The Service Recovery Paradox in a Call-Center context: Compensation and Timeliness in Recovering Mobile Customers

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Abstract

After a service failure, customers want to be treated with fairness. They expect the firm to perform quickly without having to wait for the failure resolution. The primary goal of this study is to investigate whether the service recovery paradox (SRP) exists. In addition, the study also explores whether timeliness and compensation can influence it and whether gender differences occur. SRP appears as an important phenomenon to both academics and practitioners because it is seen as an opportunity to achieve higher levels of customer satisfaction through effective service recovery processes. An empirical study of mobile telecommunications customers’ complaints, in a call center setting, validated the influence of timeliness and compensation on SPR. It was also found that no differences between men and women were noted on the above relations. Managers must understand that quick failures resolution and compensation will not only enhance customer satisfaction but also prevent potential switching behavior.

1. Introduction

In the last decade, due to the increasing pressures that firms have faced regarding customer service, there has been a growing interest in issues related to service failures and their recovery, reflected in the literature. The ability of firms to organize service restoration programs has been identified as the main reason for this growth.

The SRP has emerged as a significant phenomenon in the marketing literature [1] because several authors believe that an outstanding customer recovery strategy could trigger such an effect [2]. Consequently, there may be relevant benefits which should be explored. The SRP is therefore a term that has been applied to a paradoxical and curious finding: customers who experienced service failures followed by strong recoveries may be more satisfied than those who did not experience any problem [3, 4].

The inseparable and intangible features which characterize the nature of services increase the inherent difficulty faced by firms in delivering a failure-free service [5]. Service failures (gaps between levels of perceived and expected service) are the main reason why several firms are losing current customers [6]. For any firm, the costs of gaining a new customer are much higher than those for retaining old/current customers [7-9]. Therefore, customer recovery strategies are crucial for firms’ revenues and profits [8].

In this context, SRP appears both to academics and practitioners as a significant phenomenon, because it is seen as an opportunity to achieve higher levels of customer satisfaction through excellence in recovery after a service failure, compared with an initial situation where no failures were detected [2]. The majority of extant studies in this area indicate that after a considerable effort to recover, customer satisfaction is greater than it was initially [1]. Although in the literature there may not be a consistent conclusion confirming the veracity of the phenomenon, the benefits in retaining customers can be greater than those in previous studies. This may occur because those customers could contribute to mitigating the costs associated with their own recovery through their life time values for the firm [10].

This study aims first to confirm the existence of SRP, second to investigate whether timeliness and compensation can influence it and third to examine whether differences between genders occur.

This paper is organized as follows: first, based on our prior research, the SRP effect and the recovery process are described. Second, we propose the goals and the research problem of this study. Third, results and implications for firms are discussed and highlighted. Finally, suggestions for future research are presented.
2. Conceptual Background

2.1. Service recovery efforts

The prominent competitiveness in the contemporary service sector has attracted increasing interest on the part of researchers and marketers in understanding how customers evaluate service experiences, particularly as regards the inherent negative consequences of critical incidents on customer complaint behavior [11].

Not all market interactions are successful at first. The above mentioned service failures resulting from poor service experiences occur because the customers' expectations are quite often not met, which leaves them disappointed. This disconfirmation of service expectations caused by a failure results in customer dissatisfaction [12]. Consequently, there are complaints [13] which may be an indicator of conflicts in the customer-firm relationship [8].

The literature recognizes that effective complaint management offers numerous benefits to organizations [7]. However, many service providers neglect customer service, considering it an unnecessary cost rather than a competitive advantage [14]. Although many dissatisfied consumers do not complain and just switch to a competing alternative (when available), complaints play a key role for firms. They provide real opportunities to receive feedback about their offers and to identify and retain dissatisfied consumers [10]. Therefore, in order to ensure high levels of customer satisfaction and loyalty, it is crucial for firms to expend efforts in a strong and effective service recovery process [2]. The ability of firms to organize programs of service restoration is the main strategy for retention of customers. Moreover, it ensures their loyalty and satisfaction [15].

Service recovery is defined in the literature as a process by which a firm tries to rectify a failure in the service [16]. It involves actions whose aim is to solve problems and to change the negative attitudes of dissatisfied customers and retain them [17]. In fact, it covers a broader set of activities that go beyond complaints management by focusing on customer complaints and their relevant technical origin [2]. Since it is unlikely completely to eliminate service failures, firms must learn effectively to respond to them when they occur. Though the potential negative impact of service failures on customer loyalty is clear, the effective application of recovery techniques can counteract this effect, helping firms to maintain or even enhance customer loyalty. It represents a second opportunity for service providers to deliver a positive experience [17].

Typically, recovery strategies can embrace three distinct actions, either alone or in combination [18]; an apology offer, or in other words, the recognition of the problem; assistance or problem resolution, and compensation, i.e. payment for damages.

Service recovery studies focus on how customers react to service providers’ responses after the occurrence of problems [19], because from a business perspective, with regard to customer dissatisfaction it is crucial not only to know whom to respond to and when and how to respond, but also the outcomes of the efforts made in terms of service recovery [20]. Furthermore, an extraordinary recovery could lead to a paradoxical situation: a customer who experiences a failure becomes more satisfied than those who did not experience any problem. This is the so-called service recovery paradox phenomenon [19].

In this context, the role of call-centers deserves special attention, due to their growing importance as a component of the service provided by firms. In most cases they are the only contact interface with customers [21], in particular as a means for customers to submit their complaints. In fact, call-centers have been defined in the literature as communication channels between firms and their customers to submit their complaints. In fact, call-centers have been defined in the literature as communication channels between firms and their customers for handling complaints and the resolution of customer issues, instead of a single unit of customer service or sales, as was initially recognized by firms [22]. Call-centers allow these firms to differentiate themselves from those who are just physically available during restricted hours, representing a competitive advantage [23].

2.2. The paradoxical effect and the behavioral outcomes

Despite the assumed accuracy of the SRP, there are few empirical studies that explore and examine it [16], and a gap remains in the literature due to the results of these different studies. It is suggested in the literature that high efforts for effective service recovery can produce this paradoxical effect, in which secondary satisfaction (satisfaction after the service failure occurrence and the respective recovery) exceeds the pre-failure satisfaction [3, 4]. Because it is a rare event, in addition to the difficulty associated with the detection of its existence (even verified) [9, 24, 25], its measurement is also costly [25] and the results are contradictory, both in terms of its existence and of the strength of its effects [1, 10].

In this sense, there are two schools of thought in the literature (see Appendix for complete list of the
2.3. The customers’ fairness perception

It is important here to introduce the justice concept, because fairness principles have also been applied in this context, i.e. in buyer-seller transactions [36]. This is a relevant concept in any domain where an exchange takes place, especially in a complaint behavior scenario, since customers frequently perceive an inequity [16] after a service failure. Although customers want to be treated fairly, the literature recognizes the difficulty of delivering fairness, since customers’ perception of this may vary among them [37]. So the perception of fairness in a service recovery context can be seen as a moderator which is evaluated by customers according to three independent factors [2, 38, 39]: outcome, procedural fairness and interaction treatment. The first two factors are related to distributive and procedural justice, respectively. Both tangible compensation (what was done) and process (how it was done) are assumed in the literature as crucial elements for a successful service recovery [2, 38, 40].

These two components of the equity concept are particularly important for this study, and both were considered. The type of compensation (tangible or not) and the process (time spent in failure resolution) were examined. We also investigated the moderating role of the demographic factor of gender in influencing customers’ behavior outcome. Although customers’ recovery studies focusing on gender analysis are scarce, prior research showed that this demographic factor influences customers’ reactions [41-43]. Therefore, it is an important segmentation variable [43], which should not be ignored [44]. Though the findings of the extant literature are inconclusive, either gender (whether one is male or female) might influence customers’ behavioral outcome after the service recovery [33].

Distributive justice is a concept related to the perceived fairness of the tangible outcome in order to compensate and rectify a service failure (e.g. discounts for future purchases and payment reimbursements) [39]. Compensation or redress is the most researched variable of the complaint handling process [45]. Tax, Brown and Chandrashekaran [38] argued that distributive justice must be operationalized in more general terms, since each customer evaluates compensation fairness in their own way according to three factors: prior relationship with the firm, awareness of other customers’ resolutions and perceptions regarding their own loss. Several marketing studies indicate that equity evaluations influence customer satisfaction and repurchase intentions positively [36], and compensation is habitually incorporated in the complaint handling process according to the perceived costs experienced by the customer [46]. There is a consensus in the literature relating to the positive effect of compensation in post recovery behaviors [45, 47-49]. However, more evidence is needed and some authors call for research on this topic [43, 45]. Apologies and compensations are the most common actions used by firms as recovery strategies [40], and both are important to customer satisfaction [38]. An apology is considered the minimum that a firm can offer to a customer after a service failure followed by a service recovery.
failure [40]. It can be seen as psychological compensation [50]. Hence, in this study tangible compensation for distributive justice was applied, i.e. customers who did not receive tangible compensation were distinguished from those who did. Therefore, customers who only received an apology and those who received one of the following compensations were included: loyalty program points; better rate plans; mobile phones; other offers (e.g. free minutes). We further argue that gender moderates the positive impact of compensations on customers’ post recovery behaviors. In a recovery context, in spite of the paucity of research on this topic, McColl-Kennedy, Daus and Sparks [51] demonstrated that male customers are more interested in what they effectively receive, or in other words, in the outcome. On the other hand, although female customers want a satisfactory outcome, they are more concerned about the process-based aspects, i.e. in how they are treated by the firm [51, 52]. Hence, we expect that men will focus more on the tangible outcome, and then experience SRP more than women. Therefore, our second hypothesis is as follows:

**H2a:** The relationship between claimants and repurchase behavior is higher among those who have received compensation.

**H2b:** The positive relationship between compensation and repurchase behavior is higher in males.

Procedural justice reflects the perceived fairness of the means (policies, procedures and criteria) by which decisions are made and problems solved (e.g. timing/speed) [2, 4, 38, 39, 53]. According to Davidow [45], timeliness is considered as the speed with which a firm responds to a complaint. The delays in the customer complaints and recovery context also stand out for their relevance [9, 24], especially because a negative relationship was found between delay and customer satisfaction [24, 54]. A firm benefits when presenting readiness in response to complaints [54], and this is one of the key customer perceptions as regards procedural justice [38, 39]. Some of the few studies in the literature have presented a positive influence of timeliness on post-complaint customer behavior [2, 47, 55, 56]. According to those results, in our research it is expected that timeliness will have a positive relationship with repurchase behavior. The literature has often studied the role of time and flexibility in the complaints management process to measure procedural justice [38, 39]. Thus, this research considered the amount of time, measured in minutes, that the service provider took to handle the customer complaint. Regarding gender differences, it is suggested that women have higher service recovery expectations than men [57]. In addition, procedural justice is more important for women, since they like to participate in decision making [51]. In fact, women focus more on the process than men [37, 58]. Thus, it is expected that SRP is more common with female customers. Following the above discussion, the last hypotheses are therefore proposed:

**H3a:** The relationship between claimants and repurchase behavior is higher among those who have received a prompt resolution.

**H3b:** The positive relationship between timeliness in failures recovery and repurchase behavior is higher in females.

### 3. Method

A case study in the context of the mobile telecommunications industry was selected to test the hypotheses. Literature regarding inconclusive results in relation to the SRP effect formed the basis of this research. As an extensive database was required for the study, data collection was undertaken, for convenience, in one of the biggest firms in the Portuguese telecommunications sector. Moreover, in this sector, customer service is mainly provided through call-centers. Thus, the database presents the historical behavioral interactions between customers and firm over a long period of time, i.e. from January 2012 to January 2013. We considered a sample of 26,283 customers from the firm database who contacted the Call-Center by phone. For each customer the database contains demographic information, the amount spent per month on the service and information about what led to the customer call. It also includes claimants and non-claimant customers - control group – and information about the attempts of the call-center to answer customers’ complaints or requests, in a given period of time. Complaints were analyzed along with the efforts of the firm to recover from these service failures. The reasons that motivated customers’ complaints are diverse: disagreement with the amount charged; dissatisfaction with bad service; late delivery of equipment; delay in service activation; disagreement with the loyalty program, etc. Compensations offered by the firm may also vary according to the complaint presented: it can be tangible, such as extra points offered in the loyalty program; invoice discounts; free equipment
replacement; or it can be non-tangible, i.e., an apology. The timeline was selected under the assumption that policies, strategies and handling of customer complaints did not change in that period of time.

Briefly, the demographic characteristics of the sample were as follows: the gender split was 58.1% male, 40.2% female and 1.8% unknown; the majority of customers, i.e. 58.4%, were between 26 and 47 years of age.

Therefore, with a database containing these features we intended to overcome some of the recognized limitations identified in the previous studies (see Appendix), thus contributing to greater validity in terms of the results obtained, in particular: (i) in terms of the sample size, using a larger one; (ii) a service industry little analyzed in the extant research, as the object of study; (iii) through real data analysis, i.e. from the firm’s point of view; and (iv) by focusing on one of the less tested SPR dependent variables.

4. Results

In order to determine whether SRP exists, customers were divided into two separate groups: non-claimants (n = 14,338) and claimants (n = 11,945), based on the number of complaints (one or more complaints = 1, zero otherwise). To test whether SRP in fact occurs, repurchase among non-claimants and claimants was also analyzed and a Chi-square test was applied. As predicted in the first hypothesis, we confirmed that the number of claimants who repurchased is significantly higher than those who did not (X²₀ₐ = 15.342; p < 0.001; α = 0.05). A positive relationship between the two previously mentioned variables was established (p < 0.001), suggesting that customer satisfaction determines the continuing relationship between parties and leads customers to repurchase. As we stated above, due to service recovery efforts a considerably large number of claimants maintained their services and repurchased. In terms of complaints, a Spearman Correlation Test was performed to establish a relationship between the number of complaints and the account status (p < 0.001), suggesting that customers who make a higher number of complaints are more likely to have their accounts deactivated. Therefore, H₁ is supported.

To test the impact of compensation in repurchase, a Chi-square test was employed. The results of this analysis show that compensation is an important determinant of repurchase status (p < 0.001). More than 73% of the repurchased claimants were compensated (X²₀ₐ = 173.100; p < 0.001; α = 0.05). Consequently, these results provide support for Hypothesis 2a. Regarding the impact of gender among the compensated claimants’ repurchase we verified that there are no significant differences between men and women. In fact, the repurchase proportion between them is similar (X²₀ₐ = 2.317; p = 0.311; α = 0.05). Hypothesis 2b does not find support.

To establish whether the effect of time spent on resolving the customers’ complaints influenced the decision to repurchase the service or not, we compared this variable’s mean between those who repurchased (231.19 minutes) and those who didn’t (140.95 minutes), (Table 1). This analysis suggests that the time mean is statistically different (p < 0.05) among customers, supporting the Hypothesis 3a.

Table1. Comparison of means

<table>
<thead>
<tr>
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<th>No Repurchase</th>
<th>With Repurchase</th>
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<tbody>
<tr>
<td>Mean</td>
<td>231.19</td>
<td>140.95</td>
</tr>
<tr>
<td>SD</td>
<td>1789.08</td>
<td>1517.66</td>
</tr>
</tbody>
</table>

To test whether gender exerted any influence on the above relation, we ran a Chi-Square test and found no differences between women and men (X²₀ₐ = 2.867; p = 0.236; α = 0.05). Consequently, Hypothesis 3b is not supported.

To complement these analyses, a logistic regression was applied, which leads us to conclude that the general model chosen with compensation and timeliness as predictors is significant (p < 0.001) and that gender is not a determining factor, since it did not appear in the final analysis.

In summary, five hypotheses in total were tested and the results are summarized in Table 2.

5. Discussion and conclusions

Since firms tend to invest more and more in retaining customers, service recovery has become a meaningful competitive strategy. It is recognized that call-centers are an easy and effective channel for customer complaints in the telecommunications sector. Besides, in a highly competitive environment, the manner in which the firm handles the problem which has occurred can be as critical as the outcome.

Our research evaluates SRP directly and offers some insight into important aspects of the service recovery process.
Table 2. Summary of outcome of results

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Outcome</th>
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<tbody>
<tr>
<td>Hypothesis 1: Customers who have experienced a service failure followed by a service recovery exhibit higher repurchase behavior than customers who have never experienced a service failure.</td>
<td>Supported</td>
</tr>
<tr>
<td>Hypothesis 2a: The relationship between claimants and repurchase behavior is higher among those who have received compensation.</td>
<td>Supported</td>
</tr>
<tr>
<td>Hypothesis 2b: The relationship between claimants and repurchase behavior is higher among males.</td>
<td>Not Supported</td>
</tr>
<tr>
<td>Hypothesis 3a: The relationship between claimants and repurchase behavior is higher among those who have received a prompt resolution.</td>
<td>Supported</td>
</tr>
<tr>
<td>Hypothesis 3b: The positive relationship between timeliness in failures recovery and repurchase behavior is higher in females.</td>
<td>Not Supported</td>
</tr>
</tbody>
</table>

Therefore, the analysis supports the SRP phenomenon in the Portuguese mobile telecommunications context, which is similar to the results of Bolton and Drew [59] and conversely refutes the results presented by Bolton [30] and Kau and Loh [60]. However, the smaller the number of a customer’s complaints are, the greater is the likelihood of his/her remaining with the firm. It is obvious that service failures are inevitable in a service scenario, and it is normal for firms to fail to deliver an expected service. Yet customers lose confidence in the firm when they experience many failures and are likely to switch to other service providers. This being the case, firms should compensate them fairly for their loss and operate an effective complaint management system, with a quick response, as our research has proved.

At the same time, our findings showed that timeliness and compensation are critical components for successful complaint handling, and consequently influence post-recovery satisfaction as well as repurchase behavior, which is in line with previous studies (e.g.[37]). It is imperative that a firm provides fair outcomes. Therefore, firms must recognize the full costs that the customer incurs as a result of service failure and during the complaint process [38].

Gender differences, concerning which the literature is limited (e.g.[42]), were not supported in this study. No differences were found between genders. This may be due to the specific characteristics of the mobile sector and to customers’ consumption standards. Being a service used daily, the occurrence of a failure or problem may cause significant inconvenience to customers. Thus, male and female customers must be compensated by means of a tangible offer, which should be fair from the customers’ point of view. Both men and women want to be compensated with more than an apology. Besides, women and men dislike delays and become more satisfied if they experience a quick resolution of the problem. A late resolution may cause problems and also huge costs for them. In fact, those who have the problem quickly resolved are more likely to stay with the firm and subsequently to repurchase.

As stated before and according to the literature (e.g. [61]), situational factors (e.g. cultural nuances and market specific characteristics) may be critical in determining customers’ behavior outcomes. Consequently, the inability to generalize regarding findings among key recovery strategies is recognized.

5.1. Limitations and future research

The research has some limitations which, of course, propose directions for future research. Common sense suggests that call-centers are a central key in retaining customers. Consequently, more research is needed to help firms in complaint management. It is also essential to bear in mind that this research examines the existence of SRP through customer complaint handling practices in a call-center setting, which can be shown both as a strength and a limitation, since real data were tested and customer perceptions were not directly assessed. The database dimension is another strength, although the measurement scales applied can be an assumed limitation of this study. Due to the call-center database used, single-item scales were applied, which may interfere with internal reliability as they cannot be estimated. In spite of the exit barriers, such as the contractual nature of the relation between both parties, the network effect (by which the service value increases as customers’ families and friends subscribe to it) and the service competitive prices and other switching costs (e.g. equipment), the competitiveness of the sector allows customers to switch between competitors easily. Therefore, keeping the service active represents a strong loyalty indicator. Nevertheless, the account status, as a repurchase measure, is still one of the least tested variables. We hope to fill this gap.

Besides, it will be pertinent to measure repurchase behavior through other measures (e.g. amount spent). Furthermore, this research has only explored and tested the identified independent variables as
influencers of the SRP effect. It would be useful to test others, such as the complaint and failure types, their severity, interactional justice and the relationship age. Analyzing whether or not customers faced constraints in terms of remaining with the service, which may have prevented them from abandoning it, would be also worthy to study.

Future research should test different distributive (e.g. different offers as compensations given to customers) and procedural justice (e.g. facilitation) measurement scales. Moreover, gender differences should also be investigated. Although we have not found different repurchase behaviors as regards gender, findings on this topic are not entirely consistent in the literature, as we mentioned before. Hence, further research concerning that would be worthwhile. Along with the replication of this study among different cultures (Portuguese customers may have specific and different consumption patterns), research should also analyze it in contexts which do not have contractual relations as a premise. If our findings are context-specific, then future investigation should seek to analyze different settings.

5.2. Managerial implications

Our study highlights relevant implications for managers. The findings presented suggest that from a managerial point of view it is relevant for firms to invest in service recovery, especially in compensations, since these positively influence customers’ repurchase behavior. In a similar vein, results are consistent with the literature, in which it is suggested that retaining existing customers is not as expensive as acquiring new ones [7]. Thus, compensations cannot be perceived by managers only as a cost for the firm, but rather as an important investment. At the same time, firms should have an effective complaint service management to address the need for an immediate response to a complaint. The faster the response to customers’ complaints is, the more positive repurchase behavior will be.

Since SRP can be an opportunity for firms to retain customers, [9] there is potential relevance in that the knowledge about customer reactions to the service recovery strategies can enhance better management strategies [6]. Firms should reevaluate the fairness of existing processes and outcomes, which will allow managers to establish a better fit between a service failure and a recovery strategy, as they have a number of options of fair complaint-handling procedures available [38].

To sum up, the present study essentially aims to make an essential contribution to the SRP research topic, broadening our knowledge about this phenomenon and helping to identify factors which may contribute to its existence. Therefore, it produces knowledge through enabling an understanding of the SRP effect and the development of service failures and service recovery issues. Furthermore, understanding the SRP effect will be useful for managers in that they can exercise more control over failures and adopt better-adjusted recovery strategies. In fact, in a competitive sector such as telecommunications, where customers easily switch to competitors, managers should be aware that transforming a dissatisfied customer into a satisfied one can improve his/her repurchase behavior, which can increase the amount spent, the sale of new and more expensive equipment, and the subscription to more services available in the firm. As a result, firms’ profits will increase. Similarly, this will enable employees to learn more about how to deliver service recovery in an efficient way.

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7. References

### Appendix. List and methodological characteristics of SRP previous studies

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>SRP</th>
<th>Context</th>
<th>Sampling dimension</th>
<th>Methodology</th>
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<td>Scenario-based experiment</td>
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<td>Interviews</td>
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<td>Video store</td>
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