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Minimizing the Ratchet Effect: Why Reciprocity Preserves Customer Satisfaction in Service Environments

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EXTENDED ABSTRACT

This paper focuses on a fundamental problem for marketers: the ratchet effect. The ratchet effect occurs when actual service performance is perceived to be significantly higher than service expectations, causing dissonance and resulting consumer guilt. If left unattended, consumers relieve their guilt by increasing the perceived state of expectations for subsequent visits. Known as the ratchet effect, this causes a dilemma for the service business as they consistently strive to improve service performance. Using equity theory, our experimental study explores whether businesses can break the ratchet effect by providing mechanisms of reciprocity for consumers to respond at little or no cost when they receive outsized benefits. By manipulating should/will expectations, we test the effects of different forms of reciprocity, prophylactic and sacrificial, to minimize the ratchet effect. Results demonstrate that sacrificial reciprocity on initial visits can increase customer satisfaction for subsequent visits, while psychic reciprocity minimizes immediate consumer guilt. Finally, understanding why positive inequity evokes cognitive dissonance to produce the ratchet effect is an important advancement in equity theory.

In the marketing literature, Palmatier et al. (2009) defines gratitude as the emotional appreciation for benefits received, accompanied by a desire to reciprocate to the one(s) who distributed the benefit. Thus, from a relationship marketing perspective, there are both affective (feelings of gratitude) and behavioral (gratitude-based reciprocal behaviors) aspects of customer gratitude. In fact, researchers across disciplines have noted a deep psychological need to reciprocate after receiving a benefit, especially those that are inequitable in nature, and this reciprocation can often lead to pleasure when repaid or even guilt when it is not (Emmons and McCullough, 2004; Morales, 2005; Becker, 1986; Buck, 2004; Dahl, Honea, and Manchanda, 2005).

In addition to the affective and behavioral dimensions most commonly associated with gratitude, Bock, Garretson-Folse, and Black (2016) acknowledge a commonality among these definitions that include a cognitive component. The authors state that gratitude also occurs by recognizing another's individual actions and their responsibility for a certain positive outcome. This "other-agency" perspective is important because it adds a third dimension to the construct. The cognitive component distinguishes gratitude from other positive emotions, like satisfaction, that are not based on appraising the actions of others (Bock et al., 2016). Therefore, gratitude operationalizes the process by which reciprocity mechanisms are invoked to satisfy some level of

inequity that has been distributed towards an individual in their favor, insinuating that it functions as a moral barometer, letting us know when we are the intentional recipients of positive and inequitable benefits. This most often leads to trust and reciprocation, two vital ingredients in relationship building and maintenance (Xia and Kukar-Kinney, 2013), which is especially important in the relationship marketing efforts of service providers.

However, recent research within the realm of customer prioritization suggests that customer entitlement can potentially intervene and counterbalance effects of gratitude (Wetzel, Hammerschmidt, and Zablah, 2014). Boyd and Helms (2005) identify entitled customers as those who expressed claims for extra effort from a provider is based on the belief that they deserve it. Within a service context, this resembles the Boulding Paradox (Boulding et al., 1994), where service patrons consistently increase expectations of service providers with each elevated consumer experience. Due to confirmation bias, service patrons become entitled to increasing levels of performance until costs finally prohibit the cycle, eventually creating dissatisfied customers. Accordingly, to date, no one has identified a mechanism that can minimize these effects.

Therefore, the purpose of this research was to examine whether reciprocity on the part of consumers could reduce the ratchet effect where improvements in service lead to ever-higher consumer expectations of service performance and, thus, ever lower levels of consumer satisfaction. The ratchet effect is a problem for businesses because it embodies a built in penalty for providing excellent service. As businesses strive to enhance the consumer experience by providing exceptional service, they elevate subsequent consumer expectations about the level of service that should be provided. With each hard-won increment in service quality, consumer expectations ratchet still higher. Eventually, cost constraints mean the service provider will fail to meet these ever-rising expectations. They will, thus, disappoint their customers. To avoid this problem, service providers need to utilize reciprocity mechanisms to prevent the increase of customers' *should* expectations.

In particular, we suggest service providers avidly research which reciprocal measures will influence consumers' performance ideals (what *should* happen) and their performance expectations (what *will* happen). Under the theory proposed by Boulding et al. (1994), a marketer's task is to raise *will* performance expectations so that confirmation bias will produce higher service evaluations while not affecting the *should* performance ideal, which would prevent consumers from ratcheting up their expectations and produce consumer dissatisfaction. According to our research, consumer reciprocity may facilitate the achievement of these objectives.

The main contributions of this study suggest that the greater the magnitude of the reciprocation, the more the ratchet effect is attenuated. But the study may also clarify why positive inequity inconsistently evokes cognitive dissonance and produces a ratchet effect, an important advance in equity theory. But most interestingly, as with the case of the control group, when there is no other opportunity to recompense excellent service, psychic reciprocity (lower *should* expectations and higher *will* expectations, both grounded in gratitude) may partly recompense a business for its service excellence.

Future research on this topic should focus on the anomalous but especially positive and strong result for the control condition in this study, the condition in which there was no explicit reciprocity. The lower end boundary conditions for the positive effect of costly reciprocation on satisfaction should be tested to identify the limen where responses differ between low levels of reciprocity and no reciprocity. Future research should test the robustness of the no reciprocity effect to see if it disappears given consistent exceptional performance by the business with no opportunity for consumer reciprocity apart from psychic responses.

Keywords: Ratchet effect, Service expectations, Customer satisfaction, Gratitude, Prophylactic reciprocity, Sacrificial reciprocity, Equity theory

References are available from the authors upon request.

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