

## Chapter 76

# The Role of Service Recovery in Online Privacy Violation

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### ABSTRACT

*In this study, the authors address the question of whether firms may successfully pursue service recovery strategies after severe online privacy violations. The study treats online privacy violations as a service failure and uses justice theory to measure repurchasing intention after consumer complaints in three different scenarios. The three scenarios differ in the sense that the accountability and the outcome of the service failure are different. The results indicate that despite the different instances of online privacy violation in each scenario, the service recovery efforts consistently created satisfaction with service recovery, significantly increased consumer trust, decreased perceived risk and increased repurchase intentions. The study finds that both distributive and procedural justice plays an important role in online service recovery while interactional justice did not have any impact. Finally, even in cases of severe online privacy violation service recovery plays an important role generating repurchase intentions.*

### INTRODUCTION

The notion of privacy is a very old concept. The French philosopher Jean Jacques Rousseau proposed that people possess rights that they are born with (Rousseau, 1762). In the U.S. and Europe, one of the basic rights is the “right to privacy” (Kemp and Moore, 2007; Richardson, 2017). However, the ascendance of Big Data and fusion centers, the tsunami of data security breaches, the rise of Web 2.0, the growth of behavioral marketing, and the proliferation of tracking technologies have made it difficult for consumers to protect their information privacy from organizations. A study by “Privacy.org” over a period of six

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months found that the leading type of privacy abuse is the “unauthorized secondary use of information or data” (Cockcroft, 2002). Only 17 percentage of internet users believe that their personal information was secure online (Statista, 2017).

In this research, we treat online privacy violation as an instance of service failure. Service expectations are a normal part of every transaction involving services. Service expectations have been widely studied in the marketing literature (e.g. Kotler and Keller, 2009; Roy, Lassar, Ganguli, Nguyen and Yu, 2015). Service expectations are a set of attributes and conditions that buyers expect when they purchase a service. If those expectations are not met, there is service failure which may lead to service discontinuance or switching behavior. When consumers use various online services and share their personal information with online providers, there is an expectation from the buyers’ side that the personal information will be safe and secure, and it would not be shared with third parties or other business partners. When the expectation of having your personal information secure is not met, there is service failure.

A service failure is defined as “a real or perceived service-related problem or where something has gone wrong when receiving a service” (Maxham, 2001, p. 12). It has been found that service failure leads to unfulfilled customer expectations (Chan and Wan, 2008; Jung and Seock, 2017), which cause a negative impact on customer trust and satisfaction, resulting in lower customer loyalty, lower repeat purchase and a higher chance of customer churn (Eshghi, Haughton, Teebay and Topi, 2006; Castro and Pitta, 2012). When a customer provides their personal information to a service provider, it is expected that the service provider will maintain customers’ privacy and use that information appropriately in providing the service. This expectation of privacy is a severe problem because conflicts can arise between the customer who has an expectation of privacy and the service provider who wants to use their customers’ personal information for profit or other organizational objectives. When a service provider violates the customer’s expectations of privacy, it becomes a service failure in the opinion of the customer.

Firms may attempt to counteract the effects of service failure on customer satisfaction, loyalty, word of mouth and profitability through service recovery strategies (Zeithaml et al., 2006; Mikolon, Quaiser and Wieseke, 2015). Researchers have shown that customers who experience service failure may display higher levels of satisfaction with the service if they receive effective service recovery. In some cases under certain circumstances, customers may have higher levels of satisfaction than they exhibited prior to service failure (Zeithaml et al., 2006); this phenomenon is often referred to as the service recovery paradox and underscores the importance of effective service recovery. While a service recovery paradox is the optimal response from service recovery, a service recovery process may positively address customer satisfaction, mitigate word of mouth, maintain high loyalty levels and favorably influence profitability while at the same time contributing to service improvement in the short and long run.

Service recovery is a widely researched topic in the marketing literature, but the research has focused on formulating and evaluating the various service recovery strategies in brick and mortar settings (Blodgett, Hill and Tax, 1997; Kuo and Wu, 2012). Similar studies on service recovery strategies in the context of online services have also been undertaken by several researchers. Fan, Wu and Wu (2010) investigated the impacts of service failure recovery and perceived justice on consumer loyalty for online retailing service; Wang, Wu, Lin and Wang (2011) studied the service recovery and customer loyalty in case of e-tailing; Chang, Lai and Hsu (2012) looked at perceived justice and transaction frequency;

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