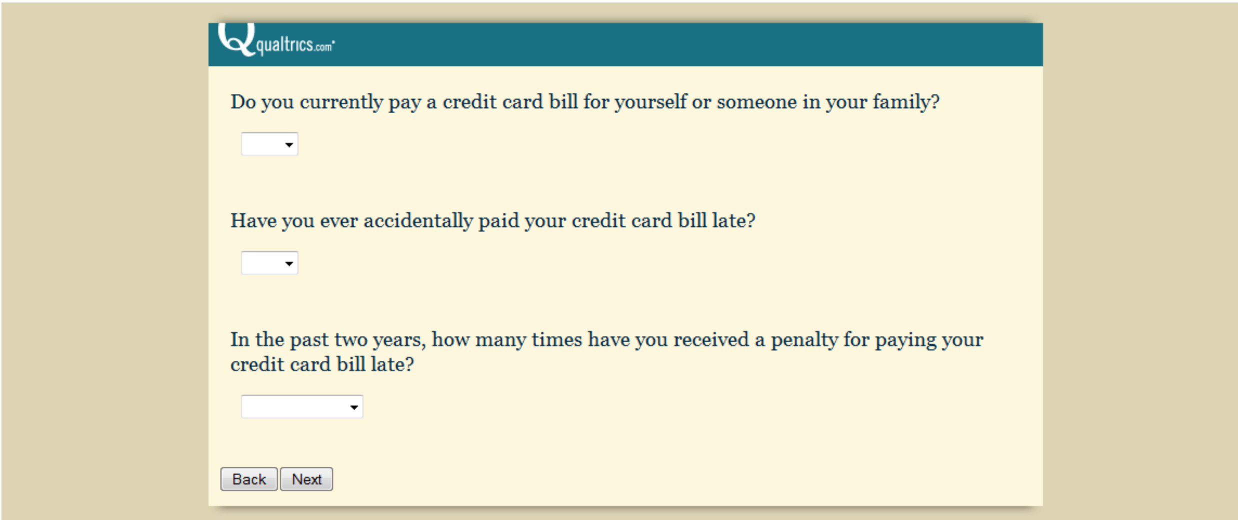
Please continue to answer the following questions about yourself.

I like to associate with people who are dedicated to getting ahead	○	○	○	○	○	I like people who are easygoing and take life as it comes
When it comes to waiting in line (at banks, at stores, etc.), I really get impatient and frustrated	○	○	○	○	○	Waiting in line doesn't bother me
When it comes to getting ahead at work, nothing is more important	○	○	○	○	○	Many things are more important than work
Someone who knows me very well would say that I would rather work than play	○	○	○	○	○	I would rather play than work


qualtrics.com
Do you currently pay a credit card bill for yourself or someone in your family?
Have you ever accidentally paid your credit card bill late?
In the past two years, how many times have you received a penalty for paying your credit card bill late?
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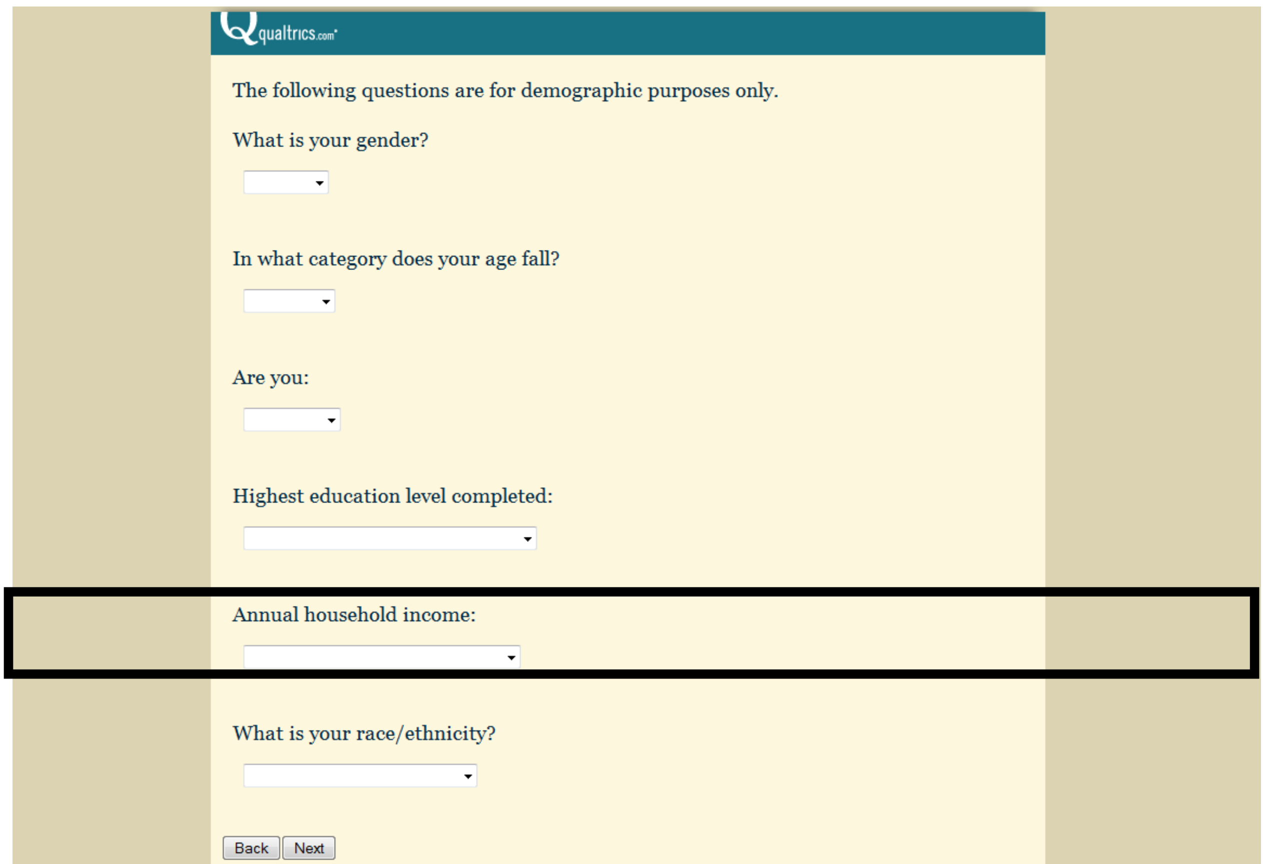
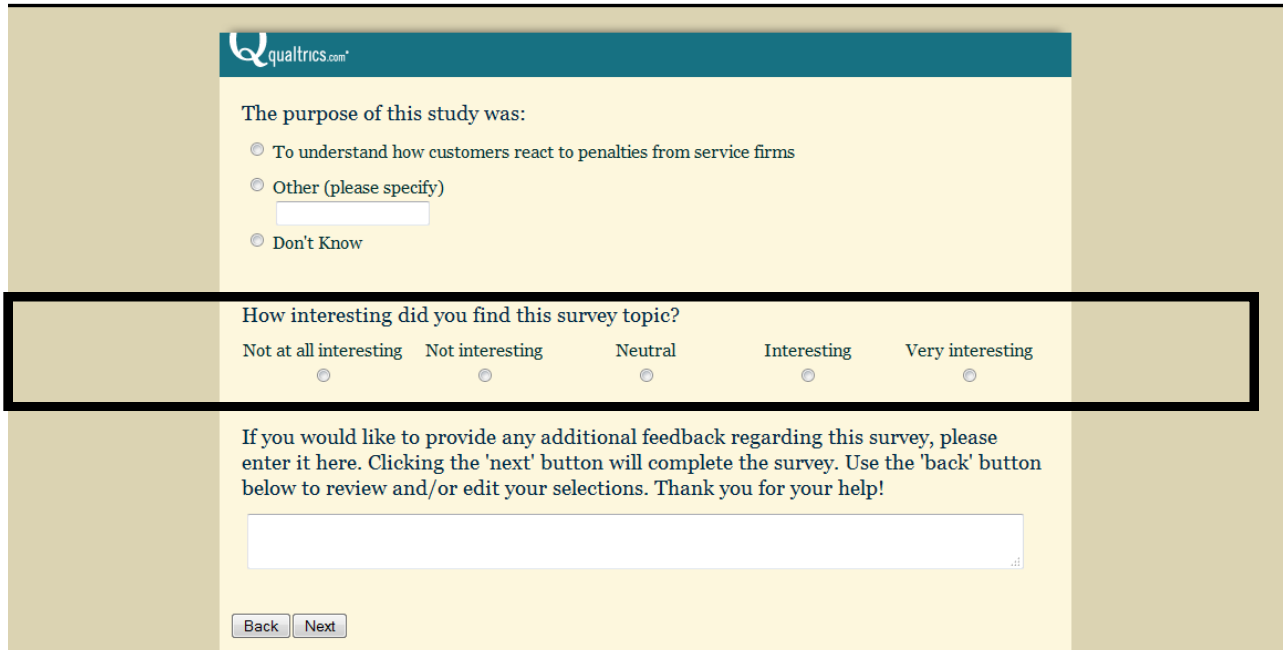

qualtrics.com
The following questions are for demographic purposes only.
What is your gender?
In what category does your age fall?
Are you:
Highest education level completed:
Annual household income:
What is your race/ethnicity?
Back
Next



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The purpose of this study was:

- To understand how customers react to penalties from service firms
- Other (please specify)
- Don't Know

How interesting did you find this survey topic?

Not at all interesting	Not interesting	Neutral	Interesting	Very interesting

If you would like to provide any additional feedback regarding this survey, please enter it here. Clicking the 'next' button will complete the survey. Use the 'back' button below to review and/or edit your selections. Thank you for your help!

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APPENDIX K

Appendix K. Correlation Matrix and Descriptive Statistics (including additional analyses constructs) (Study 5)

Construct	*M*	*SD*	1	2	3	4	5	6	7	8	9	10
1. Fairness	2.91	1.33										
2. Disconfirmation	2.73	1.08	.74**									
3. Anger	2.96	1.27	-.55**	-.56**								
4. Disappointment	3.23	1.20	-.56**	-.58**	.81**							
5. Desire to switch	3.37	1.24	-.60**	-.61**	.58**	.60**						
6. Intent to stay	2.89	1.20	.65**	.64**	-.57**	-.58**	-.84**					
7. Positive WOM	2.51	1.15	.65**	.68**	-.57**	-.59**	-.80**	.82**				
8. Negative WOM	3.24	1.15	-.63**	-.66**	.65**	.64**	.82**	-.75**	-.82**			
9. Gratitude	1.92	1.31	.64**	.70**	-.41**	-.49**	-.61**	.60**	.70**	-.66**		
10. Psych entitlement	2.38	0.86	-.11**	-.11*	.18**	.15**	.17**	-.14**	-.08	.18**	-.07	
11. Interpersonal reject	2.37	1.21	-.51**	-.56**	.68**	.70**	.58**	-.53**	-.57**	.63**	-.48**	.23**

APPENDIX L

Appendix L. Institutional Review Board Documentation

Office for Research

Institutional Review Board for the Protection of Human Subjects

THE UNIVERSITY OF ALABAMA

RESEARCH

January 31, 2011

Mary Harrison
Department of Management & Marketing
Culverhouse College of Commerce and Business Admin.
Box 870225

Re: IRB#: 11-OR-031 "Exploring Customer Mistakes and Penalties in Services"

Dear Ms. Harrison:

The University of Alabama Institutional Review Board has granted approval for your proposed research.

Your application has been given expedited approval according to 45 CFR part 46. Approval has been given under expedited review category 7 as outlined below:

(7) Research on individual or group characteristics or behavior (including, but not limited to, research on perception, cognition, motivation, identity, language, communication, cultural beliefs or practices, and social behavior) or research employing survey, interview, oral history, focus group, program evaluation, human factors evaluation, or quality assurance methodologies

Your application will expire on January 27, 2012. If your research will continue beyond this date, complete the relevant portions of Continuing Review and Closure Form. If you wish to modify the application, complete the Modification of an Approved Protocol. Changes in this study cannot be initiated without IRB approval, except when necessary to eliminate apparent immediate hazards to participants. When the study closes, complete the appropriate portions of the Continuing Review and Closure Form.

Please use reproductions of the IRB approved stamped consent forms to obtain consent from your participants. Should you need to submit any further correspondence regarding this proposal, please include the above application number.

Good luck with your research.

Director & Research Compliance Officer
Office of Research Compliance
The University of Alabama

152 Rose Administration Building
Box 870117
Tuscaloosa, Alabama 35487-0117
(205) 348-8461
FAX (205) 348-8882
TOLL FREE (877) 820-3066

APPENDIX M

Appendix M. Institutional Review Board Documentation

Office for Research

Institutional Review Board for the Protection of Human Subjects

THE UNIVERSITY OF ALABAMA
RESEARCH

February 22, 2011

Mary Harrison
Dept of Management & Marketing
Culverhouse College of Commerce & Business Admin.
Box 870225

Re: IRB#: 11-OR-049 "Penalties in Services"

Dear Ms. Harrison:

The University of Alabama Institutional Review Board has granted approval for your proposed research.

Your application has been given expedited approval according to 45 CFR part 46. You have also been granted the requested waiver of written documentation of consent. Approval has been given under expedited review category 7 as outlined below:

(7) Research on individual or group characteristics or behavior (including, but not limited to, research on perception, cognition, motivation, identity, language, communication, cultural beliefs or practices, and social behavior) or research employing survey, interview, oral history, focus group, program evaluation, human factors evaluation, or quality assurance methodologies

Your application will expire on February 21, 2012. If your research will continue beyond this date, complete the relevant portions of Continuing Review and Closure Form. If you wish to modify the application, complete the Modification of an Approved Protocol. <u>Changes in this study cannot be initiated without IRB approval, except when necessary to eliminate apparent immediate hazards to participants. When the study closes, complete the appropriate portions of the Continuing Review and Closure Form.</u>

Please use reproductions of the IRB approved <u>stamped</u> consent forms to obtain consent from your participants.

Should you need to submit any further correspondence regarding this proposal, please include the above application number.

Good luck with your research.

Director & Research Compliance Officer
Office of Research Compliance
The University of Alabama

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