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## Article

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## Understanding the Effects of the Presence of Others in the Service Environment – A Literature Review

Kathrin Albrecht

**Abstract:** Sharing the same service environment leads to direct and indirect interactions between customers that can either enhance or damage a customer's service experience. Especially in situations where customers are observing complaint situations of others, negative effects can be transmitted to the observing party, thus posing a considerable threat to the service provider. Although many research studies have examined the presence of other customers in a service context, a literature review systemizing both theoretical and empirical findings is still lacking. Through the current literature analysis three contextual factors have evolved that affect customer-to-customer interactions during service encounters in the service environment, i.e. customer-related factors, firm-related factors and encounter-related factors. Finally, four avenues of future research are exposed with regard to the contextual factors. Moreover, this article helps managers to carefully design their customer experience initiatives with regard to socially present other customers in the service environment.

**Keywords:** Other customers · Service Environment · Customer interactions

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## Introduction

During a customer's service consumption the customer is not only influenced by physical (Bitner, 1992), but also by social surroundings (i.e. other customers) that are simultaneously present in the service environment (Grove and Fisk, 1997; Harris et al., 2011) and affect a focal customer's service experience. However, both academics and practitioners have left the influence of socially present other customers out of consideration for a long time. Especially in today's experience-oriented service industry (Ponsignon et al., 2015), research on the effects from customer-to-customer (C2C) interactions between a focal customer (i.e. customer who is consuming the service) and socially present other customers in the service environment (i.e. actively interacting with the focal customer or mere observing) is of exceptional importance for service providers in order to proactively manage inter-customer encounters.

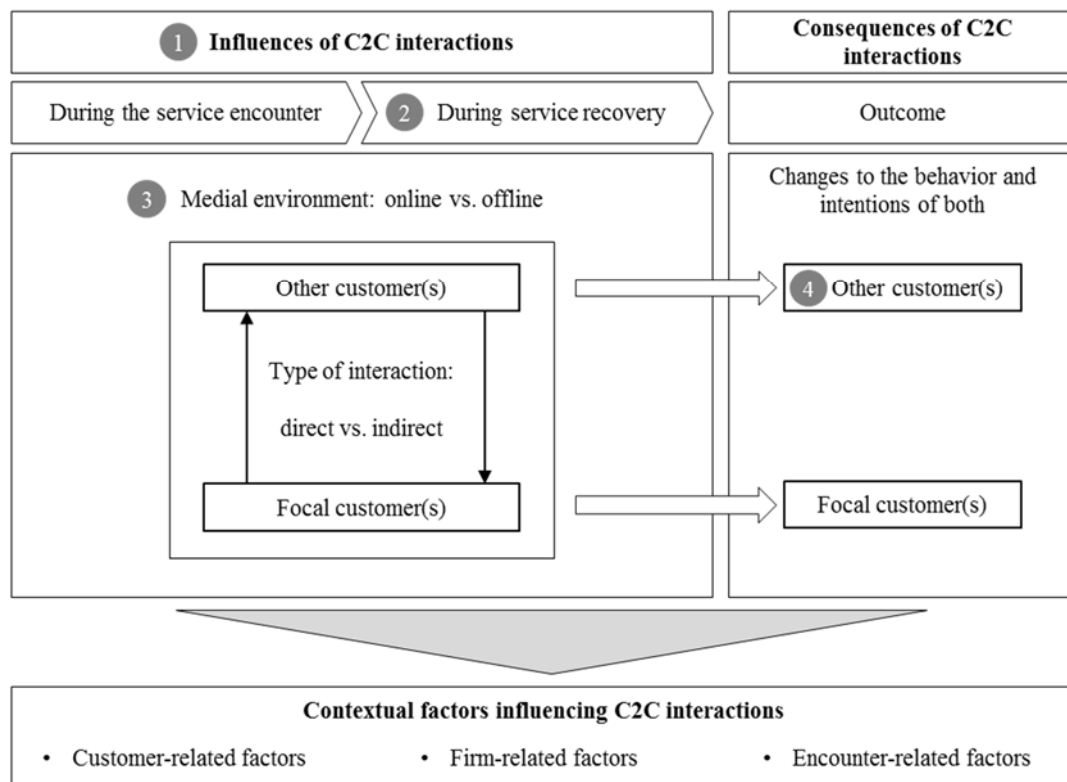
A socially present other customer (in the following also referred to as social presence or observing customer) can either directly or indirectly interact with a focal customer in the service environment. A direct interaction between subjects takes place when customers are, for example, talking to each other while waiting in line (Grove and Fisk, 1997). Customers are, however, also influenced through indirect customer interactions, i.e. when surrounded by a non-interactive (mere) social presence (Argo et al., 2005), for example, when dining in a restaurant and observing other customers' service encounters (Miao, 2014). No matter whether customers interact directly or indirectly, the presence of other customers during a focal customer's service encounter has a profound impact on the focal customer's evaluation of and experience with an organization or service (Martin, 1996). This impact can be both positive, e.g., enhancing a focal customer's satisfaction, loyalty and WOM behavior (Moore et al., 2005), or negative, e.g., producing emotional discomfort and reducing a focal customer's length of stay in the service environment (Uhrich and Tombs, 2014).

However, it is not only the focal customer who is influenced by the presence of other customers in the service environment. Also the socially present other customer himself can be influenced during customer interactions, e.g., when witnessing another customer's unsuccessful service recovery encounter. In this vein, the negative consequences of a failed recovery encounter can easily extend beyond the complaining customer to the observing customer, whereas positive consequences of a recovery, i.e. being more satisfied after a successful recovery in comparison to a failure-free service delivery, do not affect the observing customer (Van Vaerenbergh et al., 2013).

The current article seeks to address the following gaps: Previous literature on the role of socially present other customers in the service environment has been examining different constructs and relationships in isolation, i.e. indirect or direct C2C interactions, interactions in offline or online service environments, interactions during positive or negative service encounters, and C2C interaction effects on the socially present other customer or the focal customer. This literature review synthesizes the research articles on the presence of others with regard to all the aforementioned aspects. Furthermore, three contextual influence factors have evolved within the

analysis of the current literature (i.e. customer-related factors, firm-related factors and encounter-related factors) that are in line with the pertinent findings on the service (recovery) encounter and serve as a guideline for structuring the current literature review. Thus, the current literature review provides a holistic overview on the manifold effects derived from the influence of socially present other customers that have been examined so far. The following Figure 1 gives an overview of the present research issue.

**Fig. 1:** The influences and consequences of C2C interactions in the service environment



Note: The numbers displayed in the grey circles represent the four areas where future research avenues have been identified.

A comprehensive literature review reveals the trends in research topics and discloses issues that need to be further researched. In particular, the present article provides several contributions to the service literature and management: First, academics will learn how research on the effects of the presence of other customers in the service environment during the service (recovery) encounter has evolved to date; the article summarizes the current state of knowledge from an academic perspective. Second, a comprehensive discussion of the present state of literature examining the role of socially present other customers and their influence on customers' service experience provides an agenda for future research avenues. Third, for practitioners this work offers key insights regarding important areas for their customer management activities directed to customers present in the same service environment.

The remainder of this article is organized as follows: First, the results of the collected research articles are outlined considering the effects of socially present other customers in the service environment with regard to the customer-related, firm-related

and encounter-related influence factors. Second, an avenue of future research discussing the findings of the current literature review and recommending areas for further research is presented. The paper closes with a conclusion and implications for management.

## **The Effects of the Presence of Others in the Service Environment**

### **Methodology**

To assess the state of research focusing on the role of other customers in the service environment relevant academic articles published between 1972 and 2015 have been examined. The selection process of academic articles is based on a publication search in the EBSCO/Business Source Premier electronic database that has been screened for search terms having anything to do with “(mere) social presence”, “customer interaction”, “C2C relationship”, “bystander”, “observing other customers”, “service encounter”, “service recovery”, “service environment” or a combination of it. Second, a scan through the references of the collected articles has been made to find further relevant publications. This adopted approach is consistent with previous research recommendations (e.g., Cooper, 1998) and earlier literature reviews and meta-analyses (e.g., Gremler, 2004; Hogueve and Gremler, 2009; Mari and Poggesi, 2013). In a first step, 80 research articles have been collected. Considering the fact that customers often base their service evaluation on the assessment of a company’s overall service level (Parasuraman et al., 1988) resulting from their perceptions during the service encounter (Bitner et al., 1990), 26 articles on the influence of third-party customer reviews, referrals and WOM on a focal customer (i.e. contributing to a focal customer’s pre-encounter information search phase) have been excluded. Another 7 articles have been eliminated from the final sample as their research was not service specific. Finally 47 research articles provide the basis for the current literature review.

To analyze the state of literature on the influence of others in the service environment and in order to provide a future research agenda the articles have been coded and address categories such as general information (e.g., authors, title, year of publication, journal) and content related categories (e.g., problem and main results, research context and method, service setting, variables and theories used to examine the research). Two trained and independent coders coded the literature. An overview of the findings is presented in the following part of the article.

### **Findings**

The majority of research articles in the current literature review (78.72% or 37 articles) is examining the influence of socially present other customers during service encounters, whereas 21.28% (or 10 articles) of the sample are dedicated to service recovery encounters. Additionally, 14.89% (or 7 articles) of the articles have been conducted in an online service environment and 85.11% (40 articles) are dedicated to

an offline service environment. 87.23 % (or 41 articles) are using an empirical research approach. Thereof, 68.09% (or 32 articles) from the total of 47 articles are following a quantitative approach (i.e. experimental design, real data or survey) and 12.77% (or 6 articles) follow qualitative research methods (i.e. critical incident technique, in-depth interviews or focus groups). A mixed methodological approach combining quantitative and qualitative methods is used in 6.38% of the sample (or 3 articles). 12.77% (or 6 articles) are using a conceptual approach.

Examining the different service industries analyzed within the overall sample (47 articles), the following distribution emerges: retail services (17.02% or 8 articles), gastronomy (17.02% or 8 articles), travel services (8.51% or 4 articles), telecommunication services (4.26% or 2 articles), health and fitness services (4.26% or 2 articles), automotive services (4.26% or 2 articles) and education services (2.13% or 1 article). 31.91% of the articles are using more than one industry across their studies (15 articles) with gastronomy, hospitality and retail services occurring most frequently. 10.64% (or 5 articles) of the total sample do not report on a specific service industry because these articles are following a conceptual approach.

The structure of the current literature review follows the pertinent findings on the service (recovery) encounter and its influence on customers' service experience. The service encounter is defined as a dyadic interaction between a customer and the service provider that leads to different service outcomes (Bitner, 1990; Suprenant and Solomon, 1987). A service recovery encounter can respectively be defined as an exchange between a customer who experienced a loss due to a service failure and the service provider's recovery effort in order to offset the customer's loss (Smith et al., 1999). Furthermore, a service encounter can be divided into two components, i.e. the service process and the service outcome, both influencing the behavior of the interacting parties (Parasuraman et al., 1985). Regarding a customer's evaluation of a service encounter, various factors exist that determine how a customer experiences a service. In particular, previous research on the service encounter distinguishes three broad categories of factors that influence customers' service experience, namely customer-related factors, firm-related factors and encounter related-factors (e.g., Berry et al., 2002; Bitner, 1990; Bateson, 1985). These three categories seemed appropriate to structure the current literature review. Table 1 provides an overview of the three contextual influence factors including their individual sub-categories that can influence direct or indirect C2C interactions in the service environment.

**Tab. 1:** Contextual factors influencing C2C interactions in the service environment

Contextual factors	Representative findings	Representative references
Customer-related factors (characteristics, emotions, status, expertise, behavior)	<ul style="list-style-type: none"> <li>Perceived customer similarity regarding demographical or psychological characteristics makes customers feel more comfortable in the service environment, thus leading to more favorable outcomes for the service provider.</li> <li>Customers respond differently to the emotions displayed by other customers in the service environment depending on the purchase occasion.</li> <li>Observing dysfunctional behavior of other customers can negatively influence a focal customer's behavior (i.e. domino effects and spoilt consumption).</li> <li>Witnessed customer citizenship behavior of other customers positively influences a focal customer's own citizenship behavior towards others.</li> </ul>	Brack and Benkenstein, 2014; Brocato et al., 2012; Cowley, 2005; Fullerton and Punj, 2004; Grove and Fisk, 1997; Gruen, 1995; Harris and Reynolds, 2003; He et al., 2008, 2012a; Huang, 2008; Huang and Wang, 2014; Karaosmanoglu et al., 2011; Naylor et al., 2012; Rosenbaum and Massiah, 2007; Schaefers and Schamari, 2015; Steinhoff and Palmatier, 2014; Thakor et al., 2008; Tombs and McColl-Kennedy, 2013; Wan et al., 2011; Yi et al., 2013
Firm-related factors (service environment, company complaint response)	<ul style="list-style-type: none"> <li>The effect of customer density on a focal customer's outcomes is moderated by proximity of the social presence and choice of staying in the service environment.</li> <li>Service atmospherics perceived as positive (e.g., attractiveness of layout, look of employees, cleanliness) intensify C2C interaction that lead to an increase in customer satisfaction, loyalty and WOM behavior.</li> <li>A company's response to a customer complaint induces higher credibility perceptions and complaint utility to an observing customer than the original complaint.</li> </ul>	Argo et al., 2005; Bitner, 1992; Breitsohl et al., 2010; Diener et al., 1980; Hui and Bateson, 1991; Kelleher and Miller, 2006; Kelleher, 2009; Metzger et al., 2003; Moore et al., 2005; Pons et al., 2006; Tombs and McColl-Kennedy, 2010; Uhrich and Tombs, 2014; Van Noort and Willemssen, 2012
Encounter-related factors (interactional elements, outcome-specific factors)	<ul style="list-style-type: none"> <li>Quality rather than quantity of C2C interactions has a direct positive influence on interacting customers' experience and satisfaction.</li> <li>Positive interactions with a virtual social presence on an online platform increase the positive effects of a service recovery's success for the complainant.</li> <li>An unsuccessful service recovery increases observing customers' negative emotions and leads to a lower satisfaction and likelihood of returning to a store.</li> <li>Advice from other customers rather than a sales assistant (and peers rather than family members) during the service encounter leads to more positive service outcomes for the focal customer.</li> </ul>	Bonifield and Cole, 2008; Chen et al., 2014; Harris et al., 1997; He et al., 2012b; Huang and Hsu, 2010; Luo, 2005; Mattila et al., 2014; Schaefers and Schamari, 2015; Van Vaerenbergh et al., 2013; Yan and Lotz, 2009; Zhang et al., 2010

## Customer-related factors

In the service environment the perception of other customers' specific attributes (i.e. characteristics, emotions, status and expertise) and behaviors can have profound effects on the focal customer's service experience. The perception of a socially present other customer's specific attributes prompts a comparison to one's own personal attributes as well as a recognition of perceived similarities to this social presence. Perceived similarity can be defined as "the extent to which an individual customer (i.e., the rater) felt that they were similar to and could identify (i.e., the attributes) with other customers (i.e., the object) in the service environment" (Brocato et al., 2012, p. 386). Moreover, individuals who feel themselves similar to other customers tend to feel more comfortable (Brocato et al., 2012). Therefore, perceived similarity constitutes an important customer-related factor that affects C2C interactions in the service environment.

Perceived customer similarity (e.g., with regard to demographical characteristics) during service encounters can positively influence a focal customer's willingness to interact with other present customers and finally even a focal customer's evaluation of the service provider (Brack and Benkenstein, 2014) or patronage intentions (Thakor et al., 2008). Furthermore, perceived similarity contributes to corporate marketing efforts. Karaosmanoglu et al. (2011) found that customers' perceived similarity regarding the demographic and psychographic factors (e.g., age, social status, appearance or character) of other present customers of an organization influences corporate marketing effectiveness. More specific, the level of perceived similarity of the other customers positively influences a focal customer's affective and behavioral reaction towards a company, in terms of customers' behavioral loyalty, (re)purchase intention and extra-role behaviors (Karaosmanoglu et al., 2011). Even in online service environments such as social media platforms, the aforementioned positive effects of perceived customer similarity regarding demographic characteristics (i.e. age) of others on a focal customer's service experience hold true (Naylor et al., 2012). Moreover, perceived similarity between customers regarding their demographic characteristics also plays an important role during service recovery encounters. According to Wan et al. (2011), observing customers attribute more blame to the service provider if the complaining customer is perceived as personally similar (e.g., regarding age) to oneself and vice versa. These attributions further induce observing customers to form negative evaluations of the company's provided service quality (Wan et al., 2011).

Social presence effects also vary depending on a customer's perceived similarity regarding cultural value orientations during service encounters. Research on the influence of customers' cultural value orientation has shown that a positive service encounter enhances focal customer's satisfaction when there is a social presence (He et al., 2008; 2012a). This effect only occurs for customers with a low independent self-construal (Chinese people), but not for high independents (American people). Regarding negative service encounters, Chinese consumers are more dissatisfied with



the service experience in case of a social presence compared to no social presence. In contrast to low independents, social presence does not appear to influence customer satisfaction for high independents during negative service encounters (He et al., 2012a).

Additionally, Cowley (2005) found out that perceived similarity regarding customers' allocentric-idiocentric orientation, which is psychologically equivalent to collectivist and individualist cultural orientations, is of fundamental importance during service encounters. Idiosyncratic observers always blame the service provider for an unsuccessful service outcome ignoring situational information. Allocentrics, however, take a service provider's situational constraints into account and only blame the service provider when they are outcome dependent and the service provider has behavioral control. When an observing customer blames the service provider as the cause of an unsatisfactory service outcome, lower expectations of the success for his or her own encounter are presumed (Cowley, 2005).

With regard to the customer-related factors influencing C2C interactions in the service environment, a focal customer's perceptions of other customers' emotional state also provides a decisive factor regarding a focal customer's service experience. In this context, Tombs and McColl-Kennedy (2013) suggest that customers respond to the displayed emotions of other customers when sharing the same environment. The purchase occasion, whether informal/social or formal/private, affects the type and intensity of customers' experienced emotions which furthermore influence a customer's repurchase intentions and recommendation behavior. For formal, private purchase occasions, customers experience a higher intensity of negative emotions when exposed to either positive or negative emotions displayed by socially present other customers due to goal incongruence. For informal, social purchase occasions customers are, however, more likely to experience positive emotions rather than negative emotions. Finally, Tombs and McColl-Kennedy (2013) find a positive relationship between a focal customer's emotional response to the emotions displayed by other customers and a focal customer's loyalty intentions and behavior, i.e. experiencing negative (positive) emotions leads to a decrease (increase) in repurchase intention and an increase (decrease) in negative recommendation behavior.

Perceived similarity with respect to the customer status of other present customers in the service environment also poses a potential threat to an observing customer's service experience. Specifically, observing preferential treatment during other customers' service encounters, e.g., watching someone receiving non-monetary rewards such as free products and services within the scope of a loyalty program, produces negative effects on an observing customer. Within their study Steinhoff and Palmatier (2014) confirmed that loyalty programs, when rewarding can be witnessed by other customers in the service environment, have different, rather opposing effects in terms of their buying and loyalty behavior on both the target customer of the loyalty program and the observing customer. These effects are in turn influenced by the loyalty program's delivery characteristics, the visibility of the reward, and customers'

loyalty program comparison mechanisms (Steinhoff and Palmatier, 2014); all of these must therefore be considered by management when designing loyalty programs.

Another customer-related influence factor of C2C interactions is customer expertise. Schaefers and Schamari (2015) have shown that the level of expertise of socially present others on electronic platforms affects a complaining customer's service experience. In this context, the positive effects of a successful recovery on a complaining customer, i.e. an increase of satisfaction with the complaint handling and purchase intention, can be harmed by a negative interaction between the complainant and a highly experienced other customer. In case of an unsuccessful service recovery a positive interaction with a highly experienced other customer leads to similar deterioration effects of satisfaction, purchase intentions and confidence in the service provider as in the aforementioned case. Thus, a high level of other customers' expertise declines a complaining customer's service experience in terms of satisfaction with the service recovery and purchase intention (Schaefers and Schamari, 2015).

With regard to the behavioral customer-related factors research has found that the behavior of other customers in the service environment (e.g., dysfunctional customer behavior and customer citizenship behavior) can have both positive and negative effects upon a focal customer's service experience, depending on the type of C2C interaction (e.g., Grove and Fisk, 1997; Huang, 2008; Huang and Wang, 2014; Yi et al., 2013). Within their critical incidents study Grove and Fisk (1997) cluster several incidents that happened between customers in the service environment into two major groups: protocol incidents (other's behavior that violates expectations of protocol) and sociability incidents (direct affections by the sociability of others). The authors show that other customers' behavior in the service environment can exert both negative (e.g., dysfunctional customer behavior) and positive (e.g., customer citizenship behavior) influences on a focal customer. Therefore, literature on the different effects from customer behavior during C2C interactions in the service environment will be considered in the following paragraphs.

Dysfunctional customer behavior, also referred to as jaycustomer behavior (Lovelock, 1994), that is witnessed by another customer represents a special form of non-interactive (i.e., indirect) social presence influencing an observing customer's service evaluation (e.g., Huang, 2008; Huang and Wang, 2014). Dysfunctional customer behavior can be described as "behavioral acts by consumers, which violate the generally accepted norms of conduct in consumption situations, and thus disrupt the consumption order" (Fullerton and Punj, 2004, p. 1239). Furthermore, dysfunctional customer behavior creates the risk of domino effects (i.e. knock-on effect of others who witnessed the incident) and spoiled consumption effects on an observing customer (Harris and Reynolds, 2003). Domino effects can lead to highly contrasting customer behaviors. Harris and Reynolds (2003) find that on the one hand, witnessing customers often express sympathy and support for the frontline employee who has been the object of dysfunctional customer behavior. On the other hand, dysfunctional customer behavior can also lead to contagion effects, thus stimulating

co-customers to replicate the negative behavior witnessed from others, e.g., by imitating illegitimate complaints. Furthermore, during functional and satisfying service encounters, dysfunctional customer behavior of others has been found to negatively influence an observing customer's own consumption experience, thus leading to spoiled consumption (Harris and Reynolds, 2003).

It is, however, not only other customers' negative behavior that influences an observing customer's service experience. Instead, an observing customer's service experience can also be influenced by observing other customers displaying a positive behavior, specifically customer citizenship behavior (CCB). CCB can be referred to as "helpful, constructive gestures exhibited by customers that are valued or appreciated by the firm, but not related directly to enforceable or explicit requirements of the individual's role" (Gruen, 1995, p. 461). CCB is not only beneficial for a company but also leads to behavioral changes directed to other customers when witnessed in the service environment. Research has found that witnessing other customers' citizenship behavior positively influences a focal customer's own citizenship behavior towards other customers (Yi et al., 2013). Thereby, the frequency of receiving social-emotional and instrumental support from other customers in the service establishment is a determining factor of customers' voluntary performance and care behavior (Rosenbaum and Massiah, 2007). The findings show that customers who receive social-emotional support from other customers in the service environment more often than instrumental support are more likely to exert voluntary performance toward the company and other customers in the service environment (Rosenbaum and Massiah, 2007).

#### Firm-related factors

Customers' service experience is affected by a variety of firm-related factors, including the service environment (i.e. customer density and proximity, attractiveness of store layout, look of employees, cleanliness) and customer information (i.e. company's complaint response). Physical (e.g., atmospherics) and social elements (e.g., other customers) of the service environment can both positively and negatively influence customer outcomes (Berry et al., 2002; Bitner, 1992; Grove and Fisk, 1997) and thus need to be managed by the firm. In this context, customer density, i.e. the number of present others in a given space (Stokols, 1972), has been identified as a significant contextual factor influencing a customer's service experience. Customer density has been found to have a non-linear U-shaped influence on a focal customer's service experience, i.e. small groups of socially present others result in more positive consequences for the focal customer's service experience (e.g., length of stay) than either an empty service environment or a large group of other customers (Argo et al., 2005; Uhrich and Tombs, 2014). Additionally, research has shown that the presence of other customers can create an atmosphere of anonymity and thereby reduce a focal customer's public self-awareness, also referred to as deindividuation effect (Diener et al., 1980).

To remove the negative effects from customer density on a focal customer's service experience companies can offer customers the choice (i.e. customer's own decision) of entering into and staying in the service environment. In this context, Hui and Bateson (1991) found that providing customers with a choice of staying in the service setting (e.g., waiting to be served in a bank) or changing to another alternative (e.g., using the cash dispensing machine) enhances focal customer's perceived control of the situation. Perceived control in turn evokes positive emotions (i.e., pleasure) at the customer end, which finally exert a positive impact on a focal customer's approach-avoidance behavior regarding the service encounter (Hui and Bateson, 1991).

Another factor influencing the relationship between customer density and a focal customer's service experience is the proximity of other customers in the service environment. Argo et al. (2005) have shown that the level of customer density affects a focal customer's emotions and brand selection behavior when it is in close proximity to the focal customer. At a greater distance, an increase in the number of other customers does not change the effects that a low customer density level (i.e. one other customer) produces on the focal customer's emotions and brand selection behavior (Argo et al., 2005). Other customers' proximity can, however, also exert an influence on a focal customer's service experience (i.e. seating choice) independent of the density level of others. In this case, the reason for the service consumption (i.e. business or private) plays a decisive role (Tombs and McColl-Kennedy, 2010). Whereas customers prefer spatial closeness to others for non-business meetings (e.g., when dining in a café or restaurant), thus choosing a table near other customers, customers avoid spatial closeness to others when having a business meeting.

For hedonic services, such as amusement parks or concerts, the negative consequences of sharing the same service environment with a large number of other customers are, however, reversed in the way that crowds enhance a focal consumer's service experience (e.g., Holt, 1995; Pons et al., 2006). Pons et al. (2006) additionally found that the positive effects of perceived density on customers' service evaluation vary across cultures. In this regard, people from the Middle East have shown lower perceptions of customer density and seem to appreciate crowded situations more than people from North America. Thus, culture is an important contextual factor with regard to perceived customer density in leisure service settings that is able to strengthen the positive impact of customer crowding on customers' service experience.

When sharing the service environment with other customers, additional environmental stimuli besides customer density and proximity are able to influence customers' service experience. Environmental stimuli such as ambient conditions, spatial and functional characteristics as well as signals, symbols or artifacts are an integral part of the service environment that are able to influence the behavior of the customers who are present in the same service environment (Bitner, 1992; Moore et al., 2005). More specific, service atmospherics (e.g., attractiveness of layout, look of employees, cleanliness) perceived as positive intensify C2C interactions in the service

environment and finally lead to an increase in customer satisfaction with the firm, customer loyalty and WOM behavior (Moore et al., 2005).

Besides the service environment, the information provided to customers by the company (i.e. a company's response to a customer complaint) also constitutes an important firm-related factor influencing customers' service experience. Research has shown that a witnessed service recovery encounter not only exerts a major influence on the service experience of the complainant, but also on the experience of the observing customer. In this connection, the manner of a company's response to the initial complaint is of key importance (Breitsohl et al., 2010). Source and message credibility - also stated as perceived information usefulness - represents a vital factor when exploring the effects of a company's complaint response, not only on the complainant, but also on the observing customer (Metzger et al., 2003). A company's response to a complaint induces higher credibility perceptions and complaint utility for an observing customer than the original complaint in an online service environment (Breitsohl et al., 2010). Additionally, perceived human voice of a company's response has been found to enhance favorable brand response (Kelleher and Miller, 2006) and represents an "engaging and natural style of organizational communication" to the company's public in computer mediated-environments (Kelleher, 2009).

For companies it is not only of paramount importance to provide an appropriate and well formulated answer to a customer complaint, but also to choose the right strategy for answering customer complaints. This is especially vital in an online context when the service recovery is witnessed by a wide audience of other customers. Van Noort and Willemsen (2012) found that the type of strategy a company chooses for its webcare interventions can be a decisive factor in countering complaints, preventing negative electronic word of mouth and finally mitigating negative influences on observing customers. Moreover, people exposed to proactive or reactive corporate webcare interventions to complaints evaluate a brand more positively than when no complaint answer is provided by the company. In addition, when choosing a strategy (i.e. proactive or reactive) for answering public customer complaints and in order to prevent negative effects on observing customers companies have to consider the type of online platform (i.e., consumer- or brand-generated) on which the interaction takes place. The platform type influences the positive effect of the chosen webcare strategy on customers' brand evaluation, such that proactive webcare is more suitable in brand-generated platforms, whereas reactive webcare is an appropriate strategy irrespective of the platform type (Van Noort and Willemsen, 2012).

#### Encounter-related factors

Besides customer- and firm-related influence factors, there are also contextual factors that are varying according to the respective service (recovery) encounter and are thus more dependent on the particular service process and outcome. In this context, customers' service experience can be influenced by interactional elements (i.e. quality and quantity of interaction, valence of interaction, role of social presence) as well as recovery-specific factors (i.e. valence of the service recovery outcome,

locus of failure). Regarding the interactional influence factors, a survey of Huang and Hsu (2010) revealed that the quality of an interaction between customers (i.e., valence and intensity) has a direct positive influence on interacting customers' experience that in turn positively affects their satisfaction with the service. Quantity of interaction (i.e., amount of time spent interacting with others) has, however, not been confirmed as a predictor of customer experience and satisfaction when tested together with interaction quality (Huang and Hsu, 2010). Similar positive influences from valence have been examined by He et al. (2012b) regarding indirect customer interactions during the service encounter. Thus, in case of a positive (negative) service experience of a focal customer during the service encounter social presence of other customers enhances the focal customer's service satisfaction (dissatisfaction).

Whereas Huang and Hsu (2010) as well as He et al. (2012b) examined the influence of interactional valence in the context of a positive offline service experience, Schaefer and Schamari (2015) focused on the examination of valence in an online service environment. According to them, the valence of a direct interaction between a virtually present platform user and a complaining customer plays a major role. Thus, a negatively loaded interaction (i.e. observing customer discourages the complainant) is harmful to the complaining customer's satisfaction with the company's complaint handling and, in the case of an unsuccessful service recovery, additionally harms the purchase intention. A positive C2C interaction (i.e. observing customer mitigates the complaint), however, boosts the positive effects of a successful service recovery, but is not able to mitigate negative effects from unsuccessful service recovery (Schaefer and Schamari, 2015).

Another encounter-related factor with far-reaching consequences on the interacting customers is the role of the socially present other customer (e.g., peer, family member, sales assistant or unacquainted other customer). From a more general perspective, Yan and Lotz (2009) identified a taxonomy of the influence of other customers on a focal customer's complaint behavior. By means of a critical incident study, the level of acquaintance of the socially present other customer (acquainted vs. unacquainted) and the type of social presence (physical vs. mental) have been identified as the major categories of influence on the behavior of a complaining customer, i.e., choosing to complain or not. As an example, acquainted others who are either present physically or mentally dispose the focal customer to voice his complaint, whereas the presence of unacquainted others (i.e. large groups of strangers) may impede a customer from complaining (Yan and Lotz, 2009).

During service encounters, the level of acquaintance of a socially present other customer is able to influence a customer's impulsive urge to purchase and purchasing likelihood (Luo, 2005). A customer's imagined impulsive urge to purchase and his impulsive likelihood of purchasing are greater when accompanied by peers than family members. Additionally, this difference is greater when the accompanying group (peers or family) is cohesive and when the focal customer is highly susceptible to the influence of others. Thus, a group of cohesive peers exercises more pressure on a

customer's impulse buying behavior than the company of cohesive family members (Luo, 2005).

Furthermore, the role of a socially present other party, i.e. sales assistant or other customer, that is giving advice to a focal customer is also able to affect a focal customer's buying intention (Harris et al., 1997). More specifically, the simultaneous presence of a sales assistant and another customer in the service environment has profound effects on a focal customer's level of satisfaction and advice credibility during the service experience. In this vein, conversations with other customers lead to greater perceived customer satisfaction and advice credibility during purchase consideration than the advice given from a sales assistant (Harris et al., 1997), thus highlighting the positive influence of socially present other customers on a focal customer's buying intentions in retail settings.

Encounter-related influence factors have also been found with regard to the outcome of service recovery encounters. The significance of other customers' mutual influence on a focal customer varies across the service setting (Zhang et al., 2010). Especially in service settings such as retail stores, restaurants, hotels, and airline ticket counters it is a frequently occurring situation that other customers are present when a service failure is happening to a focal customer (Mattila et al., 2014). In these situations, the valence of the outcome of a subsequent service recovery encounter plays a decisive role for the service experience of the observing customer. Witnessing an unsatisfactory service recovery decreases an observing customer's perception of a company's service quality (Van Vaerenbergh et al., 2013). Furthermore, the observation of an unsatisfactory service recovery increases an observing customer's negative emotions and leads to a lower likelihood of returning to the store (Mattila et al., 2014). According to Mattila et al. (2014), this effect is even stronger if the observing customer himself had a poor service experience before.

Moreover, the locus of the failure has an influence on the relationship between the service recovery outcome and an observing customer's service experience. Van Vaerenbergh et al. (2013) suggest that when the service failure has been caused by the complaining customer (relative to the service provider) the negative effects of an unsatisfactory service recovery on an observing customer are weakened. Thus, an observing customer's overall satisfaction and repurchase intention is higher in case of a customer caused than a company caused service failure (Van Vaerenbergh et al., 2013).

During a witnessed service recovery not only the service experience of the observing customer, but also the service experiences of the complaining customer can undergo significant changes and constraints. According to previous research, customers having a negative service experience are far less willing to make referrals to other customers (Bonifield and Cole, 2008). However, the existence of other customers during service recovery is able to mitigate this negative effect (Chen et al., 2014). Consequently, the presence of other customers during a service failure increases a focal customer's referral likelihood compared to a situation with no social

presence (Chen et al., 2014), thus presenting managers with valuable opportunities to positively influence service recovery encounters.

## Avenues of Future Research

Research on the role of socially present other customers in the service environment and their influence on customers' service experience has gained increasing importance within the last years. Reflecting on the current literature review, four future research avenues have evolved that need further attention from service researchers and will be discussed in the following (see numbers displayed in grey circles included in Figure 1).

The first avenue of future research arises regarding the service setting in which the C2C interaction takes place (see Figure 1, gap no. 1). Research on the role of socially present other customers in the service environment has found that the significance of other customers' mutual influence on a focal customer matters across different service settings (Mattila et al., 2014; Zhang et al. 2010). In this context, Zhang et al. (2010) found that the influence of others on a focal customer has been rated highest in restaurant settings, followed by movie theaters and public transportation services. Banks and grocery stores are, however, rated lowest regarding the influence of other customers within these service environments. A medium significance of other customers' influence has been found for services referring to travelling, leisure activities, fitness, beauty, health, retail, hospitality and parking. Consequently, some interesting findings can be derived considering the distribution of the different service industries within the current literature review. The area of gastronomic services, examined as most important with regard to C2C influences by Zhang et al. (2010), also represents the most frequently investigated service industry within the present sample of literature. More research is, however, needed in order to examine the effects of socially present other customers in the area of movie theatres and public transportation services, two service industries that have been mentioned to be of high importance regarding C2C interactions according to Zhang et al. (2010). Only one article in the current sample has examined the influence of others in the service environment with regard to public transportation services, i.e. airline services (Steinhoff and Palmatier, 2014). Overall, further research is needed in order to gain deeper insights on the effects that other customers in the service environment exert on a focal customer's service experience and the influences on their own service experience derived from observing others in different service settings.

Another avenue of future research has been found regarding the research conducted on the influence of customer density that has merely concentrated on C2C interactions during positive service encounters so far (see Figure 1, gap no. 2) (e.g., Argo et al., 2005; Uhrich and Tombs, 2014). The influence of customer density during service recovery encounters has, however, rather been neglected until now. During service encounters, customer density has been found to have a non-linear influence on a focal customer's service experience (Argo et al., 2005; Uhrich and Tombs, 2014) and to disappear at a greater distance (Argo et al., 2005). What is also known from prior literature is that for most services, production and delivery is performed in the



same location, thus involving the presence of other customers (Grove and Fisk, 1997). Consequently, other customers are also present during negative service encounter, i.e. when a service failure is happening to a focal customer, and a company's respective service recovery attempts (Mattila et al., 2014). Therefore, it would be viable for service researchers to find out whether the aforementioned results of customer density and proximity can be replicated regarding service recovery encounters, thus influencing the complaining customer's service experience. In this case, service environments have to be re-designed regarding their service recovery management in order to prevent negative effects, e.g., deindividuation effects (Diener et al., 1980), on the focal customer.

A third avenue of future research can be derived from customers' complaining behavior that has undergone some major changes since the advent of electronic commerce (Strauss and Hill, 2001). Additionally to customers' offline complaining behavior, customers increasingly choose online environments (e.g., social media platforms or complaint websites) to voice their complaints which are then witnessed by a huge audience of other individuals. Since online complaining is a rather new form of customers' complaining behavior, it is not surprising that only 8.51% (or 4 articles) of the current literature sample are examining the consequences of observed online complaint situations for the observing and the focal customer. However, online complaining is not uncommon and online platforms must be considered a relevant complaint channel by companies and research today (Hogreve et al., 2013; Ward and Ostrom, 2006). The underrepresented role of articles focusing on the influence of a social presence in an online service context is also reflected in the overall sample of the literature review (78.72% offline and 21.28% online) and therefore constitutes the third avenue of future research (see Figure 1, gap no. 3). Considering that the internet not only enables online customer complaints, but also facilitates C2C communication and the promotion of digital service offerings, research must direct more attention on the examination of the influences and consequences of C2C interactions taking place in online environments. In a second step, research exploring the congruence and differences of social presence effects between online and offline service environments is needed in order to provide a holistic overview to the service research landscape.

The fourth avenue of future research refers to the examination of the outcomes of C2C interactions on socially present other customers (see Figure 1, gap no. 4). The present literature review reveals that the existence of other present customers during a service (recovery) encounter has manifold effects on both the socially present customer himself and the focal customer. However, current research is primarily dedicated to the examination of the effects that a socially present other customer has on a focal customer's service experience. So far, only a few articles have empirically analyzed the effects of witnessed service (recovery) encounters on the observing customers (Cowley, 2005; Steinhoff and Palmatier, 2014; Van Noort and Willemsen, 2012; Van Vaerenbergh et al., 2013; Wan et al., 2011). As we know from observational learning theory, individuals learn from other people's behavior and their corresponding affective and behavioral outcomes (Bandura, 1977). Therefore, observing another customer's service experience not only changes a focal customer's

perceptions, intentions and behavior, but can also lead to changes regarding the intentions, behaviors and attitudes of the observing customer (e.g., Breitsohl et al., 2010; Van Vaerenbergh et al., 2013). Thus, future research is needed in order to further examine the effects of witnessed service (recovery) encounters on observing customers in both online and offline service environments.

## Conclusions and Implications for Management

It is the aim of the present article to survey the different effects of socially present other customers in the service environment and their influence on the service experiences of both the socially present other customers and the focal customer. As displayed in Table 1, three contextual factors (i.e. customer-related factors, firm-related factors and encounter-related factors) have been evolved within the present literature review that shape customers' service experience when interacting with others in an offline or online service environment. Based on this literature review, several implications for management can be derived.

First, the literature analysis revealed that customer-related factors such as perceived customer similarity makes customers feel more comfortable in the service environment and typically leads to positive effects on the interacting customer. Research has shown that perceived similarity of customers sharing the same service environment with regard to demographic and psychographic factors (e.g., age, social status, appearance, or character) increases a focal customer's service evaluation, i.e. willingness to interact with others, customer's behavioral loyalty, (re)purchase intention, and extra-role behaviors (Brack and Benkenstein, 2014; Karaosmanoglu et al., 2011; Thakor et al., 2008). Therefore, the findings on perceived customer similarity provide actionable guidelines for companies to better manage C2C interactions in the service environment. For some services customer segmentation according to demographical or psychological factors such as age, education, life style, social status or profession might be a viable strategy in order to avert negative effects from perceived customer dissimilarity on customers' service experience. As an example, female customers might feel uncomfortable in mixed-gender fitness centers or retired persons might feel bothered by younger families during their hotel stay. Thus providing fitness centers with particular fitness classes that are exclusively accessible for female customer or operating hotels with a special focus on retired people and their specific needs (e.g., protection of sleeping hours and specific offerings regarding leisure activities) might be an appropriate strategy in order to prevent customers from negative effects due to perceived customer dissimilarity. In this vein, service providers who want to serve a specific target group in order to benefit from the positive customer similarity effects have to exert extra efforts into their market research activities (i.e. to identify their target group), the design of their service offering and environment (i.e. to satisfy their target group) and their communication and promotion activities (i.e. to attract their target group).

Second, the effects from perceived similarity between customers also have to be considered when companies design online service environments. Today, customers

increasingly browse on social media platforms (e.g., Facebook or Google Plus) or customer review websites (e.g., TripAdvisor or yelp.com) to collect pre-purchase information regarding products or services and learn about unfamiliar brands (Naylor et al., 2012; Wu et al., 2015). In these situations, the mere presence of other platform users and their perceived similarity regarding demographic characteristics to a focal customer have a vital impact on a customer's decision making, i.e. brand evaluations and purchase intention (Naylor et al., 2012). For a successful management of online service environments, it is therefore important that companies know what and how much information of an individual user should be made visible to the entire user community. Consequently, marketing activities such as targeted advertising (e.g., with Google Adwords) in order to better segment a company's customer base (e.g., in terms of a similar age) constitutes a significant strategic factor from a managerial perspective.

Third, research has shown that witnessed service recovery encounters in the service environment lead to different effects on the observing customers. Thus, in an offline service environment witnessing an unsuccessful service recovery of a focal customer leads to a decrease in observing customers' emotions, behavior and intentions (Mattila et al., 2014; Van Vaerenbergh et al., 2013). The observation of a successful service recovery does, however, not or only slightly influence observing customers' service experience (Mattila et al., 2014; Van Vaerenbergh et al., 2013). Additionally, a company's complaint response is able to positively influence socially present others in online (Van Noort and Willemsen, 2012) and offline service environments (Breitsohl et al., 2010). Due to the manifold effects that a witnessed service recovery can have on observing customers' service experience, the question arises whether a transparent service recovery that can be witnessed by an external audience should only be performed when the service provider has control over the service recovery outcome. In the service context, transparency has been identified as an important influence factor reducing customers' perception of uncertainty and increasing customers' purchase intentions and their willingness to pay a price premium (Liu et al., 2015). In situations where it is not possible for a service provider to control or predict the service recovery outcome in advance restricting the transparency level of publicly performed service recoveries constitutes a viable solution to the problem. This strategy can be especially useful for managing online service recovery situations where the company has the choice of using a public or private response method to answer customers' complaints. In offline service environments the establishment of separate complaint counters that are located in isolation from the other customers and can be used on request might be a possible solution to the problem. However, service providers must keep in mind the positive effects of a company's complaint response on observing customers' credibility perceptions and complaint utility. In the end, the risks and benefits of a service provider's complaint response strategy must be carefully weighed in order to prevent negative effects on the observing customers in both online and offline service environments.

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