

DOES GETTING A BETTER DEAL MAKES ME HONEST? THE EFFECT OF COMPENSATION ON INTENTIONS TO ADOPT MORAL BEHAVIOR

Abstract

This paper aims to deepen our understanding on how companies might foster positive reactions after a service failure situation in order to avoid customers' adoption of retaliation actions such as dishonest and immoral behaviors. The focus is on the impact of financial compensation on the propensity to adopt a moral behavior, considering the role that psychological aspects such as gratitude feelings as well as fairness perceptions play on this context. Through a pilot and an experimental study, we confirmed that by receiving higher financial compensation than their peers, customers are more likely to adopt moral behaviors towards the company. Furthermore, gratitude feelings and fairness perceptions regarding the recovery positively influence this main relation. In summary, this study shows that an appropriate service recovery process can not only balance and re-establish a good relationship between the firm and the customer, but also trigger moral behaviors.

Keywords: financial compensation, morality, gratitude.

1. Introduction

According to economic models, individuals are more prone to be honest when the monetary benefits from the dishonest behavior are smaller or when they are more likely to get caught and punished for the wrongdoing (Rosenbaum, Billinger, and Stieglitz, 2014). However, there are several social and psychological factors besides economic approach that might influence honesty and one's moral behaviors (Ellemers et. al., 2019) either on an individual or in a group level, especially if we consider critical moment such as a service failure context.

In these situations, companies have been making efforts to offer the customers recovery. The tactics used to provide recovery of services are actions taken by the company and its employees to re-establish the status of consumer satisfaction (Patterson, Cowley and Prasongsukarn, 2006). These tactics may take several formats such as recognition of liability, an explanation about the situation that happened, an apology and an offer of compensation, which usually has a financial nature and may involve a reimbursement, discounts, an upgrade when purchasing new services or even the offer of the same services or equivalent ones for free (Goudarzi, Borges and Chebat, 2013; Roschk and Gelbrich, 2014).

A financial compensation is a tangible benefit offered to the consumer by the company to recover a situation of service failure (Davidow, 2003). It has been widely used by organizations and has already been identified as the most relevant tactic in the process of recovery (Gelbrich and Roschk, 2011). Therefore, it is the focus of this research.

Such tactics have impacted the perceptions of fairness relating to the recovery process (Tax, Brown and Chandrashekar, 1998; Orsingher, Valentini and Angelis, 2010), satisfaction (Hogreve, Bilstein and Mandl, 2017; Orsingher et al., 2010), trust (Tax et al., 1998), intentions of repurchase (Gelbrich and Roschk, 2011), reciprocal behaviour of the consumer (Roschk and Gelbrich, 2017), word of mouth (Chen, Ma, Bian, Zheng and Devlin, 2018; Gelbrich and Roschk, 2011) and retaliation (Joireman, Gregoire, Devezer and Tripp, 2013).

Consumers' perceptions of what is right and wrong defines one's consequent behaviors (Campbell and Winterich, 2018). Considering that in a service situation a failure might trigger

retaliations by the customer (Joireman et al., 2013), the lack of proper compensation in this case can be a trigger for dishonest behaviors adopted by the consumer as a retaliation toward the company that caused the harm in the first place. Likewise, a good service recovery process might have positive outcomes such as fostering moral behaviors. It is important to point out that, in this paper we do not aim to understand if the customer reacts in an immoral manner to an immoral action of the company. We actually aim to analyze if the moral behavior may also be triggered by the company's ability to solve the problem caused during the service failure on the consumer's perspective.

When the individual realizes that the recovery process met his expectations and resulted in equity between the parties we can say that it influenced his social justice perception (Smith et al., 1999; Tax et al., 1998). On the other hand, if the treatment is perceived as unfair, even a financial compensation can backfire with an upset customer (Yi and Gong, 2008; Orsingher et al., 2010). Since perception of justice is related to social norms of conduct, it might result in dishonest behavior when the customer feels he was not treated appropriately by the company (Lin, Li, Lee, 2018). Therefore, we expect that a customer who perceives a treatment as fair, will be less prone to engage on dishonest behaviors, therefore choosing to engage on moral behaviors.

Similar to justice, sentiments and emotions have also been considered to help explain consumer's reactions (Ma, Sun and Kekre, 2015). In this sense, gratitude is an emotion related to reciprocity, which is an important part of human relations and social systems, when the person seeks to reciprocate the benefit received (Gouldner, 1960). The idea is that consumer feels grateful for the compensation received and tries to compensate company somehow (Palmatier, Jarvis, Bechkoff and Kardes, 2009). We suggest that as gratitude is an emotion triggered by the benefit received, it would also positively impact intentions to engage in moral behavior.

Despite the fact that studies focused on consumer behavior in situations of failure recovery have progressed, little is known about the relation of the recovery process and the intention this customer has to adopt a moral behavior towards the company that caused the problem. Most studies are focused on immoral behavior and do not address service failures (Reynolds and Harris, 2009). The ones that do are mostly related to illegitimate complaining behavior (Huang and Miao, 2016) or to frontline employees (Liao, Chou, Lin, 2015; Skarlicki, van Jaarsveld and Walker, 2015), but not about moral behavior as a positive outcome of the recovery process.

On the special issue of the Journal of Consumer Psychology about Marketplace Morality editorial, Campbell and Winterich (2018) propose that new research streams should be unveiled about the topic, including additional variables that would impact or determine morality in the marketplace. Therefore, this paper aims to understand **What is the influence of financial compensation on a consumer intention to adopt moral behavior, considering the roles that fairness perception and gratitude feelings play in this relationship?**

At first, we discuss the theoretical background on failure recovery tactics involving financial compensation and its influence on consumers' responses such as the adoption of dishonest versus moral behavior. We then explain a pilot and an experimental study, followed by the discussion of its results including theoretical as well as managerial implications.

2. Theoretical Background

2.1 Financial compensation: a recovery tactic after service failures

When a failure occurs during a service experience, the company usually tries to offer a gain to the customer through recovery tactics (Smith et al., 1999) in order to re-establish the

balance in the relationship with the customer (Bonifield and Cole, 2008). This compensation might be more intangible like an apology, for instance, or more tangible including financial compensation (Hogreve et al., 2017). Moreover, it can assume different levels, them being: partial (up to 99% of the value invested by the consumer), full (100% of the value) or even overcompensation (above 100%) (Gelbrich, G athke and Gregoire, 2015).

The effect of compensation can be defined as the difference between the consumer's reaction after the recovery and his reaction after the failure (Maxham and Netemeyer, 2002). The field of studies on service failure recovery tactics is quite wide (Goudarzi et al., 2013; Hogreve et al., 2017), and previous research show that compensation has a positive effect on consumer reactions after a service failure recovery, including satisfaction, loyalty and word of mouth (Roschk and Gelbrich, 2014; Roschk and Gelbrich, 2017). In this sense, we believe that another positive behavior after the recovery process could be the adoption of a morally accepted behavior which will be discussed next.

2.2 Consumer morality

Being moral is central to understand how people see themselves (Aquino and Reed, 2002). Why some people are honest, and others find it extremely difficult to behave morally? Unfortunately, moral values do not always guide people in their choices, judgments, and behaviors (Eyal and Liberman, 2012). Morality and ethics in relationships are widely studied in Philosophy and Social Psychology, but in Marketing the number of researchers devoted to this topic is relatively small. When the focus is customer morality, that number is even lower. According to Ayal and Gino (2012, p.149), "cheating, fraud, racketeering, and other forms of dishonesty are among the greatest personal and societal challenges of our time". These situations, so common in marketplace, bring enormous losses to businesses and customers, but above all affect the harmony of society.

Moral behaviors are "actions that demonstrate social responsiveness to the needs and interests of others" (Aquino et al. 2009, p.124), or "acts that are intended to produce kind and/or fair outcomes" (Schulman 2002, p.500). It is the opposite of immoral behavior which usually implies outcomes with financial losses to the service provider.

In a broader way, moral and dishonest behavior studies are part of behavioral ethics field, which focus on consumer's ethical decision making as well as judgement about decisions of others (Bazerman and Gino, 2012). Throughout this paper, we use the terms immoral, dishonest and unethical behaviors interchangeably.

Considering that when there are monetary gains (Rosenbaum et al., 2014) or when there is the feeling of not being appropriately treated by the company (Lin et al., 2018) people are more likely to adopt an immoral behavior, a service failure recovery process might be critical in fostering dishonest behaviors where customers could get back at the company as a way of retaliation (Gregoire and Fischer, 2008). However, the focus question here is why do people assume positive (moral) behaviors even after a problem or a loss caused by the company?

According to Batson (2016) four are the reasons that lead someone to adopt a moral behavior: 1) *egoism*, where the focus is the self-well-being; 2) *altruism*, directed to someone else's well-being; 3) *collectivism*, focused on the group; 4) *principlism*, where a moral standard is established. Considering these possibilities, the positive behavior that might be triggered after a recovery process considered as "acceptable" by the customer, is initially focused on egoism dimension, since the goal is his own well-being. Although, when we have emotions such as gratitude on the picture, the motivation might also be related to altruism in the sense that the reaction is usually related to something or someone else's well-being, in this particular case, the company that created a situation that implied on gratitude.

Based on all these aspects we propose the following hypothesis:

H1: A higher financial compensation offered to the customer in a service recovery situation positively influences the intention to adopt a moral behavior

The rationale behind this idea is related to social comparison as well as justice perceptions. The theory of social comparison states that a person's cognition about an specific situation as well as the evaluation of his performance will influence this individual's behavior (Festinger, 1954). Therefore, being able to receive a higher financial compensation might be seen as a positive outcome from the failure complaining process or may be associated to other customers to which individual's naturally compare themselves. In summary, people feel better when they perceive themselves to be superior than their peers (Dreze and Nunes, 2009), or in this case, receiving higher financial benefits. These comparisons also influence justice perceptions which will be discussed in the following session.

2.3 Justice

Consumers look for equity and when there is lack of equity between what the individual expects and what the company actually offers, it generates discomfort and behaviors that try to balance this relationship. The intention is to restore positive emotions (Adams, 1965). Hence, the compensation that a customer receives from the company causing the damage increases the sense of distributive justice, since the individual realizes that the recovery process met his expectations and occurred with greater equity between the parties (Smith et al., 1999; Tax et al., 1998).

This perception of justice has three dimensions. The first is about procedural fairness, which concerns the consumer's perception of the recovery process as a whole and its developments. The second category is the so-called interactional, which involves the perception of fair treatment by the consumer with respect to the company in question or its employees (Colquitt, 2001; Maxham and Netemeyer, 2002). The last dimension to be considered is the one of distributive justice, concerning the individual's perception about the outcome of the recovery process and involves the analysis of the need, equality and value of the compensation and benefits received (Blodgett, Hill and Tax, 1997; Colquitt, 2001; Tax et al., 1998).

When a customer perceives unfair treatment he might feel upset, angry or even willing to get back at the company (Gregoire and Fisher, 2008; Yi and Gong, 2008). The moral perspective of justice suggests that mistreatment can violate social conduct norms and trigger punitive behavior (Skarlicki et al., 2008). Justice perceptions are thus related to customer adoption of dysfunctional and immoral behavior towards the company that caused the problem or the failure (Lin, Li, Lee, 2018). Likewise, we would expect that justice perceptions also impact the positive side of this situation that would be the adoption of a positive moral behavior towards the company. Therefore, we suggest that:

H2: Justice perceived by the customer in a service recovery situation positively mediates the relationship between financial compensation and intention to adopt a moral behavior

2.4 Gratitude

Reciprocity is a fundamental component of moral code and an important part of human relations and social systems (Gouldner, 1960). Because of reciprocity, when the customer received something from a specific service provider he might feel grateful for the benefit

received and try to compensate the company somehow (Palmatier et al.; Wetzel et al., 2014). Gratitude is an emotion that arises from the admiration of a praiseworthy action and the joy the individual experience when this action is valuable to the self (Tsang, 2006).

It is seen as a positive emotion associated with acts of kindness and experienced when a positive outcome is attributed to others. That is different than positive emotions attributed to the self, for example, be proud of one's actions or achievements (Schlosser, 2015). Gratitude is a self-motivated feeling of being thankful by having received certain favours. It is associated to positive emotional states and functions as a moral motivator (Watkins et al., 2006).

When a consumer perceives an extra effort made by the company they normally reward it. It can be through a higher willingness to pay for the service, purchase intentions and also overall evaluations and ratings. This reciprocity intention expressed by customers is related to feelings of gratitude, in the sense of giving something in return to people who also gave us benefits (Morales, 2005). In the case of a service failure, this "extra effort made by the company" could be a higher financial compensation in exchange of the losses caused. Moreover, we would expect that customers who received a higher financial compensation on a service recovery context would feel grateful to the company and therefore willing to adopt moral behaviors. Thus, we hypothesize that:

H3: Gratitude felt by the customer in a service recovery situation positively mediates the relationship between financial compensation and intention to adopt a moral behavior

All the direct and indirect relations proposed so far are depicted on Figure 1, where hypothesis H1 focuses on the main effect of financial compensation on intention to adopt a moral behavior by the customer. Hypothesis 2 explores the role played by justice perceptions on this main effect, as well as Gratitude impact (H3) on the positive outcome of the service failure and recovery process using a financial compensation tactic.

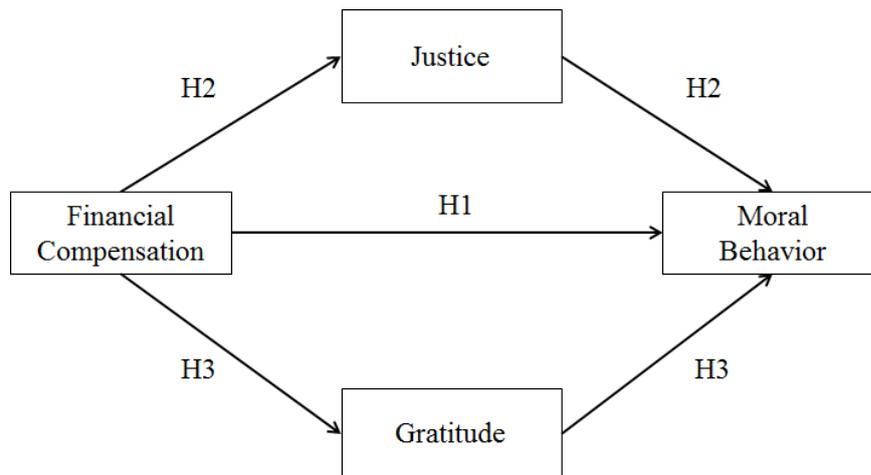


Figure 1: Theoretical model

3. Pilot Study

The purpose of the pilot study was to test compensation levels to be used on the experimental conditions and collect respondents opinion on a service failure involving different

levels of compensation. We also verified the main effects of financial compensation on customer's intention to adopt moral behavior after a service failure and recovery situation.

It was a between-subjects design where every individual received only one of the conditions during the experiment (Goodwin and Goodwin, 2013). Respondents were exposed to a written failure on a restaurant where they received the wrong meal but could not wait for the change of the dish due to an appointment early in the afternoon. As a result, they complained to the waiter but ate the meal anyway and received a 50% discount on the bill. While walking to the parking lot the customer overhears another person's comment about receiving 10% (respondent's higher compensation condition) or 70% (respondent's lower compensation condition) discount. When paying by cash for the parking lot, the person by mistake gives him extra change.

After reading this scenario participants were asked about their intentions to engage on moral behavior by returning the extra change received in a Likert scale ranging from 1 (very unlikely to return the change) to 7 (very likely to return the change). Other questions on gratitude (Izard, 1977) and fairness perceptions (Maxham and Netemeyer, 2002) as well as control variables were answered in sequence. The description of this specific situation was chosen since restaurant failure scenarios are vastly used on service research. Firstly, because this context might involve failures in several dimensions (Roschk and Gelbrich, 2017) and secondly because respondents are usually familiar with having a meal at a restaurant (Grewal, Roggeveen and Tsiros, 2008).

Study 1 encompassed a total of 154 respondents (57% male, *Age* 35.12, *SDage* 10.7) recruited on Mturk Platform. Manipulation checks worked as expected $F(1, 152)= 241.46$, $p=0.01$ since ANOVA tests identified differences on perception of the compensation received among the two conditions, where respondents exposed to higher compensation levels perceive their peers as receiving lower compensation ($M=2.38$, $SD=1.91$) and vice versa ($M=6.29$, $SD 1.14$). However, main effect was not significant $F(1,152)= 0.01$, $p>0.05$.

Despite of this unexpected main result, we ran a mediation analysis on PROCESS in order to check if the path from compensation to intention to adopt moral behavior through justice perception was significant. The path between compensation and fairness was significant ($B= 0.49$; $t(1,152)= 3.99$, $p<0.01$), likewise the relation between fairness perception and intention to adopt moral behavior (meaning returning the extra change received) was also positive and significant ($B=0.39$; $t(1, 152)= 3.68$, $p<0.05$). Confidence interval for the indirect effect based on 5.000 bootstrap samples showed that when we include justice perceptions on the equation the path from compensation to intention to adopt a moral behavior becomes significant (CI from 0.04 to 0.16).

A similar positive and significant result was identified on the path between compensation and gratitude ($B= 0.58$; $t(1,152)= 4.03$, $p<0.01$), and between gratitude and intention to adopt a moral behavior ($B= 0.24$; $t(1,152)= 2.47$, $p<0.05$) with confidence interval of the indirect effect ranging from 0.01 to 0.13. These results, despite of not significant for the main effect, suggest that there might be some relevant effects when we consider all these variables. This is the reason why we ran an experimental study with some adjustments on measures and conditions.

4. Experimental Study

From the results found on the pilot study we decided to make some adjustments on the experiment. At first, we included a control group in order to be sure that the difference on the main effect would be indeed due to different levels of compensation received by the respondents. We also explored different thresholds of financial compensation. The respondent

was kept in the 50% discount condition but people on the higher compensation condition were comparing themselves to someone who received zero compensation and the ones on the lower compensation overheard a customer saying we did not pay for the check after the complaint. These zero, partial and full compensation levels were based on previous studies on the matter (Gelbrich, Gähtke and Gregoire, 2015). All the other aspects were kept the same as in the pilot study.

The experimental study encompassed a total of 264 respondents (59% male; $M_{age}=34,8$, $SD_{age}=10,9$) from MTurk who completed the experiment in exchange of a small payment. Manipulation checks once again worked as expected ($F(2,261)=310.46$, $p=0.01$), since ANOVA tests identified differences on perception of the compensation received among the two conditions where respondents exposed to higher compensation levels perceive their peers as receiving lower compensation ($M=1.76$, $SD=1.42$), the ones in the lower compensation perceived their peers as receiving more ($M=6.21$, $SD=1.34$), and the control group perceive themselves as such ($M=4.08$, $SD=0.66$).

On the contrary to the pilot study, main effect was significant ($F(2,261)=2.47$, $p=0.08$) with respondents in the lower compensation condition willing to adopt less moral behavior by returning the extra change received ($M=4.15$, $SD=2.45$) compared to their peers on the higher compensation level ($M=4.77$, $SD=2.09$) or even their peers on the control group ($M=4.83$, $SD=2.28$), therefore confirming H1.

Mediation tests were run using PROCESS Model 4 from Hayes (2013). Hypothesis H2 was confirmed through mediation of the main effect by justice perception, where the path between compensation and fairness was significant ($B=0.58$; $t(1,262)=4.68$, $p<0.01$), likewise the relation between fairness perception and intention to adopt moral behavior was positive and significant ($B=0.27$; $t(1,262)=3.20$, $p<0.01$). Confidence interval for the indirect effect based on 5.000 bootstrap samples confirmed the positive effect of justice in the relation between compensation and the intention to adopt a moral behavior (CI from 0.02 to 0.13).

Gratitude also had a positive mediation effect with the path between compensation and gratitude being significant ($B=0.46$; $t(1,262)=3.63$, $p<0.01$), as well as the path from gratitude to the intention to engage on moral behavior by returning the extra change ($B=0.29$; $t(1,262)=3.57$, $p<0.01$). Confidence interval for the indirect effect ranged from 0.02 to 0.11, thus confirming H3.

5. General Discussion

This paper aim was to deepen our understanding on the fostering of positive customer reactions after a service failure situation. The focus was on the impact of receiving higher financial compensation levels on the propensity to adopt a moral behavior. Service failure is the focus of a broad number of studies, especially because it is a critical event for companies that try to re-establish a trusting and balanced relationship with the customer who was harmed by the problem. It is already known that individuals evaluate if the recovery process met their expectation based on several aspects and when they judge the recovery as not sufficient compared to the harm caused, negative behaviors such as retaliation might be triggered. In these cases, customer actions goal is to punish the firm which caused the inconvenience and respective damages. Sometimes the outcome of a frustrated attempt to recover a service failure is the "love becomes hate" effect, where a customer who has a previous positive relation with the company ends up willing to retaliate and cause harm to this service provider (Gregoire and Fischer 2008). One of the possible reactions to such situations would be to adopt a dishonest behavior related to immoral actions which normally generate financial losses to the firm that caused the problem (Lin et al., 2018). This would be a negative outcome of the service recovery process.

However, little is known about what triggers positive behaviors after the same process when the company live up to one's expectations. With this perspective in mind we tried to analyze the impact of service recovery on individual's intention to adopt moral behaviors which aim to produce fair outcomes (Schulman 2002) as an opposite to dysfunctional and immoral behaviors (Reynolds and Harris, 2009).

This paper theoretical contribution is focused first on the use of service recovery tactics, such as financial compensation as a tool to foster positive behaviors on customers, especially the adoption of moral actions. Second, we shed some light on the impact of gratitude feelings on misbehavior. This variable has been included on immorality studies in very rare cases and with a different perspective than the one used here (e.g. Kim and Baker, 2019, who investigated the observer gratitude towards another customer dysfunctional actions). Therefore, these results reinforce the idea that we might have gratitude feelings towards the service provider even though a problem has happened along the way. Third, this study also contributes to the existing literature about fairness perceptions and its impact on one's willingness to adopt a moral behavior instead of a dishonest attitude face a failure situation.

On a managerial perspective, considering the challenges companies face related to dishonest behaviors (Ayal and Gino, 2012), finding new ways of curbing this kind of attitude, as well as understanding the psychological factors that have an influence of dysfunctional behavior can help companies to think about strategies to reduce this kind of situation (Reynold and Harris, 2009), or even fostering the opposite outcome of a functional action. This study shows that an appropriate service recovery process can not only balance the relationship between the firm and the customer but also foster moral behaviors.

This is still a working paper and as such there are limitations to the results we have so far, as well as venues for future advances. First of all, we used only one context (restaurant) and therefore we cannot generalize the results and implications. Future studies could check for the consistency of these effects not only on the hospitality sector, but also exploring a broader range of service situations perhaps even including more recent contexts such as failures on virtual services or in services using both online and offline aspects such as omnichannel service providers.

Second, it is possible that other variables influence the results found and that were not measured so far. For example, we did not asked respondents about how moral or immoral they perceived the financial compensation offered between the distinct customers. Schwabe, Dose, and Walsh (2018) suggest that company actions perceived as immoral might also trigger some immoral behaviors on customers. In this particular case, it would be not to return the extra change received.

Additionally, boundary conditions for this mains effect of compensation on adoption of moral behaviors could be explored as moderators. Future studies could, for instance, investigate if there is a difference on the behavior if the focus of the dishonesty is the company who caused the damage or a third party. Failure locus of attribution or even failure perceived stability could also be relevant for these outcomes. Other emotions such as anger or shame could also be included in further experiments. And lastly, our studies considered only financial compensation through immediate discount, although other service recovery tactics could be used such as a voucher to be used in a future occasion.

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