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# **How Third Party Observers Respond to Overheard Service Failures: Implications for Frontline Service Employees and the Firm**

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## **ABSTRACT**

Frontline service employees and unhappy customers have generally been the main focus of the service failures research. It is established that service failures are difficult to prevent and are costly to a firm. Therefore, effective service recoveries have been proposed such as apology or compensation. The recent research extended the service failures literature by focusing on a broader audience during service failures: third party observers in the servicescape. The current work investigates the degree to which overhearing another customer's interaction with a service employee following a service failure will impact third party observers' evaluations of the service employees and the businesses in general. Our general hypothesis is that third party observers will likely to punish the service employee and the establishment after witnessing a failed recovery toward another customer.

We test our hypotheses across three studies with experimental designs. In Study 1, 524 undergraduate business students imagined that they were enjoying their meal at a restaurant and they overhear an interaction between the server and another customer at an adjacent table. Participants read one of the nine scenarios that manipulate customer complaint (low, high, high-repeat) and server's response (positive, neutral, negative) and then participants indicated likelihood to tip the server, percentage of tip they would give the server, and desire for revenge toward the server. The results show that participants were less likely to tip the server and give a lower percentage of tip when the server's response to the complaining customer was negative. We also found that desire for revenge increases when the server responds negatively, which is the cause for the subsequent outcomes. Study 2 tested responses of third party observers toward the server and the restaurant. In Study 2, in addition to the measures used in Study 1, 423 undergraduate business students indicated their likelihood to return and recommend the restaurant, and their attitude toward the restaurant as a potential underlying mechanism. The results replicated the results of Study 1 in terms of tipping and desire for revenge toward the server. Study 2 also showed that participants were less likely to return and recommend the restaurant when the server's response was negative. The underlying mechanism for this effect is unfavorable attitude toward the restaurant as a function of server's negative response to the complaining customer. Study 3 tested management intervention as a solution to the third party punishment toward the establishment. In addition to the manipulations of customer complaint (low, high) and server's response (negative, neutral), we manipulated management intervention

in which a manager apologized from the complaining customer (vs. no management intervention). We recruited 398 participants from Amazon MTurk and they read one of the eight scenarios. The measures were identical to those in Study 2. While replicating nearly all of our findings in previous studies, the results showed that when a manager intervenes and apologizes from the complaining customer, third party observers are no longer likely to punish the restaurant but they still punish the server. Results offer theoretical and practical insights to researchers and service providers.

Theoretically, the present results strongly suggest that third party punishment occurs during overheard service failures, and that there is a clear negativity bias operating, with observers weighing negative information more heavily than positive information. Though not directly addressed, it is also likely that responsibility attributions and role expectations play a pivotal role in driving the observed results. It is possible that third party observers attribute the service failure to the server (or at least the firm) and hold default expectations that servers should address the problem and not respond in a negative manner. First practical implication is that service employees should avoid responding negatively to a customer complaint regardless of the severity of the complaint or they will face third party punishment. Second, the punishment will be directed not only toward the service employees but also toward the establishment. Thus, utilizing each punishment during employee training is likely to improve employee motivation to avoid failing to recover a service failure. Third, results indicate that service employees do not get rewarded for responding positive to a customer complaint, as there is no difference between neutral and positive server response. This suggests that service employees do not need to try extra hard to please the customers. Finally, third experiment showed management apology as a way to make up for the server's negative response and nullify third party punishment toward the establishment (but not toward the server).

## **ABOUT THE AUTHORS**

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