
CHAPTER 1

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1.1 RESEARCH OVERVIEW

In the service sector unlike manufacturing, no matter how well rehearsed the service delivery is, the failures are inevitable. A service failure occurs when service providers are unable to deliver services as expected by consumer [1] [2]. To have satisfied and loyal customer base effective handling of service failure is imperative. This focus stems from the recognition that attracting new customers tends to be more expensive than keeping existing customers [3] [4]. Action taken by the service provider to rectify the service failure is service recovery. 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 [5] [6].

This thesis examines the overall satisfaction and the perception of customers regarding the dimensions of service recovery after a service recovery interaction. The thesis also delves into the impact of culture on the perception of service recovery dimensions. The service industry chosen is the Indian hotel industry (a medium contact service sector). The thesis adopts, a single cross section descriptive research design (using a series of hypothetical scenarios).

All service firms experience instances where the customer is either not satisfied with the service outcome, the service process or both. [7]. Gronroos 1988; Bell and Zemke 1987 [5] [8] define the service recovery as the actions and activities that a service organization and its employees perform to “rectify, amend, and restore the loss experienced” by customers due to service failure. Service recovery refers to the actions taken by an organization and its employees to attempt to return the customer to a state of satisfaction following a service failure [6]. When a service failure occurs, the way companies recover, has a critical impact on subsequent customer responses. Consequently, service researchers [5] [9] [10] [7] and practitioners [11] [12] [13] have shown keen interest in service failures and recovery strategies. Service recovery actions include, acknowledgement or recognition of the slip up [14] providing customers with explanations or the reasons for the service failure and progress made to rectify the problem, expressing regret or apology [15] offering of compensation i.e.,

refunds, price discounts, upgrade services, free products or services [16] empowering the front line employees to rectify the problems on the spot, and being courteous and empathetic during the recovery process [14] [17] [18] [19] [20] [15] [21].

1.2 RESEARCH MOTIVATION

Service is the moment of truth when employee training and expertise is truly tested in an effort to meet or exceed the customers' expectations of the tangible and intangible components of the service encounter. A service encounter is an interpersonal relationship between the organization and the customer [22].

The India economy has shifted from an economy dominated by the 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 Gross Domestic Product for hotels and restaurants has increased from 5.5% in 2008-2009 to 6.7% in 2009-2010 [23]. It is predicted that the hotel industry after a fall in 2009-10, 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 (ARR). Sales are expected to grow by 15.1 per cent in 2011-12. [23]. These statistics focus not only on the growth and importance of service sector but a deeper look suggests that this upcoming sector is crucial for Indian economy thus justifying the choice of the research work.

The high degree of personal interaction between the service provider and the customer is the integral part of service encounter. This high level of human involvement in many services makes the quality of delivery dependant on factors like the skills, attitude and behavior of front-line employees. In the medium and high contact service sector the service delivery also depends on the attitude, expectation, and perception of customers as well as the behavior of other customers [24]. Service cannot be stored, the production and consumption typically occur simultaneously, thus the service is delivered "live" [25] [19] [26]. Despite unrelenting efforts to deliver excellent service, error free service or "zero defection" is an improbable goal in service delivery [25] [19] [27] [1] [10] [28] [29] [30]. This emphasizes the fact that to

survive in the business, the motto of “providing quality service” alone will not be enough. The service providers are required to be ready with a contingency plan in an event of service failure. Therefore, effective service recovery is considered to be an integral part of an organization’s service quality program. Gilly (1987) [31] observed that if customers are satisfied with the handling of their complaints, dissatisfaction can be reduced and the probability of repurchase can be increased.

As reported in research [32] inability to provide customer satisfaction, after receiving grievance can lead to a decline in customer confidence, negative remarks by word-of-mouth, switching off customer, possible negative publicity as well as the cost of re-performing the service [32]. On the other hand, effective service recovery can have major impacts on customer retention rate; it reduces the spread of negative word-of-mouth, and improves profitability [9]. Appropriate service recovery efforts can convert a service failure into a very positive service encounter, attaining secondary satisfaction [33] and enhancing repurchase intention [34] [35] [36] [37] [38] [4] [39] [9] [18] and positive word-of-mouth communication [40] [41]. Exceptional service recovery can lead to service “recovery paradox,” a situation where the levels of satisfaction of customers who received good or excellent recoveries actually are higher than of those customers who have not experienced any problem [42] [43] [44] [45] [41]. Whereas, an inadequate response to service failure may result in exaggeration of negative feelings and evaluation of the service provider. According to Bitner, Booms, & Tetreault (1990), [46] this is referred to as “double deviation”. It is, therefore, imperative for service firms to adopt effective service recovery strategies to correct the service delivery mistakes and decrease deviation and enhance retention and satisfaction of the customers. [47] [30] [27] [48] [49] [9] [17] [50]. Some motives for organizational investments in building relationships with customers include access to privileged information about customers’ needs and wants, mutual rewards, customer retention, cost reduction, and profitability [51]. Often the service recovery strategies are seen as costs, but such strategies can improve the service system and result in relational benefits [49]. Tax and Brown [9] argued that “the relationship between service recovery and profit can be clearly seen by examining the service profit chain”. They argued that profit is affected by customer loyalty, which results from customer satisfaction generated from good service recovery procedures. Their research, like Johnston’s [52] suggests that dealing well with problems and failures indeed has a strong impact on financial performance.

1.3 AIM OF THE RESEARCH

India, Asia's third largest economy and a 1.2 billion-people-strong nation, is one of the largest consumer markets on the global canvas also referred to as "the bird of gold. In this light it is important for academicians and service practitioners to understand the expectations of Indian consumers after a service failure. This thesis examines the effect of a recovery action (based on justice theory) on the perception of dimensions of service recovery and the overall satisfaction of the customer.

The element of human contact makes the service encounter more complex. The evaluation of an effective service is a function of the attitudes, values expectations etc of the customer. Thus the service encounters are first and foremost social exchanges between people, it stands to reason that one's cultural orientation might impact perceptions of recovery actions. A number of recent studies on the effect of culture on service and customer satisfaction have generated a stream of research on this particular area [53] [54] [55] [56] [57] [58] [59]. Most of the management studies on the effects of culture identify culture with nation or ethnicity [57] [60]. However it should be noted, that the term culture is not necessarily synonymous with the term country [61] [62]. Farley and Lehmann (1994) [63] promulgated that "cultural factors are only loosely related to the nation state". Following this line of thinking, this study measures cultural dimensions at the level of individual. Research shows [64] that the chances of marketing success will be greatly improved if attention is at the consumer characteristics rather than country. A country like India which is marked by slogan "Unity in Diversity" studying culture using national generalizations to explain individual behaviors will create an ecological fallacy [65]. This thesis taps the cultural orientation of the individual as the unit of analysis. . The study explores how customers of different cultural orientation perceive the relative importance of the recovery dimensions.

Hofstede's [66] [67] typology of cultural values is employed as a basis for examining the impact of culture on consumer perceptions of service recovery. Hofstede's [66] [67] typology of cultural values is taken up primarily because of its fullness in determining customer cultural values and norms. Hofstede's [68] cultural typology at the individual level is apt since the values of an individual person might be identified in terms of various dimensions of culture [54]. For instance, a person can be described from the cultural perspective as collectivist (high on collectivism values) or an individualistic (low on collectivism values),

masculine (high on masculinity values) etc. This study examines the influence of Hofstede's collectivism, power distance, uncertainty avoidance, masculinity and long term orientation values on the perception of the service recovery dimensions. To capture the cultural orientation of individuals, the dimension The CVSCALE (cultural values) [69,70,54], comprising a scale of twenty-six items, was adapted, modified and employed to tap the above mentioned Hofstede's cultural dimensions at the individual level [54,70]. The recently added (2010) dimension of indulgence vs. restraint is not a part of the scale. Thus, this thesis examines the influence of a customers' cultural orientation on the perception of service recovery dimensions.

1.4 RESEARCH OBJECTIVES

This dissertation aims to explain the effects of the individual consumer's cultural values and norms on perceptions of service recovery attributes following the service recovery process. Therefore the first and foremost need is to identify the service recovery attributes. The thesis proposes and tests the perception of service recovery attributes following a service recovery process. It also proposes and tests the impact of the service recovery process on the overall satisfaction of the customers. The thesis captures the cultural orientation of the customers and explores the influence of cultural orientation on the perception of service recovery attributes.

The specific objectives of this study are:

1. To identify the service recovery factors.
2. To determine the factors of culture.
3. To investigate the impact of the recovery action on the perception of service recovery dimensions and overall satisfaction of the customer.
4. To study the influence of culture on service recovery dimension

1.5 RESEARCH METHODOLOGY

A research methodology proposed by Lee Anna Clark and David Watson (1995) [71] served as a framework to measure satisfaction from service recovery. A three phase study is undertaken to create a pool of potential attributes of satisfaction from service recovery Based on the customer complaint letters of a 5 star hotel, an in-depth discussion with service practitioners, and the customers, and lastly the exhaustive literature review, the 11 likely attributes of satisfaction with service recovery were ascertained. Items were generated that

could measure each of the 11 attributes (refer Table5.5). In total, 27 items were generated that were believed to measure the 11 attributes of satisfaction with service recovery. The items were linked to a 4-point Likert-type scale anchored by 4 as strongly agree and 1 as strongly disagree. By reading and consulting the fellow researchers, it was ensured that each item was as accurate and precise as possible. After careful drafting of the item pool was completed, the measure was pre tested on a sample of 15 respondents. After the pre-test, a pilot test of the survey instrument on a sample of 30 was conducted as a preliminary test of the final survey questionnaire.

To examine the effect of the recovery action taken by the service provider on the perception of the service recovery attributes, six hypothetical scenarios of service recovery after a core service failure (booked rooms not available due to over booking) were drafted. In each case the respondent reads the same description of the service failure (Annexure A), in an accommodation/hotel context. The recovery is manipulated to vary –

- The presence or absence of compensation (manipulation 1 and 2),
- The presence and absence of feedback given to the customer (cognitive control) (manipulation 3 and 4)
- The source of the service recovery initiation (manipulation 5 and 6).

The questions and responses were coded and entered in the computer using Microsoft Excel Software. Required analysis was done with the aid of Statistical Package for Social Sciences 17.0 Version. Certain statistical methods were applied on the data to get the results which were analyzed.

The sample comprised undergraduate students in NCR (national capital region) who have experience with hotels (the focus of the service failure in this study). The students who have stayed in the hotels for at least a week in the past one year were included in the study. The students were taken as respondents mainly because they help control for differences in language, demographics and education to ensure that the impact of the findings is not due to other extraneous factors, but rather due to the impact of cultural values and norms [72]. The NCR(national capital region) was divided into four regions i.e. Delhi, Faridabad, Gurgaon, Ghaziabad including Noida and Greater Noida. Sixteen engineering colleges (four from each

region of the NCR were selected. A sample size of 800 was collected out of which only 594 questionnaires were found fit to be included in the study.

1.6 SIGNIFICANCE OF THE STUDY

1.6.1 THEORETICAL SIGNIFICANCE

With the increasing awareness of consumer rights, the occurrence of customer satisfaction complaints in the service industry has increased. Service failure and failed recoveries are leading causes of customer switching behavior [73] in the service industry. Service organizations increasingly recognize the importance of stable customer relationships and focus on enhancing the overall customer experience [74]. An effective service recovery action not only retains customers, but also enhances customer loyalty [15]. In medium and high contact services, encounters are considered interpersonally relational in nature, meaning a service experience is a process that relies on the interaction between providers and customers [75] [76]. The hotel industry, in particular, involves high degree of interaction between employees and guests; hence, it provides a lot of opportunities for service failures to occur. Hotels are characterized by continuous (24/7) operations and highly varying demand, relative to constant rates of supply, which make service failure more likely than in other industries [25] [77]. The service providers in the hotel industry, therefore, find it very hard to deliver a zero-defect service [78]. Most of the research in service recovery has been conducted only in Western cultural context based on theoretical frameworks developed in Western societies [79]. Thus our understanding of how customers in the eastern societies develop and maintain service relationship is very limited [53] [80] [81] [82]. While it is acknowledged that recovering from service failures is important, the manner in which a service provider should attempt to recover the service failure is not yet fully understood [6].

In India the research on service recovery is in nascent stage. Negligible published work is found in the Indian context. The service recovery process is not customized and a uniform recovery process is found in the service manuals or SOP (standard operating procedures) which are used as guidelines to react in an event of service failure. The main purpose of this research is to bridge this knowledge gap.

Studies have revealed that cultural values, captured at either the individual or national level, have a strong impact on service encounter evaluation [82] [83], service quality expectations

[54], referral behavior [84], attribution of failure [85], persuasion process and attitudes [86], and the nature and strength of customer relationships [80] [81]. Satisfaction with service recovery efforts has been shown to depend on customers' perceptions of service recovery attributes like compensation, apology, empathy and politeness etc. We portray that the perception of the customers regarding these attributes varies with their cultural orientation. Cultural value orientation is likely to affect perception of service recovery attributes and thus customer satisfaction with different types of service recovery mainly in high and medium contact service sectors. Thus quoting Sparks and Mc Coll-Kennedy (2001) [6] it is known that recovering from service failures is important, the manner in which an organization should attempt to recover the service failure is not yet fully understood. This research introduces cultural values in explaining the different perceptions of consumers. This research not only enhances our understanding of how service recovery operates in a multicultural setting, it also contributes to the cross-cultural psychology literature.

1.6.2 MANAGERIAL SIGNIFICANCE

The melting of boundaries and technological advancement has made the world flat. The increasing globalization of markets, and as Aaker and Maheswaran [79] state, that the ease with which services now cross national boundaries provides a compelling reason for appreciating the cultural context of consumer behavior. Managers should turn to culture as an aid to their decision making process, especially in relation to apportioning service recovery efforts and resources. Different market segments will require different allocation of resources [55]. Service managers should become aware of the cultural orientation of their customers.

The overall satisfaction of the customer from the service recovery depends on the perception of the service recovery dimensions. The study explores the relationship between the customers' perception of service recovery dimension and their cultural orientation. Though cultural differences in customers' perceptions of service recovery efforts might occasionally be caused by superficial differences in customs, but we suggest in our work that the difference might also be produced by fundamental differences in orientations toward the world.

Hofstede's well cited cultural values typology is useful in understanding an individual's fundamental cultural orientation. In this research five dimensions of that typology (collectivism, power distance, uncertainty avoidance, long term orientation and masculinity) proved valuable in understanding a customer's perceptions of organizations service recovery

efforts. Finally, culture is not static. Changes in culture affect the customer expectation and therefore importance they assign to service recovery dimensions. It needs to be detected in time so that the service recovery efforts and resources are directed accordingly [55].

Service managers should be conscious that the dynamic nature of culture may demand frequent monitoring and act accordingly in their markets. Hence, if service organizations can tap the cultural values of their key customers' via market research, this can then form part of a customer's profile in the firm's customer data base or customer relationship management (CRM) system. In an event of service failure or customer enquiry the service manager or the front line executive are instantly equipped with a cultural profile of the customer thus allowing them to adapt their recovery tactics accordingly.

1.7 SCOPE OF THE STUDY

This thesis examines the impact of the recovery action on the perception of service recovery dimensions and overall satisfaction of the customer. It is clear that what make customers dissatisfied is not a service failure alone, but the manner in which employees respond to their complaint(s) [14] [33]. Bitner et al. (1990) [14] reported that 42.9% of unsatisfactory experiences are because of employees' inability or unwillingness to respond to service failures.

The dissertation delves into the influence of culture and the perceived relative importance of the service recovery dimensions. In response to Zhang et al.'s (2008) [87] call for more service research in non-Western countries, this study generates an empirical sample from India. The service industry chosen is the Indian hotels (a medium contact service sector). The study findings are from a single industry setting; its generalizability to other segments of the hospitality industry and to other service industries will be limited. This issue is of high managerial relevance, especially if the relative importance attributed by customers to different service recovery dimensions is likely to vary depending on the service recovery actions taken by the service provider and the cultural orientation of the customers.

The thesis adopts, hypothetical scenarios (using a series of hypothetical scenarios) to investigate the influence of customers' cultural orientation on the evaluation of service recovery efforts of the service provider. Although the appropriateness of the hypothetical scenario method is justified, the generalizability of the study finding can be challenged. The

use of written scenarios in the study may limit the emotional involvement of research participants. Thus, the respondents' negative feelings may be substantially weaker than when they experience actual service failure [26] [53] [88] [39].

The study uses students as the respondents. This is to ensure that any differences obtained are due to the variables under study, as opposed to demographic differences, individuals from a similar demographic background, such as students are used here. Using final year undergraduate students as respondents for our study is proper since students are real life consumers of hotels. They are seen as a target group who are potential customers for many service providers and especially hotel industry. As after their graduation they usually get placed and indulge in traveling and tourism Homogeneous respondents are chosen over heterogeneous respondents because they allow more exact theoretical predictions than possible with a heterogeneous group [89]. The greater variability in behavior associated with a heterogeneous group makes the predictions more difficult.

1.8 DEFINITION OF TERMS

Customer Satisfaction: Customer satisfaction is the emotional state resulting after customers receive service that is better than expected [90].

Service Failure: A service failure is defined as “any service-related mishaps or problems (real and/or perceived) that occur during a consumer’s experience with the firm” [4].

Service Recovery: Service recovery is defined as actions and activities that service providers take in response to service defections or failures in service delivery to return “aggrieved customers” to a state of satisfaction [5] [91].

Recovery Paradox: Recovery paradox refers to a situation where the levels of satisfaction rates of customers who received good or excellent recoveries are actually higher than those of customers who have not experienced any problem in the first place [43].

1.9 ORGANIZATION OF THE THESIS

The work presented in this thesis focuses on the assessment of the perception of the service recovery dimensions and its impact on the overall satisfaction. The service recovery interaction is a social exchange. It explains the influence of cultural values on the perception of the service recovery attributes. The study delves into the influence of cultural orientation of the consumers' on the perception of service recovery dimensions. The study explores how customers of different cultural orientation perceive the relative importance of the recovery dimensions. The thesis statistically proves the influence of cultural orientation on the perception of the service recovery dimensions. The results obtained show a direction to the service providers to customize their service recovery action not only to have highly satisfied customers but also to use their efforts and resources more effectively.

This chapter firstly outlined the objectives and research questions, then highlighted the importance of the topic and provided justification for the study. A brief outlines of following chapters in this thesis is given below:

Chapter 2: provides a comprehensive literature review of service failure and service recovery including failure type, failure magnitude, results of service failure and complaints management.

Chapter 3 presents a literature review of cultural value orientations and the impact of cultural values on the consumer behavior.

Chapter 4 is the outcome of the second and third chapters. It provides the theoretical foundation for this thesis. Chapter four discusses the overall research objectives and the hypotheses that will be studied and empirically tested.

Chapter 5 outlines the research methodology used to collect data and to test the hypotheses developed in the previous chapter (Chapter 4). The chapter describes the manipulation checks the sampling frame, the data collection procedures, the results of the pilot test and the analysis plan.

Chapter 6 the detailed analysis of the findings of six groups along with the discussion is presented in this chapter.

Chapter 7 is devoted to conclusions and implications. Strategies are recommended for managing service recovery across for customers of different cultural orientation. Findings have important implications for managers interested in the globalization of services. This chapter also discusses the limitations and proposes directions for further research.
