



Fairness in the customer relationship



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01 Win with fairness

Zendesk Companion to “Does fairness pay?”, a research paper by Dr Tony Hockley of the London School of Economics and Political Sciences.

Interactions between companies and customers don't always go as planned. The concept of fairness—how to define it, how to embody it—can be pivotal in whether your relationship with the customer emerges unscathed, or survives at all, after some kind of conflict.

When we think about being fair, it's crucial to keep this goal in mind: always advancing our respectful understanding of our customers as human beings.

Zendesk worked with economist Dr Tony Hockley, of the London School of Economics & Political Science (LSE), in search of any light that the field of behavioral economics might shed on how fairness works in customer service. “Relationships built on rights alone, without trust or other emotional bonds, can quickly

descend into a battle to ‘win’ a narrow point of principle” Hockley observes in his research paper “Fairness in the Customer Relationship.”

The old adage “the customer is always right” has been popular since at least 1914. These days, however, it lacks the nuance to help organisations navigate the contemporary customer-service landscape. Here are some insights into the complex world of customers and fairness.



Friendliness and efficiency can matter most

What if a customer has a [request that is unreasonable](#) or against company policy—for instance, a customer who is insistent on using a promotion code that expired two years ago?

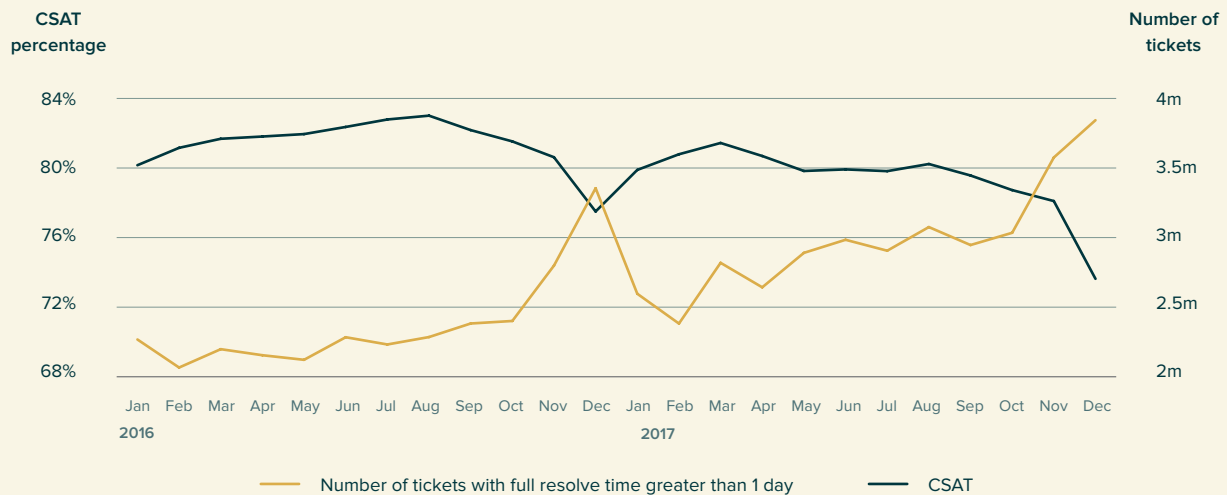
We all try to accommodate a customer as much as possible, but if the request clashes with policy and an exception isn't warranted, there's only so much you can do.

There are, however, options for trying to help, such as offering an alternative to the unworkable resolution the customer is seeking, as well as the use of empathetic language: "I understand why you feel this way," or "I'm really sorry that you're dealing with this situation right now." Efficiency helps, too: [An analysis of Zendesk retail-customer data](#) found that speed of the first reply is directly linked to customer satisfaction.

For many customers, a friendly support agent or a quick response is ultimately more responsible for a positive support interaction than actually getting their desired outcome. Even the mere act of an agent asking for more information can make a customer feel that their concerns are being taken seriously. Customers may forgive a company that doesn't give them their desired outcome if the interaction itself was a good experience.

Rise in ticket volumes matches rises in customer expectation

Zendesk research - 4 Crucial Trends for the 2018 Holiday Retail Season



*Not all respondents complete CSAT surveys



Amplify good will by anticipating trouble

Proactive chat support is an initiative by SaaS operations management platform BetterCloud; the results they've seen [have delighted both them and their customers](#).

In actively monitoring their error logs, the company can reach out and resolve issues before their users have even had time to react. “We know exactly what the problem is before the customer comes to us,” says Michael Stone, director of technical support. When a customer gets this kind of surprise—that a company is scanning the horizon for trouble and shutting it down before the complaints roll in—forgiveness may outweigh fury.

Providing proactive chat support has resulted in 100% customer satisfaction ratings for BetterCloud

Source: [Presentation by BetterCloud at Relate Live 2016](#)

Altruism benefits business

Compelling insights into the dynamic of customers, support, and fairness came out of a recent study that Zendesk partnered with Drexel University in Philadelphia, Pennsylvania, U.S.A., to conduct. We were interested in understanding how altruism affects business, and [we found that employee volunteering actually improved CSAT](#). There are three key reasons: due to increased help-seeking behaviors; improved empathy scores; and improved agent retention through pride in our communities.

Cultivating altruistic behavior—totally outside the interactions between agents and customers—thus actually contributes a great deal to how those critical interactions might unfold. Never is this more clear than when a customer is angry.

Customer service professionals must be capable of working through angry situations, and [empathy helps us do that](#). Understanding why someone is upset makes it easier to empathise with them. The anger can stem from anything from frustration that your product isn't working properly, to feeling betrayed by the company, or even embarrassed at not being able to figure something out independently.

The Drexel study found that advocates who volunteered at least once every two months were more than three times more likely to be rated among the top third in the company for empathy. Studies have shown that people can hear a difference in voice inflection between a smile and a non-smile; if an agent can embody calm and compassion in a difficult situation, it could mean the difference between a customer feeling fairly treated or feeling done with you. Altruism helps cultivate that skill.

3x Advocates who volunteered at least once every 2 months were more than 3 times more likely to be rated among the top third in our QA empathy scores.

Source: Zendesk research - [How volunteering boosts agent performance: 3 key benefits](#)



“It’s about recognizing the opportunity first and then second ... having that creativity to do something that stands out in a positive way.”

Jeff Toister, author of *The Service Culture Handbook: A Step-by-Step Guide to Getting Your Employees Obsessed with Service*.

A positive experience can go viral

In an [interview for Zendesk Relate](#), we asked Jeff Toister, author of [The Service Culture Handbook: A Step-by-Step Guide to Getting Your Employees Obsessed with Service](#), about ways to delight customers. In his book, he uses an example of the Tampa airport, where a six-year-old lost his stuffed tiger, Hobbes. Airport personnel created [adventures for the toy](#) around the airport, photographed them—things like Hobbes having gelato and taking a nap in a hammock. When the family came back to the airport, the staffers returned the tiger, along with a bound book of photographs to document Hobbes’ adventures.

The internet ate this up like a bowl of Hobbes’ gelato.

This tactic has been used by more than one company, and every time, the story seems to go viral. What delights customers has to do with our perception around service and service quality, Toister says, adding that anything outside of the norm is going to capture our attention.

Takeaways

The concept of fairness is essential to the relationship between consumers and companies.

When addressing customer issues, companies need to make every effort to leave the customer with the feeling that they have been treated with fairness. The care, efficiency, and thoughtfulness that companies take in customer interactions can ultimately leave a longer-lasting impression than whether or not a customer gets their desired outcome in a conflict.

Take the 4 following steps to build fairness into your customer interactions:

- 01** Be efficient but also be friendly: the first reply to a request is closely linked to customer satisfaction.
- 02** Be proactive: give yourself the tools to anticipate and resolve issues before they arise.
- 03** Cultivate altruism: grow your customer service agents so that they can truly put themselves in your customers' shoes.
- 04** Create shareable experiences: services shouldn't be only about going from issue to resolution; consider delighting and surprising your customers when the context allows it.

02 The full research— does fairness pay?

Fairness and reciprocity are deeply rooted in the human psyche. They serve a valuable purpose, and any relationship that ignores this will, at some time, find itself in trouble. This is as true for businesses and their customers as it is for individuals.

Tony Hockley

London School of Economics
& Political Science (LSE)

March 2018

Below is the verbatim research paper as produced by Dr Tony Hockley, Visiting Senior Fellow in the Department of Social Policy at the London School of Economics & Political Science (LSE).



THE LONDON SCHOOL
OF ECONOMICS AND
POLITICAL SCIENCE ■

What is fair and what is right can be very different. Relationships built on rights alone, without trust or other emotional bonds, can quickly descend into a battle to “win” a narrow point of principle, regardless of any wider consequences. In one-off transactions this may matter little, unless it causes wider reputational harm, but ongoing relationships need some reciprocity. This takes two forms, with quite different motives. Direct reciprocity, is little more than “one good deed deserves another”. It may be an essential element in the functional operation of any society, but this tit-for-tat effect may be very short-lived¹. Indirect reciprocity is, perhaps, of much greater importance to any long standing relationship or within a wider group of people. It is this reciprocity that is vital to the survival of any group.

It is too easy to write off reciprocity as weakness or charity, but reciprocity and altruism are not quite the same. The former delivers mutual benefit (in the end), the latter involves pure self-sacrifice for no personal

benefit. Understanding the difference could have significant value. Such a sense of quite general “fair play” is deeply embedded in the human psyche, even if it seems illogical. In 1970 Richard Titmuss produced his seminal book on “The Gift Relationship”². According to Titmuss humans possess a ‘sociological and biological’ need to enter into such relationships between people. Whilst he used the example of free blood donation to illustrate his point, he intended it to have much broader policy relevance. He made an influential case that a rational, economic approach in areas touched by gift relationships would crowd out this sense of fair play, boosting inequity and inefficiency. Titmuss’ case formed part of a general backlash against the rising influence of neo-classical economics, with its focus on profit-maximisation. John Rawls’ 1971 “Theory of Justice”³ reasserted the importance of “fairness”, and in 1973 the economist Kenneth Arrow published an article on “social responsibility and economic efficiency”⁴, offering an economic rationale for what is now known as corporate social responsibility.

¹ Chuan A, Kessler JB, Milkman KL “Field study of charitable giving reveals that reciprocity decays over time” Proceedings of the National Academy of Sciences of the United States of America, 7 February 2018 <https://doi.org/10.1073/pnas.1708293115>

² Richard Titmuss “The Gift Relationship: From human blood to social policy” (1970)

³ Rawls J, “A Theory of Justice” (1971) Cambridge, Mass

⁴ Arrow K, “Social Responsibility and Economic Efficiency” (1973) Public Policy, p303-317

The fairness advantage

But Whilst Titmuss' case was largely polemic more recent evidence from evolutionary biology and behavioural economics has demonstrated that he made a strong point in his claim that there is a biological and sociological need for gift relationships. It is a point with much wider relevance than public policy design.

Research in biology has demonstrated that altruism evolves to the benefit of groups, in non-human species as well as in humans. Whilst self-interest might benefit an individual within a group, a degree of individual self-sacrifice within a group delivers a competitive edge over other groups^{5,6}.

The seemingly irrational motivation to “take one for the group” was also revealed in Elinor Ostrom's Nobel-winning research on the emergence of grass-roots systems to sustain fisheries, forests and other ‘common pool resources’⁷ refuting earlier assertions that government control would be essential to avoid the “tragedy of the commons”⁸ in which individual self-interest generates overconsumption, and the eventual destruction of finite natural resources.

But how does a seemingly innate motivation to work for shared benefit play out in a more commercial transaction? This has now been tested extensively and it seems that the sense of fairplay is strong even when it comes to cash transactions.

Much research in this type of reciprocity has taken the form of “ultimatum games”. One person is nominated to be given a sum of money, part of which they should propose to share with a nominated recipient. Whether the proposer keeps any of the money is dependent

⁵ Sloan-Wilson D & Wilson EO “Rethinking the theoretical foundations of sociobiology” (2007) Quarterly Review of Biology, Vol 82, pp 327-348

⁶ Sloan-Wilson D “Does Altruism Exist? Culture, Genes and the Welfare of Others” Yale University Press (2015)

⁷ Ostrom E “Governing the Commons: The Evolution of Institutions for Collective Action” (1990) CUP

⁸ Hardin G “The Tragedy of the Commons” (1968) Science, Vol 162, pp1243-1248

upon the other player's acceptance or rejection of the amount offered. Rejection means that both receive nothing. A rational recipient would, of course, accept whatever they are offered by the proposer, for anything is better than nothing. Yet repeated experiments have shown that, in most settings, offers actually average 40% to 50%, and that lower offers run a considerable risk of rejection.

This seems, at least in part, to be a cultural construct. One experiment with a Machiguenga village in the Peruvian Amazon, largely isolated from the world of commerce, produced offers averaging just 26%. Even below this level rejections were relatively rare. The author commented that:

“Rather than seeing themselves as being ‘screwed’ by the proposer, they seemed to feel it was just bad luck that they were responders, and not proposers. Los Angeles players, in contrast, claimed that they would reject ‘unfair’ offers (below 25 percent usually) and a few claimed that they would reject any offer below 50 percent.”⁹

Expectations of reciprocity appear to exist in all societies, but appear to be heightened in developed economies. When it comes to the transactional relationship between companies and customers it seems unlikely that, in general, perceived service failures will be written off as pure “bad luck”. Whilst endemic procrastination might lead many customers to avoid pursuing a complaint, which can often mean a customer quietly heading for the exit, perhaps a relationship built more on fairness and reciprocity rather than rationality and individual rights is most likely to survive the inevitable ups and downs of customer service?



⁹ Henrich J “Does culture matter in economic behaviour? Ultimatum game bargaining among the Machiguenga of the Peruvian Amazon”, (2000) American Economic Review, Vol 90, No 4, pp973-979

Fair pricing

The economist Richard Thaler posed the following pair of questions to two groups on an executive education course:

“You are lying on the beach on a hot day. All you have to drink is ice water. For the past hour you have been thinking about how much you would enjoy a nice cold bottle of your favourite brand of beer. A companion gets up to make a phone call and offers to bring back a beer from the only nearby place where beer is sold, (a fancy resort hotel)[A run-down grocery store]. He says that the beer might be expensive and so asks how much you would be willing to pay for the beer. He says he will buy the beer if it costs as much or less than the price you state, but if it costs more than the price you state he will not buy it. You trust your friend, and there is no chance of bargaining with the (bartender)[store owner]. What price do you state?”¹⁰.

These two questions produced a median price of \$2.65 for the hotel and \$1.50 for the store:

Substantially different amounts for the same item to be consumed in the same circumstance. This finding set Thaler off on years of research into fair and unfair pricing; whether for snow shovels when it snowed, umbrellas when it rained, and so on. The analysis led to the conclusion that people use some “reference transaction” to enable them to judge fairness¹¹. This reference could be based on the characteristics of the individual item, perhaps the specific bottle of beer sat behind the hotel bar or on the store shelf irrespective of what is happening in the overall market for beer, or upon the “history of relations between the firm and a particular individual”.

It seems that Uber might be learning this lesson the hard way. Around the World the company is now having to moderate its “surge pricing”, often under the threat of legal or regulatory action¹². Whether in New York or Delhi the business has been forced to accept the relevance of fairness to the survival of its business model. During the 2017 Delhi air pollution crisis, for example, the firm voluntarily offered that it would not use surge pricing on the days when many cars were banned from using the roads¹³.

¹⁰ Thaler RH “Mental Accounting and Consumer Choice” Marketing Science, (1985) Vol 4, pp199-214

¹¹ Kahneman D, Knetsch JL, Thaler RH “Fairness and the assumptions of economics” (1986) The Journal of Business, Vol 59, No 4, Part 2: The Behavioral Foundations of Economic Theory, pp285-300

¹² http://www.ag.ny.gov/pdfs/Uber_Letter_Agreement.pdf

¹³ <https://economictimes.indiatimes.com/small-biz/startups/uber-to-suspend-surge-pricing-in-delhi-during-odd-even-scheme/articleshow/61583583.cms>

Even though Uber is often a disruptive new entrant into some highly controlled taxi markets it still hits a barrier of fairness in its surge pricing to which others in the transport and travel market seem largely immune, notably airlines and hotels. Returning to Thaler's suggestion that users use a reference price to make judgements of fairness, perhaps Uber itself has created a perception that it will be cheap, whereas hotels and airlines have generally ensured that they do the opposite.

Motivations of "fairness" may also lie behind the power of an apology compared to cash compensation. An analysis of "mutual feedback withdrawal" following negative feedback to a major German seller on eBay found that an apology produced a 44.8% withdrawal rate - double the rate for cash offers. Even doubling the amount of cash offered only raised the rate from cash from 19.3% to 22.9%.¹⁴

It might be reasonable to assume that a business which acknowledges a mistake intends to learn from that mistake, thus delivering a benefit to all customers. A cash compensation may suggest otherwise. If indirect reciprocity applies between customers as a group then it is understandable that an individual may "take one for the group" given what is known about the nature of reciprocity within groups.

Fairness is your friend

Business practice based on fairness is not the enemy of profit. It is its friend.

As demonstrated in Thaler's example of a cool beer on a hot day, what is perceived as fair relates to the character and reputation of the seller. This reference point is shaped by the business more than by the customer. In the end every gift relationship has at least two parties.

Reciprocity is not a phenomenon of random acts of kindness, but a consistent group survival instinct. It is predictable, and a core part of strategic success.

¹⁴ Abeler J, Calaki J, Andree K, Bask C "The Power of Apology" (2010) *Economic Letters*, 107, pp 233-235



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