Dealing with over-the-top compensation demands

As we move further into the two-month-long Great Singapore Sale, it is not uncommon to see busy and frazzled service staff attending to crowds of bargain-hunting customers. This is one of those times when businesses have to work hard to uphold service quality and prevent service failures, as they deal with the increase in human traffic and transactions.

Many retailers live by one of the most basic tenets of customer service — “the customer is always right”. However, that is a statement that assumes customers will behave reasonably and fairly, which is not always the case. Managers need to realize that there will be opportunistic customers.

Opportunistic customers exist in most service sectors. For instance, there was the lady who asked for more than $2,000 as compensation after a $30 haircut, citing a poorly-done job that caused psychological and emotional damage. It was just one extra-zealous demand that we uncovered in our study on the behaviour of aggrieved customers during the service recovery process.

We looked at 200 claims and found three factors that influenced the way customers reacted after experiencing a service failure: the perceived fairness of the compensation, the convenience of claiming procedures, and the helpfulness of the firm in the claim process. When a service recovery attempt was perceived as fair and prompt, customers tended to be less opportunistic in their claiming.

Interestingly, we also found that customers were less likely to make opportunistic claims against small firms, which are likely to have limited resources compared to large ones. Only five opportunistic claims were directed at small companies. One reason opportunities prey on larger companies is their sense of self-image and shame. Many know that they are doing something wrong.

We asked 49 people, “Have you ever asked for a refund or compensation that you thought was too much or unreasonable given the circumstances?”, and 17 admitted having done so within the past six months.

However, we discovered that satisfaction did not increase even when customers received the exorbitant compensation that they asked for, because they believed it was due to their own effort and runningness, rather than the firm’s goodwill.

Our findings suggest that the most effective way to prevent opportunistic claims is for companies to be proactive and offer fair compensation upfront when things go wrong, and not wait for the customer to make a claim. Customers who have to negotiate are more likely to make exorbitant demands.

Firms can customize their service recovery strategies according to their size and type of customers, to balance costs and the need for customer satisfaction. For instance, large companies can offer reasonably generous compensation upfront when dealing with service failures, as customers expect more from them, but resist paying out unreasonable sums in subsequent claims so as not to encourage misbehaviour.

Rather, they should focus on being friendly, compensating and apologising, and try their best to help the customer in other ways to solve the problem. Small firms, in contrast, can compensate with smaller payouts or even none as customers expect less from them, but they also should focus on providing a smooth service recovery, as well as a friendly and apologetic response. Having a manager speak with the customer immediately may also help minimise compensation beyond the specific loss. Studies have found that managerial attention produced the highest levels of customer satisfaction, beating out free food, discounts, coupons, and replacement items.

Another important factor in determining whether an opportunistic claim is made is the relationship the customer has with the firm. Customers are more likely to be reasonable when dealing with a person they want to patronise again in the future, and especially so if they are known personally to the service staff.

A female interviewee explained that she had overclaimed from an international hair and body products retailer, because she was not intending to return to them and hence “wouldn’t have been embarrassed about having to deal with the same people again”.

In a nutshell, firms must be fair and friendly, but not bullied. Honouring opportunistic claims will only encourage future deviant behaviour and cost more, with no significant impact on customer satisfaction.

Jochen Wirtz is associate professor in the department of marketing and founding director of the UCLA-NUS Executive MBA programme, NUS Business School. He specialises in services marketing. Jochen R McColl-Kennedy of the University of Queensland collaborated in this research. It was published in Journal of the Academy of Marketing Science and Harvard Business Review.