CHAPTER 2

REVIEW OF LITERATURE: SERVICE AND SERVICE RECOVERY
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2.1 INTRODUCTION

The purpose of this chapter is to review the existing literature that supports the constructs outlined in this study. To begin, with the review of the importance of service marketing to the service industry as well as the hospitality industry will be evaluated. The chapter presents a review of service failure, types of service failure, magnitude of service failure and its consequences followed by complaining behaviors, including the management of complaints. Evolutions of service recovery and it’s relation to customer satisfaction. Lastly, the theoretical foundations of service recovery and knowledge gaps in the existing literature are discussed. Finally, this chapter will conclude with a discussion of service failure and complaint management and provide an extensive examination of the research that surrounds service recovery.

2.2 SERVICE MARKETING AND RELATIONSHIP MARKETING

The India economy has shifted from an economy dominated by agriculture and manufacturing of tangible goods to an economy reliant upon the characteristics of the service industry. India stands out for the size and dynamism of its services sector. The contribution of the services sector to the Indian economy has been manifold: a 55.2 per cent share in gross domestic product (GDP), growing by 10 per cent annually, contributing to about a quarter of total employment, accounting for a high share in foreign direct investment (FDI) inflows and over one-third of total exports, and recording very fast (27.4 per cent) export growth through the first half of 2010-11. [23] The annual growth in GDP for hotels and restaurants has increased from 5.5% in 2008-2009 to 6.7% in 2009-2010. It’s predicted the hotel sector’s sales are likely to grow in 2010-11 by 18.1 per cent due to both, higher occupancies and Average Room Rate (ARRs). However, fresh room additions in 2011-13 will keep the ARRs under check. Sales are expected to grow by 15.1 per cent in 2011-12. [23]. The change or the transformation from manufacturing based economy to service based economy affirms the
demand to understand and scrutinize the importance of service. Marketers who support the marketing concept believe that organizations ultimately achieve success by satisfying customer needs [92] [93]. A growing body of literature indicates that the market orientation of the firm is positively associated with the superior performance of that firm. For instance, the market orientation of the firm is positively related to profitability [94], to employee commitment and esprit de corps [95]. To truly appreciate the complex nature of the service industry, related research has revolved around service quality [96] [5] [97] [98], satisfaction [99] [100] [101], loyalty [100] [102] [103] [104] [105] and complaint management systems [16] [106] [38] [107] [108] [85]. Although an extensive body of research exists today on the constructs surrounding services marketing, the expansion and evolution of the service industry has revealed a gap in the literature regarding customer service and related issues.

The customer needs and wants are at the center of efforts to tailor product or service offerings to satisfy those needs and build long-term loyalties from which the firm can profit [28] [103]. The importance of building long-term relationships with existing customers has been emphasized for varying reasons. The need for customer retention stems from the fact that the cost of attracting a new customer substantially exceeds the cost of retaining a present customer [109] [33]. To uphold ongoing relationships and to facilitate future relationships with existing customers, it is imperative to satisfy them in an exchange [110].

Despite unrelenting efforts to deliver exceptional service, zero defection is an unrealistic goal in service delivery [25] [19] [27] [1] [10] [28] [29] [30]. Intangibility [25] [111], simultaneous production and consumption [25] [19] [26], and high human involvement [16] are characteristics of service that make it difficult to achieve zero defection. Bowen et al., [112] compared manufacturing firms with service providers and found that compared to products, services are: “(more) intangible, tend to be non standard, heterogeneous, customized at point of sale, stronger (external) customer focus, more customer interaction, production and consumption occurs simultaneously, service cannot be inventoried (perishable), customer contributes to outcome, labor intensive, manufacturing type quality control methods ineffective, higher perceived risk for customer”.

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The concept of relationship marketing started to emerge in research in the mid-1980s, when the notion of developing a long-term, mutually satisfying relationship between customers and service providers was realized to be an asset [113]. Over the past 30 years, relationship marketing has become an increasingly popular approach to services marketing and stimulating loyalty; especially in the hospitality industry. In fact, it appears that many service organizations strive to infiltrate relationship marketing into the culture of the organization through their mission and vision.

Both professional journals and trade publications advocate various concepts and ways to approach relationship marketing. McKenna [114] as well as Shoemaker and Bowen [115] and Shoemaker and Lewis [116] revealed that in order to have a true bond between the customer and the organization, that is built on trust and commitment, the customer must be integrated into the design of the service or product. To augment that theory, Claycomb and Martin [117] confirmed that in order for relationship marketing to be effective, organizations must reinforce ties with existing customers in an effort to increase satisfaction and serve the customer. Hence, it must become the foundation of the organization’s business philosophy.

Gittell’s [118] research in the health care industry revealed that a relationship between the service provider and the customer had a direct connection with customer satisfaction and loyalty. His study also demonstrated that the customer’s intention to re-visit the service organizations or recommend the organization depends on the strength of the relationship between the service provider and the customer. This is relevant in regards to the hospitality industry, as, since the early 1990s, hotels, restaurants, airlines and cruise lines have focused much of their marketing attention and budget on building customer loyalty through relationship marketing.

When it comes to providing service, understanding customer expectations and the customers’ perception of the service encounter is a vital component for delivering superior service. Delivering superior service, especially in the hospitality industry creates a multitude of opportunities for the service organization to surpass the competitive and become a recognized leader in the service industry. It only stands to rationalize that the concept of the service encounter directly affects satisfaction, loyalty and future behavioral intentions; which in turn, has a direct affect on the organization’s success and financial stability.
2.3 SERVICE DEFINED

Researchers have studied and explained the definition and concept of service since the early 1960s. In 1985, Czepiel, Soloman, Suprenant and Gutman [119] defined service as an encounter which involves any transaction or exchange of products or services between the customer and a service organization. This researcher’s definition of service is the moment of truth when employee training and expertise is truly tested in an effort to meet or exceed the customer’s expectations of the tangible and intangible components of the service encounter. Although a large body of service research exists recognizing countless definitions and theories that surround service, some of the most widely accepted and cited definitions in more recent literature include: 1) a service encounter is an interpersonal relationship between the organization and the customer [22] and 2) it is a critical moment of truth that involves either satisfying or dissatisfying the customer [120].

2.4 SATISFACTION

Satisfaction plays a prominent role in the service industry and especially in the hospitality industry [121]. As the service industry has evolved, researchers have made immense efforts to define and comprehend satisfaction from the consumer’s point of view. The stress to realize what truly creates satisfied customers has lead to an ever increasing body of literature surrounding satisfaction, how service providers create satisfied customers and the effects that satisfaction has on businesses today [100] [122].

McKenna (1991)[114] suggested that in order to achieve satisfied customers, organizations must overlook market surveys, advertisements, and promotions and focus on developing the right infrastructure that offers the right products and services that meet the customer’s expectations. For instance, if a customer decides to stay at a luxury hotel or to eat at fine dining restaurant he or she must be given product and services that match up with other luxury/ fine dining properties. The customer should be able to equate between the value received and the price paid to truly be satisfied. Scholars have contributed volumes of research to support the importance of satisfaction in the service industry. Through the years, research in professional, as well as trade publications, have justified the importance of satisfaction Blodgett, Granbois, and Walters (1993) [123] demonstrated that satisfied customers are far more valuable to a service organization when compared to dissatisfied
customers; thus, the organization’s focus should be to satisfy the customer. However, at the opposite end of the continuum, service providers bear the negative consequences from the dissatisfied customer. The situation becomes graver when a dis-satisfied customer chooses not to complain in order to avoid confrontation or to save the employee from being punished. The service provider misses the opportunity to rectify or correct the service failure situation and return the customer to a satisfied state.

2.4.1 CUSTOMER SATISFACTION DEFINED

Throughout the 1980s and the 1990s, definitions of satisfaction revolved mainly around transaction-specific satisfaction. Oliver (1981) [124] defined satisfaction as an evaluation of the surprise inherent in a product acquisition and/or consumption experience. Thus, satisfaction is the sum total of psychological state resulting when the emotion surrounding disconfirmation expectations is coupled with the consumer’s prior feelings about the consumption experience. In contrast to a transaction-specific approach to satisfaction, Fornell (1992) [125] promulgated satisfaction as the cumulative overall evaluation of a customer’s purchase and consumption experience based on numerous interactions between the customer and the service provider.

2.5 SERVICE FAILURE

“To err is human; to recover is divine” [27]

“Errors are inevitable, but dissatisfied customers are not.” [27]

A service failure occurs when service providers are unable to deliver services as expected by customers [1] [2]. All service firms experience instances where the customer is not satisfied with the service outcome, the service process or both [7]. Most companies have at least one in ten customers who will not be satisfied with the service they receive [126]. A service failure is defined as “a flawed outcome that reflects a breakdown in reliability” [48], or may refer to some consumer-perceived breakdown in a firm’s system [4].

The simultaneity of production and consumption of a service makes the service more vulnerable to failures. No matter how well scripted the service delivery is during actual performance variation are bound to occur. The high level of human involvement in many services means that the service delivery depends on factors, such as the behaviour of the
customer, his attitude and expectations and the attitude and behaviour of the front-line. These and many such factors make the service failures appear to be unavoidable [27]. These service failures often result in customer defections [27, 128], negative word of mouth campaigns [129], and/or a loss of market share [130]. Therefore marketers have a large stake in understanding both the consequences of failure and how to provide an effective recovery so they can minimize dissatisfaction and retain customers’ patronage.

Service encounters give rise to different types of service slip ups, including incidents of unreasonably slow service, service unavailability, and other core and non-core service failures [46]. Prior evidence from the literature suggests that the effectiveness of service recovery appears to be situation specific [131] [132] [26], and service type or the failure context is likely to influence customer expectations for service recovery [133] [38]. For example, most customers are likely to expect a discount or a free dessert following a bad meal experience, whereas an airline offering a discount on a delayed flight might be perceived as a pleasant surprise by most consumers [38].

2.5.1 TYPES OF SERVICE FAILURES

Two types of service failures are recognized: outcome failure and process failure [20] [88]. An outcome failure occurs when the failure is related to the core service offerings. The outcome dimension of a service encounter involves what customers actually receive from the service. A process failure occurs when it is related to the manner in which the service is delivered [88] [5] [134]. In an outcome failure, the organization does not fulfill the basic service need or perform the core service, which the basic benefit demanded or expected by the customer and the principal reason for the service encounter [135]. Some examples of a core service failure include a reserved hotel room being unavailable because of a double booking, a wrong order taken by the steward in a restaurant, a poor financial plan from a financial consultant, or inappropriate beauty treatment in a beauty salon. In a process failure, the delivery of the service is defective or deficient in some way. An example of a process failure includes a bank clerk treating the customer rudely during check-in, or a customers waiting in a queue for a considerable period, or poor communications or skills of a service personnel.

The type of service failure (outcome versus process failure) affects customers’ perceptions of the recovery evaluation. Customers who experienced a process failure were less satisfied after service recovery than those who experienced an outcome failure [133]. Smith et al. (1999)
also found that compensation and quick action improved customers’ evaluation of perceived fairness when they experience an outcome failure. On the other hand, customers perceived that an apology or a proactive response was more effective when process failure occurred. Mittal, Ross, and Baldasare (1998) [136] reported an asymmetrical impact of negative and positive performance on satisfaction and behavioral intentions.

2.5.2 FAILURE MAGNITUDE (CRITICALITY)

The service organizations need to assess failure magnitude, severity, or criticality [137] [30], not from the company’s perspective but from the customer’s. The magnitude of a service failure can vary depending on individual and situational factors [1]. When a purchase occasion is considered of high personal importance or critical, as determined by the magnitude of the consequences in the event of service failure, customers are likely to view service failure more seriously than when service purchase is less critical [76]. The research indicates that it might be difficult for a service organization to perform an effective recovery when the failure is perceived as serious (critical) rather than minor [138] [133] [132] [38] [30]. Empirical research on how customers respond to service failure suggests that the higher the magnitude or severity of service failure, the lower the level of post recovery customer satisfaction [139] [140] [20].

2.6 TYPES OF RESPONSES OF A CUSTOMER AFTER A SERVICE FAILURE

Researchers and practitioners have long recognized that consumers’ response to marketplace dissatisfaction has significant repercussion for such key phenomena as brand loyalty and repurchase intentions [141] [142] [143] [38]. Irrespective of the precautions set forth to make sure proper service delivery, firms are prone to some degree of service failure [1] [4] [26]. The existing body of literature on satisfaction suggests that the customer’s expectations from the service encounter are necessary factors in determining their degree of satisfaction or dissatisfaction. The zones of tolerance are defined by Zeithmal and Bitner (2000) [101] as the level of service that each individual customer will accept in each service scenario. For some customers, zones of tolerance may be minimal; demanding a more perfected approach to service. Other customers may have a larger zone of tolerance where he or she may be more tolerant to imperfections. Research suggested [101] [144] that customers with demanding
schedules or who are limited for time may have a minimal zone of tolerance compared to customers who have more flexibility or who are seeking a relaxed service experience. The underlying message to satisfaction research is that satisfaction plays a vital role in the success of any service organization; especially in the hospitality industry. As most organizations will attest, customer satisfaction is the key to repeat customer visitation, and customer loyalty. However when customer is not satisfied with the service encounter, s/he may indulge in negative behavioral response. Hirschman’s theory of exit, voice, and loyalty [145] (1970) describes the types of potential behavioral responses that dissatisfied customers may take. Voice and exit are active negative responses [145] [146], and loyalty is a passive response [16]. A dissatisfied customer may use multiple options when responding to dissatisfaction; the options are not mutually exclusive [18].

**Voice**

When consumers are dissatisfied with a product or service, they often speak about their discontentment to the retailer or manufacturer from whom they have purchased the product/service to obtain redress for their complaints. Voice occurs when the customer verbally complains and expresses his/her dissatisfaction to the company [147] [148]. The purpose of the voice option is “to retrieve restitution, to protect other consumers, or to assist the firm in correcting a problem” [149]. Complaints offer a service provider a chance to rectify the problem and positively influence subsequent consumer behavior [146] [18]. If the customers are unable to secure a satisfactory response from the company, they may press their complaints further by utilizing third-party complaint handling agencies, such as governmental and consumer protection departments, or media-sponsored consumer advocates [148]. Most customers engage in multiple complaint responses such as complaining to the retailer as well as talking to friends and relatives about the bad experience [148] When problems are poorly resolved, it will trigger the consumer to take private action by switching brands, stores, or suppliers; abstaining the use of the product or service; or communicate negative word-of-mouth [150]. With the advent of the Internet and its communication capabilities, many dissatisfied customers are now provided with an alternative way to communicate their dissatisfaction around the globe. A number of complaint sites, which are established by individuals (or groups) that are not affiliated with the target company, are functioning as central forums for consumers to share their bad experiences with other consumers.
Exit

Exit involves customers who stop buying the company’s service [147] [30]. It is a voluntary termination of an exchange relationship [151] and is often implemented if voice was not successful. Loyal customers are those who continue to stick with an unsatisfying product/service seller with the hope that things will soon improve [16] [145]. The primary precursors to repeat purchase are customer satisfaction [97] [134], perceived value and a perceived or real lack of alternatives [81]. Service failures can prove extremely costly for firms, as customers often switch providers after a bitter experience [152]. As reported by Keaveney (1995), [153] the two most important reasons for customers to switch from one service provider to another are core-service failures and service-encounter failures (failures in the personal interaction between customers and employees). Dissatisfaction with the core services or service provider may be a strong incentive to exit from the relationship. Defecting customers send a clear signal of declining market share, profit reduction, and loss of future revenues to the service provider [153] [28]. Reichheld and Sasser (1990) [28] claim that customer defection for suppliers of services may have a stronger impact on the bottom line than scale, market share, unit costs, and other factors usually associated with competitive advantage.

Negative Word-Of-Mouth

Studies indicate that dissatisfied customers may tell between 10 to 20 people about their bad experience with a service company [91]. Consumers have been found to depend on word-of-mouth to reduce the uncertainty and the level of risk that are often associated with service purchase decisions [154].

The intangible and the heterogeneous nature of service force the consumer to perceive higher risk in purchasing them than purchasing the goods. Because of the intangibility, the consumers of service have much higher pre-purchase preference for personal information sources and, and that these sources influence the purchase decision to quite an extent [154]. Word-of-mouth communication, put forth a strong influence on consumer purchasing behavior, both short term and long-term purchasing judgments [154]. This influence is particularly significant when the information from the personal source is in tune with the individual’s feelings toward the product and service considerations [155]. The word –of –mouth influences the listener’s perception of the brand [139]. The word-of-mouth
communication is generally perceived by potential consumers to be highly reliable, and can lead to fewer initial purchases from new consumers [154], thus affecting their sales and consequently the profitability.

2.7 THE IMPORTANCE OF HANDLING COMPLAINTS WELL

Researchers have pointed out that as the hospitality industry continues to grow, the need for having the competitive advantage becomes more important [121]. A dissatisfied customer can be one of the biggest liabilities to a service organization. In 1993, Blodgett et al. [123] reported that a dissatisfied customer informs an average of nine people about their negative experience. His research also demonstrated that service organizations lost an average of twelve percent of their annual customer volume each year due to poor quality service. Unfortunately, a large majority of dissatisfied customers choose not to complain and never seek redress for the failed service attempt; thus, leaving the organization dissatisfied with intentions to never return and to share their negative experience with others. Just as satisfied customers reward the organization with loyalty and positive word-of-mouth advertisement the chain reaction of dissatisfaction can also create a ripple effect. It has been suggested that the cost of recruiting a new customer is five times greater than the cost of retaining an existing customer [28] [156] [33]. Service entities could increase their profits up to 85% by reducing the customer defection rate by 5% [28]. Studies suggest that that if customers are satisfied with how their complaints are handled, their dissatisfaction can be reduced, and the probability of repurchase is increased [31]. It is well known that business usually depend on repeat business for survival [125] and for the service firms, profits increase significantly as the service firms become proficient in serving their existing customer bases [28]. Doing business with continuing customers saves money on a variety of costs [3] such as recruitment; advertising to entice new customers, costs of personal selling pitches to new prospects, costs of setting up new accounts, cost of explaining business procedures to new clients, and costs of inefficient transactions during the customer’s learning process. The loyal patrons on the other hand become the non commercial personal source help the companies to reap high sales revenue with lower costs. The companies with dissatisfied consumers are at a disadvantage because they constantly have to invest in attracting new consumers who are often advised by former unhappy consumers not to do business with these companies [157]. Furthermore, effective handling of complaint is vital to service providers as it offers the opportunity to retain potentially dissatisfied customers while facilitating organizational learning and reducing
the likelihood of future mistakes [9]. It has been found that core service failures and unsatisfactory service provider’s responses to service failure accounted for more than 60% of the all service switching incidents [153]. Poor handling of customer complaints and unsuitable responses of the service provider to the service failures have an effect on not only the affected customers but also their friends and families by means of negative word-of-mouth communication [47] [158].

2.8 THE EVOLUTION OF SERVICE RECOVERY

As both a business practice and a focus of marketing research, the concept of service recovery has evolved over time. Prior to the 1970s and early 1980s, the term “service recovery” dealt largely with restoring computer or telecommunications outages, or recovering from natural disasters [49]. Beginning in the late 1970s onwards marketers began to give emphasis to not only the occurrence of service recovery in the reactive context of resolving specific service problems [159], but also the long-term benefits of service recovery such as enhanced customer loyalty and favorable word-of-mouth communication [160]. In 1990, Hart et al. [27] published a classic article describing “the profitable art of service recovery”, and attention turned to the proactive, strategic role that service recovery can play in a competitive marketplace. Zemke and Bell (1990) [91] defined planned service recovery as: “… a thought-out, planned process for returning aggrieved customers to a state of satisfaction with the organisation after a service or product has failed to live up to expectations.” Johnston [17] defined service recovery as “the seeking out and dealing with service failures”. Service recovery focuses on the actions taken by the organization to avoid or rectify the deviation, to prevent breaches in customer confidence and loyalty, and to return the customer to a state of satisfaction [6]. Tax and Brown (2000) [161] define service recovery as a process-oriented approach. It is a process that identifies service failures, effectively resolves customer problems, classifies their root cause(s), and yields data that can be integrated with other measures of performance to assess and improve the service system. As observed by Michel (2001), [162] service recovery differs from complaint management in its focus on service failures and a company’s immediate reaction to it. While complaint management is based on complaints that may be caused by service failure, service recovery tries to identify when failure occurs and makes effort to solve problems at the service encounter even before customers complain or before they leave the encounter dissatisfied [163].
Two strand of research can be identified within the recovery literature:

a) A prevention or variation reduction approach, based on the idea of building methodologies for “zero defect” environments, which is highly influenced by the manufacturing literature [164]

b) A service encounter approach, based on the human interaction that occurs when services fail, which is considered inevitable in this second strand, due to the nature of services themselves, i.e. the variations inherent in something that is created and consumed simultaneously, through human interaction [165].

Undoubtedly the nature of service products themselves increases the likelihood of errors, or service failures and, therefore the need for recovery. Service variability has been identified as an ongoing problem both for marketing managers and quality managers [134]. Not only this, the customer often is required to participate in the production of the service product [166]. Importantly, Johnston’s study of service failure and recovery (1995a) [167] found that many failures are created by customers themselves. The attention of the researchers now is directed towards understanding how customers evaluate recovery experiences”

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<tr>
<th>Focus of Study</th>
<th>Author/Year</th>
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<tr>
<td>Customer attribution of failures</td>
<td>Swanson and Kelly 2001[39]; Mattila and Patterson 2004a,b,[85] [169] Neil and Matilla,2004 [142]</td>
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<tr>
<td>Customer expectations for service recovery</td>
<td>Kelly and Davis 1994 [1], Jun MA 2007 [170]</td>
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<td>Internal service recovery</td>
<td>Stefan Michel et al 2009 [172]</td>
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<tr>
<td>Impact of service recovery on word-of-mouth and purchase intentions</td>
<td>Maxham III 2001[4]; Swanson and Kelley 2001[39]</td>
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2.9 THEORETICAL FOUNDATIONS OF SERVICE RECOVERY

Theoretical frameworks applied in studies of service recovery include the social exchange theory, equity theory, attribution theory, disconfirmation paradigm, and justice (fairness) theory. Blodgett et al. (1997)[18] promulgate that the concept of justice provides a theoretical framework for the study of dissatisfied customers’ post complaint behavior(s); and other theories help to explain why dissatisfied customers seek redress.

2.9.1 ATTRIBUTION THEORY

Attributions are efforts to assign responsibility for events. After a failure, consumers appraise the cause of the failure. Research has shown that when a failure occurs, customers often search for explanations for the causes of failures [175] [43] and make causal attributions to assure why a failure occurred [176]. This attribution outcome will magnify a customer’s negative feelings. Understanding this reasoning logic will help providers to manage the process. Without a framework, the customers will make decisions relative to their own situation, The challenge therefore for the service provider is to move the customer from her/his relative thinking to a more absolute position, which is attached against recognizable standards. Attribution Theory offers a pseudo absolute framework. Attribution Theory offers an opportunity to assess the dimensions of a failure in a rational way. The result is the
outcome of a logical process, which is similar to an absolute standard. Weiner [176] classified the causes of the product failures into three categories or dimensions:

1. Locus of control;
2. Stability; and
3. Controllability.

**Locus of control**

Locus of control refers to whether the cause of a failure is located in the customer or in the service organization [26]. For instance, when a failure like a delivery failure occurs, customers make an attribution on whether or not it was the responsibility of the sales person [177]. While the locus attribution is significant for some failure events, many researchers have excluded this attribution. Researchers believe that customers perceive that most causes of failures are because of the service organizations (rather than within customers) making the locus attribution as predictable and thus less important for most situations [14] [133] [26].

**Stability**

Stability referred to as whether causes of failure are perceived as temporary and irregular or is perceived as relatively permanent and unchanging [178]. In the event of service failure, for instance when a salesperson is perceived to be responsible for the failure occurred, the customer will then further evaluate as to why the event occurred and attribute the mishappening/ event of failure to either a stable cause or an unstable cause [177]. Failures with stable causes recur more frequently than failures whose causes are not stable. Attributions to unstable reasons lead to uncertainty about future outcomes, whereas stable attributions lead a person to expect the same outcome in the future [176]. Thus, deducing that failures caused because of some stable reasons can be predicted and therefore should be the obvious aim for problem solving for good service organizations. Hess et al., (2003) [26] contended that high-quality service organizations should try to avoid the kind of failures produced by stable causes.

**Controllability**

Controllability refers to the degree to which a customer perceives a cause to be volitional or non-volitional [26]. This attribution depends on the customer’s beliefs about whether the service organization could control or avert a failure from occurring [176]. When customers
perceive the cause of the failure is not internal, and therefore not controllable, they assess less blame to other entities such as the manufacturer or retailer, but, when the failure is because of some controllable and internal reasons, they blame the service provider. The customers’ therefore may feel angry and have a desire to hurt the firm’s business [175].

Customers’ evaluation of the cause and effect attribution influence their subsequent emotions, attitudes, and behaviors. The Attribution theory on the basis of these three dimensions of causal attributions: locus, controllability, and stability [39] have applied for explaining customer responses to product and service failures [179] [142]. In a nutshell, generally, dissatisfied customers who attributes the service failure to have an external locus and to be stable and controllable are more likely to exit and to engage in negative word-of-mouth behavior than those who consider that the problem is unlikely to recur and is uncontrollable [123]

2.9.2 CONFIRMATION/DISCONFIRMATION PARADIGM

The confirmation/disconfirmation paradigm [90] [100] [180] has given the conceptual framework for many customer satisfaction/dissatisfaction studies. It refers to the difference between an individual’s pre-purchase expectations and post purchase performance of the product or service is customer satisfaction/dissatisfaction [180].

The model has three basic elements: expectations of the customer, perceived performance of the service organization, and whether performance meets expectations [16] . Customers perceive a problem in relation to the service or service provider and hence their expectations are not met, then another set of expectations – service recovery expectations – becomes active [181]. These customers' recovery expectations are their beliefs about the level of reparation that is appropriate after a service failure. A disconfirmation of expectation will give rise to greater customer satisfaction if expectations are exceeded by the company's recovery performance [182]. On the contrary, a recovery response, which negatively disconfirms expectations, will reduce customer satisfaction. Thus, customer satisfaction results from an evaluation process where customers compare their previous recovery expectations with their perception of the service recovery received [183].
2.9.3 SOCIAL EXCHANGE THEORY AND EQUITY THEORY

Where Attribution Theory provides a quasi absolute framework to evaluate the damage in a logical and consistent fashion, Equity Theory can be used to assess the recovery effort. Oliver and Swan [110] have shown that equity considerations are antecedent to customer satisfaction next to disconfirmation perceptions. The notion of “fairness” in equity theory is relevant in any domain in which an exchange takes place because it is conceivable that one or both parties will perceive inequity in the exchange. A service failure leads automatically to disconfirmation, but could still be perceived as equitable because of recovery efforts. Alternatively, a service encounter that lives up to expectations could be perceived as inequitable, for example when the price of the delivered service is perceived as too high. As a result, equity considerations may play an important role in service recovery systems. In an event of inequity, customers, in the general, have common expectations of a fair fix. Equity Theory provides guidelines on what recovery actions are suitable for a given failure type. The equity theory equips the service provider to take apt recovery action i.e. neither over compensating, nor offering too little to aggravate the situation. Consumers are expected to look for equitable outcomes where exchanges have to be fair to all parties. An equitable reward system is defined as the compensation of each individual according to his/her level of contributions or inputs. Each individual then compares his/her reward to the reward of a cognitively chosen referent, and if the situation is perceived to be unfair or inequitable, the recipient will be motivated to restore equity [184]. The graphic illustration of an equitable relationship is given below:

\[
\frac{\text{Outcomes of Person A}}{\text{Inputs of Person A}} = \frac{\text{Outcomes of Person B}}{\text{Inputs of Person B}}
\]

Although the major “variable” components of this equation are “in puts” and “outcomes,” the choice of a referent other/personal source is also an important theoretical factor [186]. A customer would complain if this equilibrium of input/output is sufficiently disturbed [110]. Thus inferring from this, it has been said that customers after a service failure expect the service provider to equalize the input output ratio Service failures can be viewed as customers’ economic loss (e.g., money, time) and/or social loss (e.g., status, esteem) in an exchange [133]. Consequently, customers consider the failure situation as a negative inequity and will try to balance equity with post-purchase behavior. Service providers attempt to recover the balance by offering customers economic value in the form of compensation (e.g.,
a discount) or social resources (e.g., an apology) [133]. A customers’ perceived justice is based on the summary of the equity/inequity of consumers’ own inputs compared to the outputs. This level of perceived justice consequently leads to the consumer perceiving satisfaction / dissatisfaction [147]. Equity theory focuses on the motivational and cognitive process of weighing sacrifices or investment (justice inputs) against rewards (justice outputs), and comparing the result with the exchange partner and others experiencing similar situation.

Social exchange theorists have identified three dimensions of perceived justice that influence how people assess exchanges [133]. A three dimensional view of the concept has evolved over time to include decision outcomes (distributive justice), decision-making procedures (procedural justice), and more recently, interpersonal behavior in the delivery of outcomes and enactments of procedures (interactional justice).

**Distributive justice**

Distributive justice assumes that individuals assess inputs and outputs before arriving at an equitable ratio [18] [100] [111]. It explains why perceived employee effort affects customer satisfaction with service transactions [9] [127]. Distributive justice focuses on the allocation of benefits and costs and supports social exchange theory, which emphasizes the role of distributive or exchange considerations in shaping interpersonal relations [9]. Traditional Equity Theory states that exchange partners seek equitable outcomes for all involved, compared to their inputs. When roles are different, the theory only requires that each party has expectations of the other. Justice is then interpreted in terms of the other’s performance [110] [174]. Contemporary Equity Theory recognizes the multi-dimensionality of inputs and outputs. It also recognizes that exchange parties have dissimilar resources and allows for the influence of the egoism hypothesis. The egoism hypothesis holds that distress is lower if inequity is in one's favour [110], while people have a lower tolerance for negative inequity, resulting in an increased motivation to correct a situation. Input and output in distributive justice evaluation can also include non monetary intangibles such as emotions, complaining costs and ego benefits [187]. Equity Theory also reveals that in certain situations, an apology or an encouragement to express feelings may be seen as fraudulent, if not followed by a tangible outcome like a refund or gift [19]. Customers may find a full refund as being too liberal for a small delay [9]. People prefer exchanges of resources that are in kind [133], i.e.,
recovery actions which are proportionate to the damage caused and of a kind which relates to the loss suffered

**Interactional justice**

The quality of the interpersonal treatment people receive when procedures are implemented is referred to as interactional justice. Tax et al. (1998) [9] defined interactional justice as “dealing with interpersonal behavior in the enactment of procedures and the delivery of outcomes”. Interactional justice focuses on the way in which the complaint was treated [123] [174]. The study of this dimension helps to explain why some people might feel unfairly treated even though they would evaluate the redress and the procedures as fair [9]. Researchers have demonstrated the important impact of interactional justice on customer assessments of service encounters [6] [9] [133] [46] [69]. In a consumer complaint situation, the empathy, politeness, effort, and honesty of the employees have been recognized as associated with interactional justice. As promulgated by Tax, Brown, and Chandrashekaran [9] elements of interactional justice include explanation for failure [46]; proactive recovery efforts [133], politeness [25]. Customers experiencing fair interpersonal treatment convey satisfaction with the way the complaint was handled. The positive relationship between interactional justice and perceived satisfaction from the recovery process is supported across studies.

**Procedural justice**

Researchers [38] demonstrate that service provider concern is of particular importance and significantly influences a customer’s evaluation of services. Consumers who did not receive the desired outcome may still be satisfied. They will return if they perceive that the procedure and manner used to arrive at the outcome was fair. Procedural Justice is defined as the perceived fairness of the decision making procedures used by decision makers to arrive at an outcome [188]. Tax, Brown, and Chandrashekaran [9] reported that procedural justice is meaningful because it aims to resolve conflicts in ways that encourage the continuation of a productive relationship between the disputants, even when outcomes are unsatisfactory to one or both parties. Thus, even when a customer may be satisfied with the type of recovery strategy offered, recovery evaluation maybe poor due to the process endured to obtain the recovery outcome [158] [9]. Components of procedural justice include formal policies and structural considerations (e.g., process control/voice, decision control, accessibility (i.e., the
ease of engaging in the complaint process), timing/speed [18] [111] [9], and flexibility that may affect how an outcome is perceived [174] [9], keeping the customer informed (cognitive control), the clearness, readability, and customer orientation of the procedures [189]. Considerable research has supported the impact of many of the elements of procedural justice on service and recovery evaluations [6] [158] [9] [133] [46].

Equity theory not only will help out in understanding consumer, but also provides guidance on the kind of recovery action is suitable in a particular situation. Similar to using attribution theory to provide a quasi absolute framework to establish the perceived cause of a problem, Equity theory provides a reference for recovery actions. While the relationship between equity (or justice) and recovery action is complex, varying equity parameters impact on how well customers perceive a service following a failed episode.

**Table 2.2 Definition of justice elements and associated principles**

<table>
<thead>
<tr>
<th>Principles of Distributive Justice</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>Provision of outcomes proportional to inputs to an exchange</td>
</tr>
<tr>
<td>Equality</td>
<td>Equal outcomes regardless of contributions to an exchange</td>
</tr>
<tr>
<td>Need</td>
<td>Outcome based on requirements regardless of contributions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Principles of Procedural Justice</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process Control</td>
<td>Freedom to communicate views on a decision process</td>
</tr>
<tr>
<td>Decision Control</td>
<td>Freedom to which a person is free to accept or reject a decision outcome</td>
</tr>
<tr>
<td>Accessibility</td>
<td>Ease of engaging a process</td>
</tr>
<tr>
<td>Timing/Speed</td>
<td>Perceived amount of time taken to complete a procedure</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Adaptability of procedures to reflect individual circumstances</td>
</tr>
</tbody>
</table>
### Principles of Interactional Justice

<table>
<thead>
<tr>
<th>Definition</th>
<th>Explanation</th>
<th>Provision for reason for failure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Honesty</td>
<td>Perceived veracity of information provided</td>
<td></td>
</tr>
<tr>
<td>Politeness</td>
<td>Well mannered, courteous behavior</td>
<td></td>
</tr>
<tr>
<td>Effort</td>
<td>Amount of positive energy put into resolving a problem</td>
<td></td>
</tr>
<tr>
<td>Empathy</td>
<td>Provision for caring individual attention</td>
<td></td>
</tr>
</tbody>
</table>

Source: Tax et al. (1998) [9]

### 2.10 THE SERVICE RECOVERY PARADOX

The term “recovery paradox” refers to situations in which the satisfaction, word-of-mouth intentions, and repurchase rates of recovered customers exceed those of customers who have not encountered any problems with the initial service [43]. Based on personal experiences and anecdotal evidences, the idea of a recovery paradox was developed more than 30 years ago.

Research has stated that “a good recovery can turn angry, frustrated customers into loyal ones. Researchers have demonstrated that good service recovery can, create more goodwill than if things had gone smoothly in the first place” [27]. Since then, a wide range of empirical studies have explored the service recovery paradox, as summarized in Table 2.3.

#### Table 2.3: Empirical Studies Testing the Service Recovery Paradox

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Methodology, Sampling, Statistics</th>
<th>Main Results</th>
<th>Paradox</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolton and Drew (1992)[190]</td>
<td>Telephone survey of 1,064 small-business customers of a tele-communications service. Between-subject. Regression analysis.</td>
<td>A repair incident that is rated as “excellent” causes a recovery paradox.</td>
<td>Yes</td>
</tr>
<tr>
<td>Boshoff (1997) [16]</td>
<td>Scenario-based experiment in the airline industry, 540 international tourists.</td>
<td>Service recovery paradox was found when the supervisor immediately offered the customer a full refund and an</td>
<td>Yes</td>
</tr>
<tr>
<td>Reference</td>
<td>Study Design</td>
<td>Methodology</td>
<td>Findings</td>
</tr>
<tr>
<td>-----------</td>
<td>--------------</td>
<td>-------------</td>
<td>----------</td>
</tr>
<tr>
<td>Hocutt, Chakraborty and Mowen (1997) [191]</td>
<td>Between-subject. ANOVA.</td>
<td>2 × 2 × 2 factorial design experiment with 251 students in a restaurant setting. Between-subject. MANOVA.</td>
<td>additional free airline ticket. Recovery paradox found.</td>
</tr>
<tr>
<td>Smith and Bolton (1998) [138]</td>
<td>Written survey based on failure/recovery encounter scenarios in hotels (602 respondents) and restaurants (375 respondents). Within-subject. Mean analysis.</td>
<td></td>
<td>Cumulative satisfaction and repatronage intention after a very satisfactory service recovery is higher than prior cumulative satisfaction and repatronage intention.</td>
</tr>
<tr>
<td>McCollough (2000) [187]</td>
<td>2 × 2 factorial design experiment with 128 students in a hotel setting. Between-subject. ANOVA and multiple linear regressions.</td>
<td></td>
<td>A recovery paradox with respect to transaction satisfaction is possible after a low-harm service failure where complete recovery is possible (e.g., room upgrade because of overbooking).</td>
</tr>
<tr>
<td>Maxham and Netemeyer (2002) [40]</td>
<td>Longitudinal study with 255 complaining bank customers at four points in time. Within-subject. MANCOVA.</td>
<td></td>
<td>Recovery paradox found for one failure and recovery. No double deviation effect for one failure and dissatisfaction recovery, but strong effect after two failures.</td>
</tr>
<tr>
<td>Hocutt, Bowers and Donovan (2006) [192]</td>
<td>2 × 2 × 2 factorial design experiment with 211 students in a restaurant setting. Between-subject. MANOVA.</td>
<td></td>
<td>Paradox was found only for best recovery scenario compared to no failure scenario.</td>
</tr>
<tr>
<td>Berry, Zeithaml and Parasuraman (1990) [193]</td>
<td>Survey of 1,936 customers in different industries. Between-subject. Mean analysis.</td>
<td></td>
<td>“No service problem” is better than “service problem resolved satisfactorily.”</td>
</tr>
<tr>
<td>Halstead and Page (1992) [37]</td>
<td>Survey of carpet buyers. Between-subject. ANOVA.</td>
<td></td>
<td>Repurchase intentions for noncomplaining satisfied customers is higher than for complaining customers who are satisfied with the complaint handling.</td>
</tr>
<tr>
<td>Authors</td>
<td>Design and Methodology</td>
<td>Findings</td>
<td>Inference</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Brown, Cowles and Tuten (1996) [49]</td>
<td>Experimental design in a retail setting with 424 students. Between-subject. ANOVA.</td>
<td>Service recovery has a positive impact on encounter satisfaction, but reliability is important for long-term success.</td>
<td>No</td>
</tr>
<tr>
<td>Zeithaml, Berry and Parasuraman (1996) [24]</td>
<td>Customer surveys in four industries, n = 1009–3069. Between-subject. Regression, ANOVA.</td>
<td>No problem is better than good recovery, which is better than bad recovery.</td>
<td>No</td>
</tr>
<tr>
<td>Bolton (1998) [194]</td>
<td>Longitudinal study of 599 cellular telephone customers. Proportional hazards regression. Within-subject.</td>
<td>Customers who experienced perceived gains during service encounters do not have longer duration times, even if customers perceived the encounter to have been handled in a “very satisfactory” manner.</td>
<td>No</td>
</tr>
<tr>
<td>Maxham (2001) [4]</td>
<td>Study 1: Experiment with 406 students in a haircut setting. Study 2: Survey of 116 complainers of an Internet service provider. Within-subject. MANOVA.</td>
<td>No significant differences on satisfaction and repurchase intention between “high” and “moderate” service recovery, but significant differences on word of mouth.</td>
<td>No</td>
</tr>
<tr>
<td>Andreassen (2001) [147]</td>
<td>Telephone interviews in various industries (self-selected) based on the Norwegian Customer Satisfaction Barometer (NCSB). Between-subject. ANOVA.</td>
<td>Moderate degree of satisfaction with the recovery makes up for the service failure. Image is restored more easily than intent. Even with very high scores of satisfaction with the recovery, image and intent were not higher than for satisfied customers.</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: Michel and Meuter [195]

As Table I shows, eight studies refute the existence of a service recovery paradox [147] [193] [194] [49] [37] [4] [10] [24]. The majority of these studies indicate that there is no way to
please customers more than with a consistent, first-time, error-free service. These researchers promulgated that service recovery is a strategy to limit the damage caused by a service failure rather than a way to impress the customer with a special effort when something goes wrong. However, it is important to note that seven other studies, some of them by the same authors points out that the service recovery paradox is a real phenomenon [16] [40] [41] [133] [187] [190] [191] [192]. Based on this literature review, it is reasonable to conclude that the evidence of the existence of a service recovery paradox is mixed. The cause of this contradictory result [195] is primarily because of two possible reasons. First, the service recovery paradox is not defined uniformly in the studies mentioned above: some authors test for a between-subject effect (comparing a recovery/complaining group with a control group) while others test for a within-subject effect (before a failure/complaint and after a failure/complaint). More over the dependent variable is also not the same. A second probable cause for the ambiguous finding is not related to a methodological problem. It has been recommended that a service recovery paradox is a very rare event [16] [27] [162], which implies that it is not easy to discover even if it exists. It is known that very few dis-satisfied customers complain [159,151].Thus to detect the recovery paradox, a very large sample from a large group of customers who received a very satisfactory recovery is required. This explicates why some studies have failed to produce significant results.

2.11 SERVICE RECOVERY STRATEGIES

Service recovery strategies describe the actions that service providers take in response to defects or failures [5]. These actions range from “do nothing” to “whatever it takes to fix the problem”. Within this range, the most common and frequently used actions are: apology, compensation, providing solace to the customer by giving cognitive control (frequent updating on the progress made to resolve the service failure) or providing responsive service etc. [14] [27] [20] [15]. The effectiveness of recovery strategies depends on the situation and is influenced by such factors as importance and type of service. Effectiveness is also dependent on the way in which the service provider handles the problem. Thus, both what was done and how it was done contribute to the effectiveness of the recovery strategy [132]. Assistance involves actions taken to rectify the problem. The goal is to bring the customers back to the level of services they initially expected or contracted for [167]. In the case of certain core failures (e.g. waiting for service even with a reservation), it is argued that the service firm has little leeway; and to plug in the deviation caused by service failure should
provide compensation along with apology. To satisfy the customer and restore trust the service provider can provide cognitive control. Compensation involves an apology or a discount [14] [21] [19]. Hoffman et al. [20] found that compensation (e.g. free food, discounts, coupons) was rated most effectively in restaurant service failures that included slow or unavailable service.

Recovery strategies should be planned, analyzed, evaluated, and implemented as carefully and thoroughly as any other element in the organization’s arsenal for competitive advantage. As managers and strategists, we are keyed to consider the differences between customer markets segmented by age, gender, income, occupation or even marital status, but we often overlook the fact that the principles of customer satisfaction that apply within the industrialized west are not universal. Thus, an important area in managing customer relationships in general and service recovery in particular, is the cultural diversity of customers [53] [55] [56] [57]. Although the growing importance of the global economy makes cultural awareness an issue for all businesses competing in the 21st century, the nature of hospitality service makes it particularly critical for effective management of customer relationships. The cultural diversity of the customer base is high, and the personal contact between customers and employees can be extensive. Research indicates that an individual’s values, norms, and expectations for appropriate social behavior are, to a large degree, established and determined by the culture in which he or she is raised and subsequently resides [196] [68]. There is also evidence supporting the extension of cultural differences into areas such as work life and consumer behavior [68]. Because service exchanges incorporate a mix of social, work, and consumer behaviors, there is every reason to expect that a customer’s cultural orientation will affect how he or she experiences and evaluates a service failure and any subsequent attempt at service recovery. Because service recovery is a relatively new management emphasis, there is to date no accumulation of research or theory addressing the nuances of the recovery concept. The theory of cultural relativity provides a useful framework for extending our knowledge of recovery in the cultural context. The history of multinational management provides a rich and detailed account of blunders created when American management theories and practices were applied indiscriminately across various national environments [197]. It was learned that management practices are not universal. Initially, it was thought that the differences between nations and the values of their people would converge after time. It was expected that the
world would become a homogeneous environment for conducting business but this has not happened [197] [198].

2.12 GAPS IN THE LITERATURE

While service recovery is now a mature area of academic research, Service recovery is still in nascent stage in India and not much of published work is found in Indian context. The knowledge and of how Indian customers establish and maintain service relationship is very limited. Besides liberalization and globalization the boom of the electronic media in India the power has shifted in the hands of the consumers with increased information and variety of products and services to choose from. Organizations operating in a multi-ethnic country like India or involved in international business enterprise across cultural boundaries need to be principally sensitive to the cultural diversity of their customer base because the quality of interaction between the customer and the service provider can impact the customers’ assessment of services [79].

Previous studies mainly studied the impact and relative importance of justice dimension on the customers’ satisfaction from service recovery [9] [6] [38] [199]. The researchers tended to describe how to recover from the perspective of the consumers. For example Harris, Grewal, Mohr, and Bernhardt (2006) [141] used the environment as the intervening variable to describe how the consumers take action to the service recovery strategy [6]. Sparts & McColl-Kennedy [6] described how to augment consumers’ satisfaction with service recovery processes from the view of the Equity theory [6] [70] [200]. In other words, the past studies rarely combined an individual consumer’s cultural orientation and their perceptions and responses to a firm’s service recovery efforts. Few studies used a consumer culture-oriented view to explore the positive influence of effective execution of service recovery [200]. This research has attempted to study the influences of culture and the perceived relative importance of the service recovery dimensions. This study aims to extend existing research on the service recovery by investigating the role of customers’ cultural value orientation in influencing consumer response to service failure. This study will assist the service providers to adapt, refine and align the service recovery tactics with the customers’ expectation and provides guidelines for developing successful service recovery strategies.
2.13 CONCLUSION

This chapter has recapitulates the literature on service, service failure, customer responses to service failure and service recovery. The theoretical foundations of service recovery and service recovery strategies have been discussed. Finally, the research on service recovery might now be regarded as a mature area of research, one area that has not been addressed in the literature concerns the impact of cultural values on customers responses to service recovery efforts. The next chapter will review the relevant literature concerning culture and the influence of cultural values on consumer behavior, and service recovery evaluations in particular.