Discrimination in Service

Kalinda Ukanwa
Roland T. Rust

April 25, 2018

Kalinda Ukanwa is a doctoral candidate in the Department of Marketing at the Robert H. Smith School of Business, University of Maryland. Address: 3330 Van Munching Hall, University of Maryland, College Park, MD 20742. Phone: 301-405-4300. Email: kukanwaz@rhsmith.umd.edu.

Roland T. Rust is Distinguished University Professor and David Bruce Smith Chair in Marketing, and Executive Director of the Center for Excellence in Service at the Robert H. Smith School of Business, University of Maryland. Address: 3451 Van Munching Hall, University of Maryland, College Park, MD 20742. Phone: 301-405-4300. Fax: 301-405-0146. Email: rrust@rhsmith.umd.edu.

This research is supported by grants from the Marketing Science Institute and the Robert H. Smith School of Business, University of Maryland. The authors thank the attendees of the Frontiers in Service Conference and the PhD Project MDSA Conference for helpful comments.

Discrimination in Service

Abstract

The goal of this research is threefold: 1) to uncover the mechanism by which service discrimination can emerge from seemingly rational service policy; 2) to investigate how service discrimination interacts with competition and consumer word-of-mouth to affect profits; 3) to help firms avoid losing profits due to discrimination. By employing a mixed-methods approach, the authors find that variation in consumer quality (i.e., their profitability to the firm) and measurement error in detecting consumer quality moderate the magnitude of service discrimination. Large error in measuring consumer quality exacerbates service discrimination, while large intra-group variation in consumer quality attenuates discrimination. This research shows that discrimination can be profitable in the short-run but can backfire in the long-run. Agent-based modeling demonstrates that non-discriminatory service providers, on average, earn higher long-term profits than discriminatory service-providers, in spite of a seeming short-term profit advantage for discrimination. The authors provide managerial recommendations on reducing service discrimination's profit-damaging effects. This research emphasizes the long-term benefits of switching to a service policy that does not use group identity information. However, for firms that must persist in using group identity information, this research has additional recommendations, which include increasing investment in methods of measurement error reduction and increasing exposure to consumers of different populations. By doing so, a firm could reduce service discrimination while improving its long-term profits and societal well-being.

Keywords

Discrimination, prejudice, service, agent-based modeling, social dynamics, social bias, racism, gender bias, social class bias, transformative service research, transformative consumer research