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Thomassen, Jean Pierre Robert

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Chapter 4.

Prosocial compensation after a service failure: Fulfilling organisation's ethical and philanthropic responsibilities[11]

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[11] This Chapter has been submitted at a peer reviewed journal. Co-authors are Dr. M.C. Leliveld, Prof. C.T.B. Ahaus and Prof. S. Van de Walle. My role in conceiving this paper was similar to that of the paper for Chapter 3. Currentlty we are working on a 'revise and resubmit' based on the comments of the reviewers.

4.1. Introduction

For several years the parking department of a large municipality offered its customers a service guarantee with five specific service promises: e.g. waiting no longer than 15 minutes at the reception desk and a reaction to customer letters within two weeks. If the department failed to meet one of these promises, then customers could either select a tangible gift or have 12.50 euro donated to a charitable cause (The Hague, 2005). This municipality used both a monetary compensation (the gift) and a fixed type of prosocial compensation (PC) to restore justice after a service failure. Another example using PC is a leasing company that offers business customers a service guarantee with six service promises. For each promise violated, the organisation donates 200 euro to a cause of the customers' choosing (Ahaus and De Haan, 2010). These are two examples of organisations using PC with either a fixed cause or a cause chosen by the customer. From a financial perspective, a monetary compensation or PC do not differ, as both approaches imply that the organisation pays money. However, monetary types of compensation, such as gift vouchers, money back or free services/products go directly to the customer whereas, in the case of PC, the compensation is offered to a charitable cause. Research on monetary compensation and the promise to offer such compensation after a service failure shows this improves customer satisfaction (e.g. Schoefer and Ennew, 2005; Wirtz and Mattila, 2004 and Chapter 3 of this dissertation). However, PC has not been systematically studied. This study sets out to fill this gap by investigating how customers perceive being promised and receiving PC and then comparing this to no compensation and to monetary compensation.

I argue that PC can be an effective new CSR practice. It is a type of corporate philanthropy (Gautier *et al.*, 2015) that can contribute to the organisation's ethical and philanthropic responsibilities (Carroll, 1991; Wood, 2010). By compensating customers for their loss after a service failure the organisation fulfils its ethical responsibility, as it is just and fair to compensate customers for such economic and/or a social loss (Kim and Ulgado, 2012). Instead of offering a monetary compensation to customers, an amount donated to a charity can lead to customers' feeling good and a warm-glow as a result of this giving (Andreoni, 1990; Bekkers and Wiepking, 2011). In this way, the loss could be restored and satisfaction achieved. PC also contributes to the organisation's philanthropic responsibilities by donating money to charitable causes.

I studied PC from a stakeholder perspective by investigating the effects of promising and actually offering PC on customers. To study the potential of PC as a new CSR practice, I first investigated in Experiment 1 (N = 603) whether *promising* to offer PC after a service failure (without any service failure happening to the customer) is effective in influencing customers' perceptions of the organisation. I show that PC leads to similar perceptions as observed for monetary compensation concerning corporate image, credibility and the behavioural word-of-WOM-intent. More importantly it leads to a more positive CSR-image than monetary compensation. Also, because PC has positive effects on all levels compared to not promising any compensation, PC thus seems to be an effective practice to communicate the organisation's CSR-engagement to customers. These findings contribute to signalling theory (Connelly *et al.*, 2011; Spence, 1974) by showing that, not only monetary types of compensation have positive signalling effects (e.g. Ostrom and Iacobucci, 1998), but also so does PC.

In Experiments 2A (student sample, N = 148) and 2B (MTurk sample, N = 596), I focused on the effectiveness of offering PC after a service failure in fulfilling the organisation's ethical obligation to be just and fair by restoring perceived justice. The idea of PC is that it can be used as a service recovery tool to make up for a failure to return the customer to a state of satisfaction (Mattila, 2001; Sparks and McColl-Kennedy, 2001). Therefore, I studied the effects of PC (compared to no compensation and a monetary compensation) on customers' evaluations of perceived justice and post-recovery satisfaction. I found that a monetary compensation, such as a gift voucher led to a more positive perceived justice and post-recovery satisfaction than both types of PC (Experiment 2A and 2B). PC also led to more positive perceived justice and post-recovery satisfaction in comparison with the situations when compensation was not promised and offered (Experiment 2B). These findings contribute to justice theory (Adams, 1965) in service recovery research (e.g. Martìnez-Tur *et al.*, 2006; Vázques-Casielles *et al*., 2010).

Finally, to broaden the generic context of the effects of PC, I studied these questions within private (cf. the leasing company example) and public settings (cf. the municipality example). The effects of compensation on customers' evaluations have intensively been researched in private settings (e.g. Del Rìo-Lanza *et al.,* 2008; Gelbrich *et al.*, 2015; Roschk and Gelbrich, 2014). However, the effects of failures and compensation in daily public service operations have received little attention (Van de Walle, 2016; see for an exception chapter 3 of this

dissertation). Also, the effects of public CSR practices on customers' evaluations have received little attention in public management literature. The exception is one work on organisational reputation (Wæraas and Maor, 2014). This is an omission since a substantial part of services is delivered by public organisations on a local, regional and national level. The results of my three experiments show that in similar service configurations there are no differences in the effects of PC on customers' evaluations between public and private settings.

In what follows, I first present the relevant theory on CSR and PC and then the theory on the signalling effects of PC on customers to build my hypotheses for Experiment 1. After presenting the results of this first experiment, I use insights from justice theory to form the hypotheses about the compensatory effects of PC (Experiment 2A and 2B). This paper ends with the discussion including highlighting the limitations and offering suggestions for further research.

4.2. Corporate Social Responsibility

This study investigates the potential of PC of being an effective new CSR practice. CSR has been described as: 'an organisational commitment to maximise its long-run beneficial impact on societal wellbeing and minimise any harmful effects on society' (Bolton and Mattila, 2015 p. 141) and, furthermore, by being responsible for its stakeholders, even if this requires sacrifices from the organisation (Carroll and Shabana, 2010). CSR has transformed from being a 'good-will' concept into a mainstream development (Bolton and Mattila, 2015) and key determinant for long-term performance and organisation's success (Kiessling *et al.*, 2016). Organisations are under increasing pressure from stakeholders to improve their CSR (Cantrell *et al.*, 2015; Kiessling *et al.*, 2016; Pérez and del Bosque, 2015). First, by doing so, they face fewer risks, and avoid customer and activist boycotts (Groza *et al.*, 2011; for some limitations of this effect see Eisingerich *et al.*, 2011). Second, they can realise a positive impact on customers' affective and behavioural responses (Bolton and Mattila, 2015). Thus, being social responsible serves as a way to enhance relationships with the organisation's stakeholders and enables the organisation to execute its strategies more effectively in pursuit of its goals.

4.3. CSR-potential of prosocial compensation

PC is a practice that can contribute to an organisation's ethical, as well as philanthropic responsibilities (cf. Carroll, 1991; Wood, 2010). Organisations aim to uphold their ethical

responsibilities by delivering consistent service levels that meet or even exceed customers' expectations. However, operational service failures in which customers experience an economic loss (e.g., money, time) and/or a social loss (e.g., status, esteem) due to a breakdown in an organisation's system are inevitable and a part of daily life (Kim and Ulgado, 2012; Smith *et al.*, 1999). The aim of service recovery and offering compensation after a service failure is to restore perceived justice and bring the customer back to a state of satisfaction (Mattila, 2001; Sparks and McColl-Kennedy, 2001). Previous research involving compensation after service failures has focused mainly on the effects of monetary types of compensation, such as free vouchers and coupons, discounts, money-back or free products and services (Hui and Au, 2001; Lii and Lee, 2012; Yim *et al.*, 2003). The question remains whether PC can be as effective as a monetary compensation in fulfilling an organisation's ethical responsibilities.

Moreover, PC could also contribute to fulfilling philanthropic responsibilities and the organisation being recognised as a good corporate citizen (Carroll, 1991). For example, organisations engage in employee volunteering (Plewa *et al*., 2015) and different kinds of CSR-giving (Cantrell *et al.*, 2015), such as donations and cause-related marketing campaigns. Cause-related marketing is the organisational CSR practice of donating an amount to a charitable cause every time a customer buys a specific product or service (Howie *et al.*, 2015; Varadarajan and Menon, 1988). In a similar fashion to cause-related marketing, in which a donation follows after a purchase of a certain product or service, with PC the donation to a cause follows after a service failure. In this sense, PC can be regarded as a type of corporate philanthropy, since it contributes to organisations being a good corporate citizen.

4.4. Signalling effects of promising prosocial compensation
PC can be offered in situations without promises to customers to compensate after a service failure and with prior promises in so-called service guarantees. These are "explicit promises made by a service provider to: (a) deliver a certain level of service to satisfy the customer, and (b) compensate the customer if the service is not sufficiently delivered" (Hogreve and Gremler, 2009 p. 324). Explicitly promising to offer PC in a service guarantee can have signalling effects on customers. Signalling theory (Connelly *et al.*, 2011; Spence, 1974) is concerned with situations in which customers have less information about such aspects as the service quality, corporate activities and CSR-engagement of an organisation than the organisation has itself. This can lead to (potential) customers having an incorrect image of the

organisation or of its credibility. Signalling theory states that both intrinsic and extrinsic cues can affect customer's perceptions of image and credibility. Customers use extrinsic cues, such as service guarantees (Boulding and Kirmani, 1993), as signals of quality (Erevelles *et al.*, 2001; Kandampully and Butler, 2001; Roggeveen *et al.*, 2014).

I argue that PC can have positive signalling effects on corporate image, credibility and WOM-intent. Corporate image is a persons' global evaluation about an organisation (Pfau *et al.*, 2008). This can be negative or positive, favourable or unfavourable, bad or good (Aggarwal, 2004). Credibility is the customers' perceived certainty and confidence of the way an organisation could keep its promises and perform as promised (Kandampully and Butler, 2001). WOM-intent is the behavioural intention to informal communications between parties concerning evaluations of goods and services (Anderson, 1998). This also can be negative or positive. Research has shown that offering a service guarantee with a monetary compensation has a positive effect on corporate image (Roggeveen *et al.*, 2014; chapter 3 of this dissertation), credibility (Erevelles *et al.*, 2001; Ostrom and Iacobucci, 1998; Wu *et al.*, 2012) and WOM-intent (Hocutt and Bowers, 2005). In a similar vein, I hypothesise that PC, as compensation, creates more positive effects on these dependent variables than when offering no compensation, and to similar effects as when monetary compensation is offered - not only is monetary compensation perceived as costly for the organisation, but also PC is. I also know that CSR practices contribute to more positive perceptions of corporate image (Kiessling *et al.*, 2016; Pfau *et al.*, 2008; Wood, 2010). Research shows that employee volunteering (Plewa *et al.*, 2015) and different kinds of CSR-giving like donations (Cantrell *et al.*, 2015) have positive effects on the attitudes towards organisations (Berglind and Nakata, 2005; Demetriou *et al.*, 2010; Ross *et al.*, 1991). Therefore, I hypothesise in H1a and H1b:

> *H1a: Promising to offer prosocial compensation after a service failure leads to a more positive corporate image, credibility and WOM-intent than not promising any compensation.*
> *H1b: Promising to offer prosocial compensation after a service failure leads to a similar corporate image, credibility and WOM-intent as a monetary compensation.*

Moreover, I argue that PC can have an additional positive effect on CSR-image. This is an image that stakeholders like customers have of an organisation of being social responsible, concerned about the wellbeing of society, and having legitimate interest to improve and

contribute to society (e.g. Grohmann and Bodur, 2015; Howie *et al.*, 2015). Research shows that cause-related marketing (Howie *et al.*, 2015) and corporate volunteering (Plewa *et al.*, 2015) have positive effects on CSR-image. Also, research on the relationship between service failures, and customers' evaluations of satisfaction and loyalty intentions, both show that CSR-image has a buffering role (Bolton and Mattila, 2015). The negative impact of service failures on satisfaction and loyalty is smaller for organisations with a high CSR-image. In line with these results, I expect that promising to offer PC after a service failure will have a more positive impact on a CSR-image than promising no or a monetary compensation. Therefore, I hypothesise in H2:

> *H2: Promising to offer prosocial compensation after a service failure leads to a more positive CSR-image than not promising any compensation or a monetary compensation.*

I tested these hypotheses, not only within the private, but also within the public domain to broaden the generalisability of the effects PC could have. On the one hand, one can think of reasons why the proposed effects would be different within public and private settings. For example, the image people have of public organisations differs from those they have of private organisations (Aaker *et al.*, 2010). A service guarantee should align with the corporate image of the organisation to be effective (Marmorstein *et al.*, 2001; Roggeveen *et al.*, 2014). In a similar vein, promising PC should align with the corporate image if it is to be perceived as credible and eventually effective. Also, public organisations are funded by collective means like taxpayers' money. Public customers are at the same time citizens who pay taxes (Milakovitch, 2003). In this sense, public customers could regard it less suitable for a public organisation to be spending money on compensating for failures (Van de Walle, 2016). Finally, offering compensation for bad service is relatively uncommon in public services compared to private services (Van de Walle, 2016); people generally do not expect to be compensated by public organisations for their failures.

On the other hand, there are also many similarities between public and private services. In both settings, there are many situations where the customers' money is directly related to the value they receive (Alford, 2002); for example, in cases where customers pay directly for a visa or driving license. Also, as with private services, public services have to satisfy customers' needs (Vigoda, 2002). Moreover, experiences in private settings might influence

customers' public service expectations (Clarke *et al.*, 2007). The increasing commercialisation of public services, and the introduction of many private management and customer service innovations, may have shifted customers' expectations to levels similar to those found in the private sector (Clarke *et al.*, 2007; Needham, 2006). Taken together, these findings on the public versus private settings suggest it is relevant to study their discriminatory effects.

4.5. Experiment 1: Signalling effects

Method

Participants and design

Experiment 1 was designed to test the signalling effects of PC on customers. A total of 603 US-citizens (44.3% female; $M_{age} = 36.7$; $SD = 10.96$) participated through a digital web-based questionnaire (Qualtrics) using the online MTurk platform. They were randomly assigned to one condition of a 4 (compensation promised in service guarantee: no compensation, gift voucher, PC with a fixed cause, PC with a cause of customers' choice) x 2 (sector: Internet store, visa governmental organisation) between-subjects factorial design.

Procedure and dependent variables

An Internet store was used to represent a private organisation, and a visa governmental organisation for a public organisation. Products were selected that would be relevant to the real-life experiences of the participants. Participants learned that they were looking at a website of the only Internet store that sells a specific product they wanted to buy. The public scenario participants learned they were planning to go to a foreign country and, therefore, needed to order a travel visa online by checking the website of this visa issuing governmental organisation. Participants saw one scenario (private or public) with one of the four different service guarantees. In the scenario without a compensation the organisation promised: *'Friendly and efficient service. Whatever we do, we keep our promises, guaranteed! If not, we'll apologise and fix the problem'.* In the three compensation scenarios, depending on the type of compensation, an additional line stated: *'You will also receive a personal gift voucher worth 5 dollar / we will donate 5 dollar to a fixed cause / we will donate 5 dollar to a cause of your own choice'.*

After reading the scenario, participants were asked to give their opinion on four dependent variables (see Appendix IV for all items). To measure *corporate image,* I used a four-item

scale (α = 0.97) with, for example, the item of unfavourable – favourable (cf. Aggarwal, 2004); (α = 0.97). For *credibility*, in order to fit to the scenario, an adapted four-item scale (α = 0.81) was based on scales used by McDougall *et al.* (1998) and Ostrom and Iacobucci (1998). For example, I asked if the respondent would feel confident in dealing with the organisation. To measure *WOM-intent* I used two items on whether participants would say positive things about the organisation and whether they would argue against people saying negative things about that organisation (α = 0.77). Finally, for *CSR-image* I used a four-item scale (α = 0.94) combining two items of Grohmann and Bodur (2015) and Wagner *et al.* (2009) with two items of Brown and Dacin (1997), Folse *et al.* (2010) and Howie *et al.* (2015) in order to let the items fit with the scenarios. For example, I asked participants whether they thought the organisation had a legitimate interest in improving society. For exploratory reasons, I also measured the effects on *warmth*, *competence* and *scepticism* to study the moderating effects of the sector - if any. However, since there were no significant differences in the signalling effects of PC between the two sectors researched (see results section), I did not provide more information about these three dependent variables. After questions in the script concerning gender, age and nationality, I asked participants to judge the realism of the scenario in a one-item scale (cf. Magnini *et al.*, 2007). In addition, at the end of the questionnaire I presented three manipulation checks to ensure that participants had grasped their specific scenario concerning the sector, the communication of a service guarantee and the compensation promised. Finally, I used an adapted version of the instructional manipulation check question (cf. Oppenheimer *et al.*, 2009) to assess whether participants were really reading and understanding the questions.

Results and discussion

Manipulation checks and control variables

The criteria I applied to exclude participants were a failed instructional manipulation check and/or two or three failures in the manipulation checks. As a consequence, 22 of the 625 respondents were excluded. I compared the results with and without participants with only one failure in the manipulation checks, and the results showed similar patterns. Therefore, I included the participants with only one mistake.

I ran a 4x2 ANOVA on perceived realism of the scenario to check whether the scenarios were equally realistic. This yielded a significant Compensation effect: $F(3,595) = 19.88$, $p = .000$

(M_{NC} = 5.44, SD = 1.38; M_{GV} = 4.77, SD = 1.74; M_{FC} = 4.27, SD = 1.70; M_{CCC} = 4.11, SD = 1.88). The analysis also showed a significant Sector effect: $F(1,595)$ = 31.60, p = .000 ($M_{Internet store}$ = 5.03, SD = 1.56; M_{visa} = 4.26, SD = 1.85). I needed to study this in more detail in order to rule out perceived realism as the alternative driver of effects I found in the general ANOVAs (see further on in results). It is of note that I could not run an ANCOVA with realism as a covariate (the covariate was not independent from the treatment conditions: cf. Field, 2014; Gerber and Green, 2012), nor could I use PROCESS analyses (Hayes, 2009) due to the multi-categorical predictor. Therefore I used regression analyses with realism and the four dummy variables indicating Sector and Compensation condition (with No compensation being the reference group) and excluding a constant in the equation to rule out realism as the alternative driver of Compensation effects on the dependent variables. Results showed that realism was partially mediating the effects (realism predicted the four DVs, p < .001). However, and more importantly, the effects of Compensation and Sector remained significant ($p's$ < .05) when controlling for this partial mediator and showed the same pattern of the effects as the ANOVAs. So, although realism was found to explain parts of the effects, it was not the only driver of the effects and, thus, cannot be an alternative explanation of my findings. Therefore, I continue now by reporting the results of the ANOVAs that include both the main and interaction effects.

Main dependent variables

The ANOVAs for the four dependent variables yielded significant Compensation effects for corporate image ($F(3,595)$ = 4.78, p = .003), credibility ($F(3,595)$ = 6.28, p = .000), WOM-intent ($F(3,595)$ = 7.06, p = .000) and CSR-image ($F(3,595)$ = 15.13, p = .000) – see Appendix V. In order to test the hypotheses 1a, 1b and 2, I used specific post hoc Bonferroni analyses using pairwise comparisons of the dependent variables. The results are presented in Table 10. See Appendix VI for Ms and SDs of all cell means.

Table 10. Means (SDs between parentheses) for the dependent variables depending on compensation type

	No compensation (NC)	Gift voucher (GV)	Fixed cause (FC)	Cause of customers' choice (CCC)
N	144	155	153	151
Corporate image	5.41[a](1.06)	5.76[b](.90)	5.73[ab](1.09)	5.86[b](1.14)
Credibility	4.52[a](.95)	4.93[b](.99)	4.99[b](1.11)	4.96[b](1.18)
WOM-intent	4.09[a](1.26)	4.67[b](1.24)	4.67[b](1.35)	4.71[b](1.41)
CSR-image	4.62[a](1.14)	4.95[a](1.13)	5.37[b](1.11)	5.40[b](1.20)

Note: means sharing the same superscript within a row are not significantly different from each other (Bonferroni, $p < 0.05$).

For *corporate image* PC with a cause of customers' choice ($M = 5.86$, $SD = 1.14$) led to a significantly more positive corporate image than no compensation ($M = 5.41$, $SD = 1.06$); (CCC-NC: $p = 0.002$). However, PC with a fixed cause ($M = 5.73$, $SD = 1.09$) resulted in a similar corporate image to no compensation (FC-NC: $p = 0.066$). Also, both types of PC led to a similar corporate image to a gift voucher ($M = 5.76$, $SD = .90$); (FC-GV: $p = 1.000$; CCC-GV: $p = 1.000$). For *credibility*, both types of PC ($M_{FC} = 4.99$, $SD_{FC} = 1.11$; $M_{CCC} = 4.96$, $SD_{CCC} = 1.18$) led to significantly more positive credibility than no compensation ($M = 4.52$, $SD = .95$); (FC-NC: $p = 0.001$; CCC-NC: $p = 0.003$). Both types of PC resulted in similar credibility perceptions as a gift voucher ($M = 4.93$, $SD = .99$); (FC-GV: $p = 1.000$; CCC-GV: $p = 1.000$). Concerning *WOM-intent*, results showed that both types of PC ($M_{FC} = 4.67$, $SD_{FC} = 1.35$; $M_{CCC} = 4.71$, $SD_{CCC} = 1.41$) led to a significantly more positive WOM-intent than no compensation ($M_{NC} = 4.09$, $SD_{NC} = 1.26$); (FC-NC: $p = 0.001$; CCC-NC: $p = 0.000$), and to a similar WOM-intent as a gift voucher ($M = 4.67$, $SD = 1.24$); (FC-GV: $p = 1.000$; CCC-GV: $p = 1.000$). Finally, for *CSR-image* results showed that, both a fixed cause ($M = 5.37$, $SD = 1.11$) and a cause of customers' choice ($M = 5.40$, $SD = 1.20$) led to a significantly more positive CSR-image than no compensation ($M = 4.62$, $SD = 1.14$) (FC-NC: $p = 0.000$; CCC-NC: $p = 0.000$). Results also showed that both types of PC led to a significantly more positive CSR-image than a gift voucher ($M = 4.95$, $SD = 1.13$); (FC-GV: $p = 0.007$; CCC-GV: $p = 0.003$).

I point out that these results were found to be true for the private and public settings. There was only one exception: there was a significant main Sector effect on CSR-image, $F(1,595) = 6.21$, $p = .013$; $M_{Internet\ store} = 4.97$, $SD = 1.17$; $M_{visa} = 5.20$, $SD = 1.20$ (for all results see Appendices V and VI). More importantly, there were no interaction effects between Sector

and Compensation ($F's < 1,86$, $p's > .136$; see Table 1 Appendix V), indicating that there were no significant differences in the signalling effects of PC between the two sectors.

In summary, I hypothesised that PC would lead to a more positive corporate image, credibility and WOM-intent than not promising any compensation (H1a). The results support this hypothesis, except for the effect of a fixed cause on corporate image. In H2b I hypothesised that PC would lead to a similar corporate image, credibility and WOM-intent as a monetary compensation. The results confirmed this. Also, the results on H2 were confirmed: PC leads to a more positive CSR-image than no compensation and a monetary compensation. Finally, I found these effects to be similar in private and public settings.

4.6. Justice effects of offering prosocial compensation

In Experiment 1, I investigated the signalling effects of promising PC to customers. However, PC could only be a useful strategy when it can actually repair the loss that customers experience after a service failure. Therefore, I investigated the compensating potential of PC in Experiment 2A and 2B by using vignette studies. Specifically, I studied the justice effects on customers being offered no compensation (also, no compensation is promised), a monetary compensation and both types of PC after a service failure. By doing this, I could study whether PC can actually contribute to fulfilling the organisation's ethical responsibilities of being fair to customers after a service failure; and whether PC is as effective as a monetary compensation.

I built upon justice theory (Adams, 1965; Husted, 1998) for the theoretical rationale of my hypotheses. This is the dominant theory applied in service recovery settings to research customers' evaluations. Service recovery can be considered as an exchange in which the customer experiences a loss, while the organisation fulfils its ethical obligation by making up that loss by a recovery attempt (Mattila, 2001). Justice theory states that customers evaluate recovery fairness in interactional, procedural and distributive justice terms (e.g. Hocutt and Bowers, 2005; Homburg and Fürst, 2005; Martìnez-Tur *et al.*, 2006; Vázques-Casielles *et al.*, 2010). I studied the effects of PC (vs. no compensation and a monetary compensation) on customers' perceived distributive justice (i.e., the perceived fairness of the outcome). Monetary compensation seems to be the main strategy to influence distributive justice (e.g. Grewal *et al.*, 2008; Schoefer and Ennew, 2005; Wirtz and Mattila, 2004). I also researched the effects on perceived procedural justice (perceived fairness of the organisation's recovery

policies and procedures) and post-recovery satisfaction while holding interactional justice (perceived fairness of treatment by employees) constant.

As mentioned in the Introduction, I argue that, although PC does not provide financial compensation to the customers themselves, they might still receive equity from having a donation made on their behalf. People who donate to a cause may view themselves as good people and enhance their self-esteem and happiness (e.g. Howie *et al.*, 2015). Indeed, research addressing prosocial spending on charitable causes and others has illustrated that people who spend money on others, give gifts, or make charitable donations report greater happiness (Aknin *et al.*, 2012, 2013; Dunn *et al.*, 2008). The act of giving contributes to one's self-image of being altruistic, empathic, socially responsible, agreeable, and influential (for an overview, see Bekkers and Wiepking, 2011). Moreover, previous research on cause-related marketing shows that these campaigns can, over and beyond the simple fact of acquiring a product, lead to pleasure and good feelings derived from donating to a cause (Robinson *et al.*, 2012; Strahilevitz and Myers, 1998). This is also known as the warm-glow of giving; i.e. when people engage in prosocial and altruistic behaviour, they receive equity, not from receiving, but from the act of giving (Andreoni, 1990; Crumpler and Grossman, 2008). In a similar vein, I argue that PC will also have positive effects on the perceived justice of the outcome and has a more positive effect on customers' evaluations as receiving no compensation. Therefore, I hypothesise that PC leads to more positive evaluations than the situation where compensation is neither promised, nor offered (H3a).

> H3a: receiving prosocial compensation after a failure leads to a more positive distributive justice than in the case where no compensation is promised nor offered.

The question now arises as to whether PC can be as effective as a monetary compensation. I know that the strongest recovery effect is when the type of compensation represents a resource similar to the failure it is supposed to offset (Roschk and Gelbrich, 2014). Let us take an example to explain this using a situation where a customer is informed that an ordered product is ready for pick-up. The customer spends twenty minutes going to the pick-up point. However, after arrival, the customer is informed that the product is not yet there and that it will be available the next day. This failure to deliver could be seen as a monetary loss since the customer has spent time, energy and money to go to the organisation. Therefore, I

hypothesise that for this service failure, a monetary compensation, such as a gift voucher, leads to a more positive perceived distributive justice than both types of PC (H3b).

> *H3b: receiving monetary compensation after a service failure leads to a more positive distributive justice than receiving prosocial compensation.*

As in Experiment 1, I distinguish between PC with a fixed cause and PC with a customers' own choice. Research showed that customers experience greater value and equity when they have the freedom to choose the cause (Mattila and Cranage, 2005). For example, cause-related marketing campaigns in which customers can choose the charitable cause generally lead to more positive customers' evaluations than campaigns with fixed causes (Howie *et al.*, 2015; Robinson *et al.*, 2012). These findings are explained in terms of 'cause importance'; i.e. the degree to which customers find a specific charitable cause to be personally relevant to them (Robinson *et al.*, 2012). Customers identify with certain causes and they consider some causes to be more relevant to them than others (Howie *et al.*, 2015; Landreth-Grau and Garretson Folse, 2007). Based on these findings, I hypothesise that when customers can choose the cause themselves, their perceived distributive justice will be more positive than in the case of a fixed cause (H3c).

> *H3c: receiving prosocial compensation with a cause of customers' choice leads to a more positive distributive justice than with a fixed cause.*

I also wanted to compare the effects of the different compensation procedures on perceived procedural justice. In the case of no compensation, there is no action related to offering customers any kind of monetary compensation. In the case of a monetary compensation, such as a gift voucher, the customer proactively receives the voucher, whereas, in the case of PC, more complex procedures (putting a card in a box, filling in a form) are used. Furthermore, in the case of PC, there might be doubts about what happens with the donation afterwards; i.e. I know that customers can be sceptical about the motives used to engage in cause-related marketing (e.g. Ellen *et al.*, 2006). Thus, customers might have doubts as to whether the organisation actually makes the donation. Therefore, I hypothesise that PC will lead to a more positive procedural justice than no compensation (H4a). The more simple and transparent procedure of a gift voucher will lead to a more positive procedural justice than both types of PC (H4b).

H4a: receiving prosocial compensation after a failure leads to a more positive procedural justice than in the case where no compensation is promised nor offered.

H4b: receiving monetary compensation after a failure leads to a more positive procedural justice than receiving prosocial compensation.

Having a choice enhances customers' personal role in helping the cause (Robinson *et al.*, 2012) and one's feelings of personal responsibility (Mattila and Cranage, 2005). Choosing and being involved in the donation procedure increases customers' perceived procedural justice regardless of the cause (Robinson *et al.*, 2012). Consequently, being able to choose a specific cause could lead to a more positive procedural justice compared with a fixed cause (H4c).

H4c: receiving prosocial compensation with a cause of customers' choice leads to a more positive procedural justice than with a fixed cause.

Finally I investigated the compensating effects of PC post-recovery satisfaction. This is seen as an important effect of service recovery and offering compensation (e.g. Gelbrich *et al.*, 2015). Past research has shown that there is a positive relationship between perceived distributive justice and post-recovery satisfaction (e.g. Schoefer and Ennew, 2005; Wirtz and Mattila, 2004), and procedural justice and post-recovery satisfaction (e.g. Vázques-Casielles *et al.*, 2010). Following the hypotheses for distributive and procedural justice, I formulated the following hypotheses for the effects on satisfaction.

H5a: receiving prosocial compensation after a failure leads to a more positive post-recovery satisfaction than in the case where no compensation is promised nor offered.

H5b: receiving monetary compensation after a failure leads to a more positive post-recovery satisfaction than receiving prosocial compensation.

H5c: receiving prosocial compensation with a cause of customers' choice leads to a more positive post-recovery satisfaction than with a fixed cause.

Similar to Experiment 1, I tested the hypotheses within the public and private sector to broaden the generalisability of the findings[12].

4.7. Experiment 2A: Justice effects (Dutch students)

To test these hypotheses I first conducted a relatively small experiment that compared the effects of PC with those of a monetary compensation (hypotheses 3b&c, 4b&c and 5b&c). In Experiment 2B I tested all hypotheses.

Method

Participants and design

In total, 148 Dutch undergraduate students (45.8% female; M_{age} = 21.0; SD = 2.33) participated for course credits. They were randomly assigned to one condition of an experiment with a 3 (compensation[1]: gift voucher, PC with a fixed cause, PC with a cause of customers' choice) x 2 (industry: private, public) between-subjects factorial design.

Procedure and dependent variables

Similar to Experiment 1, an Internet store was used to represent a private organisation. However, in order to broaden insights in the effects of PC in public settings, I changed the governmental visa organisation into a Dutch municipality issuing driving licenses. Both the public and private scenarios were relevant for undergraduate Dutch students. Participants learned that, in the private scenario, they had ordered a product at the only Internet store that sells a specific product for 40 euro they wanted to buy. In the case of the municipality, participants learned they had requested a new driving license that also costs 40 euro. Participants had received a message that the product/license was ready for collection (about a 20 minutes drive from home). They went to the collection point and were served by an employee. In both settings, participants then were informed by the employee that the product/license was not available yet as it had not been delivered by the supplier; it would be

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[12] The Experiments 2A and 2B also contained an additional double deviation condition. Within this condition, people were promised compensation but after a failure (first deviation) were not offered one (second deviation). Because this chapter focuses on the effects of PC, comparing the effects of PC with those of a double deviation condition was not relevant in the current study. Therefore I did not present the results if this double deviation condition. However, to be transparent, the results of the double deviation condition replicated previous reported effects (e.g. Casado-Díaz and Nicolau-Gonzálbez, 2009; Chapter 3 of this dissertation) by showing that it leads to lower levels of perceived justice and post-recovery satisfaction than not promising and not offering compensation.

available the next day (i.e., the failure could not be fixed immediately). Because I had to differ the type of product depending on conditions, I wanted to be sure that there was no difference in perceived severity of the failure. Therefore, I asked participants to indicate the perceived severity of the failure (cf. Mattila, 2001)

The scenario continued and participants read a large poster with the service guarantees that they saw behind the employees' desk: *'Whatever we do, we keep our promises, guaranteed!'* and in addition, depending on one of the three scenarios: *'If not you'll receive a personal gift voucher worth 5 euro / we will donate 5 euro to a fixed cause / we will donate 5 euro to a cause of your own choice'*. This was followed by an apology by the employee and an on-the-spot and proactive offering of compensation: offering a gift voucher vs. depositing a card in a box (PC with fixed cause) vs. involving the customer in the choice by asking the favourable cause and filling in a form. The compensation amounted to a token for the sum of 5 euro that was not directly related to, nor fully compensated for, the inconvenience. This was because being overly generous following a failure may lead customers to question the reasons behind the over-generosity of a public organisation and to doubt the sincerity and credibility of the service guarantee (McQuilken *et al.*, 2013). At the end of the scenario, participants were thanked and asked by the employee to return the next day to collect the product/license. Participants were then asked to imagine themselves outside the building and reflect on the situation.

Next, participants were asked to complete the questions (for an overview of all items: see Appendix IV). For distributive justice, I used a three-item scale ($\alpha = 0.80$) adapted for the specific scenario from Lii and Lee (2012). One of the items was for example, 'The compensation for the inconvenience is fair'. Scales used to measure procedural justice are often based on a situation where the customer has to complain. In my scenarios this was not the case, the customer was offered compensation without having to complain. In order to fit to this situation, I used a new three-item scale for procedural justice ($\alpha = 0.83$) with, for example, the item 'The organisation used a good procedure to solve my problem'. Given that the manner in which employees interacted with customers in this recovery situation was kept constant (they always apologised for instance), interactional justice was not used as a dependent variable (cf. Crisafulli and Singh, 2016; Chapter 3 of this dissertation). For post-recovery satisfaction, I used a three-item scale ($\alpha = 0.83$) applied by Huang and Lin (2011),

with for example the question: 'Overall, how satisfied or dissatisfied did this experience make you feel?'. Further, I wanted to control for perceived realism and, therefore, asked participants to indicate the perceived realism of the scenario (cf. Magnini *et al.*, 2007). Finally, I asked for demographics (age, gender, and nationality of the participant). The questionnaire ended with four manipulation checks to verify whether participants had grasped the specific elements of the scenario.

Results and discussion

Manipulation checks and control variables

The criteria I applied to exclude participants were two or more failed manipulation checks. As a consequence, 5 of the 153 respondents were excluded. I compared the results with and without participants with only one failure in the manipulation checks. The results showed similar patterns. Therefore, I included the participants with only one mistake. This resulted in 148 valid cases for the subsequent analysis. A one-way ANOVA with only Sector as IV (as Compensation type was only manipulated after this question) on the severity of the failure yielded no significant Sector effect: $F(1,141) = 0.001$, $p = .974$ ($M_{\text{Internet store}} = 5.71$; $SD = 1.42$; $M_{\text{municipality}} = 5.70$; $SD = 1.43$). A full factorial ANOVA on perceived realism yielded no significant Sector effect: $F(1,142) = 1.80$, $p = .182$ ($M_{\text{Internet store}} = 4.32$; $SD = 1.68$; $M_{\text{municipality}} = 4.11$; $SD = 1.84$), nor significant Compensation effect: $F(2,142) = 2.78$, $p = .065$ ($M_{\text{gift voucher}} = 4.60$; $SD = 1.77$; $M_{\text{fixed cause}} = 4.15$; $SD = 1.70$; $M_{\text{cause of customers' choice}} = 3.92$; $SD = 1.75$). There was also no significant interaction effect. Taken together, neither perceived severity, nor perceived realism can be alternative drivers of Sector or Compensation effects.

Main dependent variables

The ANOVAs for the three dependent variables yielded significant Compensation effects for distributive justice ($F(2,142) = 13.096$, $p = .000$), procedural justice ($F(2,142) = 9.414$, $p = .000$) and post-recovery satisfaction ($F(2,142) = 3.089$, $p = .049$). As in Experiment 1, in order to test the hypotheses, I used specific post hoc Bonferroni analyses using pairwise comparisons of the dependent variables. The results are presented in Table 11. For all *M*s and *SD*s per compensation type and per sector, see Appendix VI.

Table 11. Means (SDs between parentheses) for the dependent variables depending on compensation type

	Gift voucher (GV)	Fixed cause (FC)	Cause of customers' choice (CCC)
N	48	48	52
Distributive justice	4.31^a (1.28)	3.08^b (1.32)	3.40^b (1.28)
Procedural justice	5.14^a (1.44)	3.91^b (1.42)	4.43^b (1.54)
Post-recovery satisfaction	3.25^a (1.39)	2.60^b (1.18)	2.96^{ab} (1.28)

Note: means sharing the same superscript within a row are not significantly different from each other (Bonferroni, $p < 0.05$).

For *distributive justice*, a monetary compensation, such as a gift voucher ($M = 4.31$, $SD = 1.28$) led to significantly more positive distributive justice than both types of PC ($M_{FC} = 3.08$, $SD_{FC} = 1.32$; $M_{CCC} = 3.40$, $SD_{CCC} = 1.28$); (GV-FC: $p = 0.000$; GV-CCC: $p = 0.000$). PC with a cause of customers' choice led to similar distributive justice as a fixed cause; (CCC-FC: $p = 1.000$). For *procedural justice*, a monetary compensation ($M = 5.14$, $SD = 1.44$) led to significantly more positive procedural justice than both types of PC ($M_{FC} = 3.91$, $SD_{FC} = 1.42$; $M_{CCC} = 4.43$, $SD_{CCC} = 1.54$); (GV-FC: $p = 0.000$; GV-CCC: $p = 0.015$). PC with a cause of customers' choice led to similar procedural justice as a fixed cause; (CCC-FC: $p = 0.461$). Finally, for *post-recovery satisfaction*, a monetary compensation ($M = 3.25$, $SD = 1.39$) led to significantly more positive post-recovery satisfaction than PC with a fixed cause ($M_{FC} = 2.60$, $SD_{FC} = 1.18$); GV-FC: $p = 0.043$. However, a monetary compensation led to similar post-recovery satisfaction as PC with a cause of customers' choice ($M_{CCC} = 2.96$, $SD_{CCC} = 1.28$); GV-CCC: $p = 0.439$. Finally a cause of customers' choice led to similar post-recovery satisfaction as a fixed cause (CCC-FC: $p = 0.929$). There were no significant Sector effects, nor interaction effects between Compensation and Sector. For all Ms and SDs per compensation type and per sector, see Appendix VI.

In summary, the results of this second experiment (2A) show that monetary compensation led to significantly more positive distributive (H3b) and procedural justice (H4b) than both types of PC. This is also the case for post-recovery satisfaction when comparing a monetary compensation and PC with a fixed cause. PC with a cause of customers' choice led to similar post-recovery satisfaction as a gift voucher (H5b). There were no significant differences in evaluations between the two types of PC (H3c, H4c and H5c). There were also no significant differences in results between the two sectors.

4.8. Experiment 2B: Justice effects (US citizens)

Although Experiment 2A showed that monetary compensation resulted in higher perceived justice and satisfaction, with the exception for PC with a cause of customers' choice, I was not able to test whether PC had positive effects compared with neither promising nor offering compensation (hypotheses 3a, 4a and 5a). Therefore, I ran an experiment similar to Experiment 2A, but now included a control condition in which no promise was made, nor any compensation was given. I expected that, although monetary compensation would yield higher justice perceptions and satisfaction than PC (replicating the findings of Experiment 2A), PC would have a compensatory function and, thus, would work better after a service failure than no compensation at all.

Moreover, in Experiment 2A, I used a rather small sample of Dutch students. In order to increase the power of my data, I used a larger sample of mainly US-citizens in Experiment 2B. Finally, as indicated before, in order to manipulate settings, I also had to differ between the types of product. Experiment 2A showed that Sector did not influence the perceived severity of the failure, suggesting there was no problem with the manipulation. However, I asked this question before introducing the Compensation manipulation. This could have influenced subsequent interpretation of the scenario. Therefore, in Experiment 2B I asked this control question after the introduction of both manipulations. I expected to find no effect of Sector on perceived severity (cf. Experiment 2A), which would again suggest that the product type did not confound with setting. However, one could expect that people find a failure especially important when perceived procedural and distributive justice is low, i.e., when there is no compensation.

Method

Participants

In total, 633 people participated in this experiment, of which 596 people (43% female; $M_{age} =$ 36.6; $SD = 11.36$) were used for the analyses (see Results section). A total of 98.2% came from the United States, 1.6% from Canada and 0.2% from other countries. They participated through a digital web-based questionnaire (Qualtrics) using the online MTurk platform.

Design, procedure and dependent variables

Experiment 2B was identical to Experiment 2A, except on three issues. First, I added a control condition (one for each sector) in which participants read that the product was not

there yet, they received an apology, and were asked to return the next day. No reference was made to any service guarantee or compensation. Second, since the distribution of driving licenses is organised differently in the US compared to The Netherlands, I could not use the public scenario of driving licenses to compare with an Internet store. Therefore, similar to Experiment 1, I used a governmental visa organisation for the public setting. Third, similar to Experiment 1 also using the online MTurk platform, I used three manipulation checks and one instructional manipulation check question (cf. Oppenheimer *et al*., 2009). The dependent variables in this third experiment were similar to Experiment 2A: distributive justice (α = 0.90), procedural justice (α = 0.84) and post-recovery satisfaction (α = 0.96). I asked the control variables perceived severity and perceived realism both after the manipulation of the IVs.

Results and discussion

Manipulation checks and control variables

I used the same criteria for exclusion of participants as in Experiment 1 with an MTurk panel. This resulted in excluding 37 of the 633 respondents, leading to 596 usable cases. The ANOVA on perceived realism of the scenarios yielded only a significant Compensation effect: $F(3,588) = 52.87$, $p = .000$ (M_{NC} = 5.97; SD = 1.16; M_{GV} = 5.24; SD = 1.81; M_{CCC} = 4.29; SD = 1.57; M_{FC} = 3.81; SD = 1.80). Similar to Experiment 1, I used regression analyses with realism and the four dummy variables indicating Sector and Compensation condition (with No compensation being the reference group) and excluding a constant in the equation to rule out realism as the alternative driver of Compensation effects on the dependent variables. My results showed that Realism significantly predicted Procedural justice (p = .000) and post-recovery satisfaction (p = .000), and was a marginally significant predictor of distributive justice (p = .059). More importantly, the effects of all dummy variables on all three DVs remained significant (p's = .000), indicating that realism was only partially driving the Compensation effects. Therefore, I continued testing the hypotheses using ANOVAs.

A full factorial ANOVA on perceived severity of the failure yielded no main Sector effect, $F(3,588) = 2.26$, $p = .133$, nor a significant interaction effect, $F(3,588) = 0.30$, $p = .825$. This suggested that a difference in product did not influence the severity of the failure. Thus, there was no confound in my manipulation of Sector. I did find a significant main effect of Compensation, $F(3,588) = 3.70$, $p = .012$, indicating that participants perceived the failure more important when there was no compensation (M_{NC} = 5.53, SD = 1.25) compared to when

there was a form of compensation (M_{GV} = 5.10, SD = 1.33; M_{CCC} = 5.16, SD = 1.39; M_{FC} = 5.08, SD = 1.38). This is in line with the findings on justice and satisfaction as outlined below.

Main dependent variables

ANOVAs for the three dependent variables yielded significant Compensation effects on distributive justice ($F(3,588)$ = 38.018, p = .000), procedural justice ($F(3,588)$ = 46.620, p = .000) and post-recovery satisfaction ($F(3,588)$ = 36.714, p = .000) - see Appendix V. Comparing the results of the private and public settings shows that there were no main Sector effects, nor interaction effects involving Sector; with one exception where I found a marginally significant interaction effect on procedural justice, $F(3,588)$ = 2.54, p = .056. I will provide the results of this interaction when I present the specific findings on procedural justice.

Table 12. Means (SDs between parentheses) for the dependent variables depending on compensation type

	No compensation (NC)	Gift voucher (GV)	Fixed cause (FC)	Cause of customers' choice (CCC)
N	144	153	151	148
Distributive justice	2.13ᵃ (1.17)	3.88ᵇ (1.57)	3.25ᶜ (1.50)	3.47ᵇᶜ (1.62)
Procedural justice	2.85ᵃ (1.36)	4.75ᵇ (1.41)	3.91ᶜ (1.55)	4.17ᶜ (1.37)
Post-recovery satisfaction	1.77ᵃ (1.01)	3.54ᵇ (1.66)	2.85ᶜ (1.61)	3.02ᶜ (1.56)

Note: means sharing the same superscript within a row are not significantly different from each other (Bonferroni, $p < 0.05$).

For *distributive justice,* PC with a fixed cause (M_{FC} = 3.25, SD_{FC} = 1.50) and PC with a cause of customers' choice (M_{CCC} = 3.47, SD_{CCC} = 1.62) led to significantly more positive distributive justice as no compensation (M_{NC} = 2.13, SD_{NC} = 1.17); (FC-NC: p = 0.000; CCC-NC: p = 0.000). Monetary compensation (M_{GV} = 3.88, SD_{GV} = 1.57) led to significantly more positive distributive justice than a fixed cause (GV-FC: p = 0.001) but to similar distributive justice as PC with a cause of customers' choice; (GV-CCC: p = 0.070). Both types of PC led to similar distributive justice (FC-CCC: p = 0.582).

For *procedural justice,* PC with a fixed cause (M_{FC} = 3.91, SD_{FC} = 1.55) and PC with a cause of customers' choice (M_{CCC} = 4.17, SD_{CCC} = 1.37) led to significantly more positive distributive justice as no compensation (M_{NC} = 2.85, SD_{NC} = 1.36); (FC-NC: p = 0.000; CCC-NC: p = 0.000). A monetary compensation (M_{GV} = 4.75, SD_{GV} = 1.41) led to significantly

more positive procedural justice as PC with a fixed cause and PC with a cause of customers' choice; (GV-FC: $p = 0.000$; GV-CCC: $p = 0.002$). Procedural justice was similar for both types of PC (FC-CCC: $p = 0.317$). As indicated before, I also found a marginally significant interaction effect, $F(3,588) = 2.54$, $p = .056$. Within the private setting, all four Compensation conditions significantly differed from each other ($p\text{'s} < .001$). The only contrast not being significant was the fixed cause vs the cause of customers' choice, $p = .097$ ($M_{NC} = 2.75$, $SD_{NC} = 1.35$; $M_{FC} = 3.65$, $SD_{FC} = 1.64$; $M_{CCC} = 4.03$, $SD_{CCC} = 1.38$; $M_{GV} = 4.93$, $SD_{GV} = 1.33$). Within the public setting, offering PC with a fixed cause ($M_{FC} = 4.17$, $SD_{FC} = 1.42$) improved procedural justice compared to offering no compensation ($M_{NC} = 2.95$, $SD_{NC} = 1.36$), $p = .000$. However, there was no significant difference between a fixed cause and a cause of customers' choice ($M_{CCC} = 4.32$, $SD_{CCC} = 1.35$), $p = .514$. Moreover, there was no significant difference between a cause of customers' choice and a gift voucher ($M_{GV} = 4.59$, $SD_{GV} = 1.47$).

Finally, for *post-recovery satisfaction,* PC with a fixed cause ($M_{FC} = 2.85$, $SD_{FC} = 1.61$) and PC with a cause of customers' choice ($M_{CCC} = 3.02$, $SD_{CCC} = 1.56$) led to significantly more positive post-recovery satisfaction as no compensation ($M_{NC} = 1.77$, $SD_{NC} = 1.01$); (FC-NC: $p = 0.000$; CCC-NC: $p = 0.000$). Post-recovery satisfaction for a monetary compensation ($M_{GV} = 3.54$, $SD_{GV} = 1.66$) was significantly more positive than for a fixed cause and a cause of customers' choice; (GV-FC: $p = 0.001$; GV-CCC: $p = 0.016$). Finally, PC with a cause of customers' choice led to a similar post-recovery satisfaction as PC with a fixed cause; (FC-CCC: $p = 1.000$).

In summary, Experiment 2B showed that both types of PC led to a higher perceived distributive justice, procedural justice and post-recovery satisfaction than not promising a compensation and not offering it after a service failure (H3a, H4a and H5a). However, as with Experiment 2A, my results showed that a gift voucher was even more effective in increasing perceived procedural justice and post-recovery satisfaction than both types of PC (H4b and H5b). A monetary compensation, such as a gift voucher, also led to a more positive distributive justice than PC with a fixed cause, but PC with a cause of customers' choosing was as good as a monetary compensation (H3b). There were no significant differences in the evaluations between the two types of PC (H3c, H4c and H5c). There were also no main, nor interaction, effects involving the Sector. All in all, Experiments 2A and 2B showed that

providing a monetary compensation (i.e., gift voucher) does the best job in compensating customers, but PC works better than providing no compensation at all.

4.9. Discussion

Organisations are continuously seeking for new CSR practices that contribute to their CSR engagement and influence the perceptions and behaviour of their stakeholders. The aim of this study was to investigate the CSR signalling and compensatory effects of Prosocial Compensation, i.e., to make a donation to a charity on behalf of a customer after a service failure. In the first experiment, I investigated the signalling effects of promising PC in a service guarantee. I hypothesised and found that promising PC led to similar positive effects on corporate image, credibility and WOM-intent as monetary compensation. PC led to more positive levels as promising no compensation. More importantly, only PC had a positive effect on CSR-image. In two subsequent experiments I investigated the effects of offering PC after a service failure on perceived justice and post-recovery satisfaction. I hypothesised and found that offering PC led to more positive perceived justice and post-recovery satisfaction than not promising and offering any compensation. In other words, PC has the ability to compensate customers for their loss. However, I also found that a monetary compensation worked even better and resulted in the highest perceived justice and satisfaction. Finally, I found these signalling and compensatory effects to be generalisable into both private and public settings.

First of all, these findings fit very well within signalling theory (Connelly *et al.*, 2011; Spence, 1975). Previous research on service guarantee literature has also addressed the signalling effects of compensations but, so far, only studied the signalling effects of monetary types of compensation (e.g. Ostrom and Iacobucci, 1998). I found that PC has similar positive signalling effects as monetary compensation with regard to corporate image, credibility and WOM-intent. However, PC outperforms monetary compensation with regard to its signalling effect on CSR-image. In other words, similar to cause-related marketing (Howie *et al.*, 2015) and employee volunteering (Plewa *et al.*, 2015), PC also has a positive impact on CSR-image.

Second, the findings of the Experiments 2A and 2B fit within the broad range of applying justice theory (Adams, 1965) in service recovery settings (e.g. Schoefer and Ennew, 2005; Vázques-Casielles *et al.*, 2010). In the service recovery and service guarantee literature only the effects of monetary types of compensation, such as refunds, discounts on future purchase,

coupons or exchanging goods and services, are researched (e.g. Grewal *et al.*, 2008; Hogreve and Gremler, 2009; Homburg and Fürst, 2005). This study has contributed to justice theory by exploring the effects of PC as an indirect type of compensation influencing the perceived outcome of service recovery. I argued that the equity customers receive in the case of PC is the good feeling and warm-glow of giving (Andreoni, 1990; Bekkers and Wiepking, 2011) that could improve post-recovery satisfaction and justice evaluations. My results suggest that offering PC is more effective in restoring justice and satisfaction than neither promising, nor offering, compensation. However, comparing the effects of PC with a monetary compensation, such as a gift voucher worth 5 dollar, showed that the voucher was more effective in restoring justice and satisfaction than offering this amount to a charitable cause. Customers have experienced a loss for which they want to be compensated with money awarded directly to them. Finally, I expected that the evaluations for PC with a cause of customers' choosing would be more positive than those for PC with a fixed cause (cf. Mattila and Cranage, 2005; Robinson *et al.*, 2012). My results did not support this. Different amounts of compensation can have different effects on customers' evaluations (Gelbrich *et al.*, 2015; McQuilken *et al.*, 2013). It is possible that larger amounts of compensation as the used token compensation of 5 dollar/euro have other effects on this outcome.

My research has also contributed to CSR and business ethics literature. It has introduced and presented the effects of an unexplored CSR practice. Results also confirm earlier publications (e.g. Husted, 1998; Bolton and Mattila, 2015) concluding that justice theory is an important theory explaining the ethical effects of CSR on stakeholders like customers. Finally, my research is the first connecting service guarantee literature (for an overview, see Hogreve and Gremler, 2009) with CSR. It researches a new type of service guarantee compensation. My research contributes to recent research investigating the effects of service guarantee compensation on customers' perceived justice and satisfaction in service guarantee failure situations (Crisafulli and Singh, 2016; Chapter 3 of this dissertation) by comparing PC with a monetary compensation, but also with no compensation.

I researched the signalling and justice effects of PC in private and public settings to extend the generalisability of my results. In general, I can conclude that the effects of PC were not different between both sectors. I have shown that, in cases in private and public settings where customers had to pay directly for a public service (instead of services paid through taxpayers money), evaluations are similar. As such, my research has also contributed to public

management literature. To the best of my knowledge, this paper is the first to study the effects of a CSR practice on customers' evaluations in public settings. It shows that PC combined with a service guarantee could be an effective public CSR practice. Moreover, my research has shown that compensating customers after a service guarantee failure is also important for public organisations.

Managerial implications

Corporate philanthropy has become an important policy for many organisations seeking to advance good relationships with their stakeholders (Cantrell *et al.*, 2015). This contribution could be in terms of improved CSR-image, credibility, or post-recovery satisfaction. My research suggests that - both private as well as public - organisations can use PC to signal their CSR engagement whilst improving their corporate image, credibility and WOM-intent. After a service failure, a monetary compensation results in more positive justice perceptions and post-recovery satisfaction levels than PC. But offering PC has a more positive impact on perceived justice and satisfaction than not promising and offering any compensation. Thus, in service recovery settings, PC can be effective and contribute to the organisation's ethical obligations. In conclusion, I believe that PC can work effectively as a CSR practice in increasing CSR-image and contributing to the organisation's ethical obligation of being fair and just to customers experiencing a service failure.

Limitations and future research

This study used scenario manipulations with an experimental design to investigate the effects of PC. However, I did not investigate the effect of the donation/compensation amount, but rather used a fixed token compensation of 5 dollar/euro. Previous research showed that the amount of a monetary compensation influences customers' evaluations (see e.g. Gelbrich *et al.*, 2015; McQuilken *et al.*, 2013). In line with these results, the amount of PC could moderate the effects I found on customers' evaluations. Future research could study the effects of an equity-PC fully balancing the customers' loss, or even overcompensating customers by giving them more PC than their loss.

Given my findings that justice concerns are important within service guarantees and PC, another limitations might be that I only used US and Dutch samples. Research by Hui and Au (2001) revealed that the influence of monetary compensation on justice perceptions is larger for customers in Canada than in the People's Republic of China. These cultural differences

could thus have an impact on the effects of PC. Therefore, it would be interesting to research other cultures than US-citizens and Dutch students. Finally, I used hypothetical situations in the three experiments. It would be interesting to investigate the effects of PC on customers' evaluations in real life settings where PC is promised and offered after a service failure.

I tried to find similar service settings with similar failures and similar service recovery situations to compare private and public sectors. The results of my Experiments 2A and 2B showed that the severity of the failure was perceived as similar in both private and public settings. However, the perceived realism of the scenarios in terms of Sector (Experiment 1) and type of Compensation (Experiments 1 and 2B) were different in these two experiments. Differences in the realism of the sector could be caused by the fact that compensating for failures is not yet a common practice in public settings. Differences in realism of the compensation could be caused by the fact that not compensating customers is a general practice and PC is a relatively new and not yet common practice. I can only test this in future research when PC is actually used more often within organisations. Note that my results indicated that realism was not an alternative explanation of my findings. The effects of compensation and sector remained significant and showed the same pattern of the effects.