Chapter 1

Introduction

The ever growing competition and continuous increase in customer expectations and demands have made customer satisfaction and related constructs to be the main focus of research in services (Kandampully 1998; Chumpitaz and Paparoidamis 2004). To overcome this cut-throat competition, every organization is trying to improve efficiency, increase customer loyalty and build long-term relationships with their customers without sacrificing quality of service (Javalgi and Moberg 1997). Improving quality and customer satisfaction reduces costs associated with defective goods and services such as warranty costs, replacing defective goods and complaint handling (Anderson et al. 1997). High quality will lead to high customer retention which in turn is strongly related to profitability (Reichheld and Sasser 1990; Fornell 1992). Because Services are intangible, perishable, heterogeneous, consumed and produced at the same time, zero defect service is impossible (Gronroos 1992).

One negative service encounter or service has the potential to lower consumers’ overall satisfaction permanently (Hocutt, Bowers and Donavan 2006). Therefore, the ability to get it right the first time is thought to offer significant benefits to the organization in terms of higher loyalty, more repurchase intentions and significantly lower switch and external response intentions than those with unresolved problems (Zeithaml, Berry and Parasuraman 1996; Schoefer and Ennew 2005).

However, service failures are often unavoidable due to many uncontrollable situational factors (Hart, Heskett and Sasser Jr. 1990). The reasons why service failures take place include problems with service itself, problems with service provider, problems which are beyond service providers’ control and problems related to the customers (McColl-Kennedy and Sparks 2003).
A service failure occurs when customers experience dissatisfaction because the service was not delivered as promised or as expected (Ennew and Schoefer 2003). It means that the consumers’ perceptions of service delivery does not match his/her adequate service expectations (Kelley, Hoffman and Davis 1993). A service failure therefore represents a firms’ shortfall in maintaining service reliability, thus casting a negative impact on customers’ perceived service quality (La and Kandampully 2004).

If consumers become dissatisfied because of service failure and subsequent service recovery, it may result in negative word-of-mouth (NWOM) behavior, defections and rise in consumer complaints (Richins 1983; Reichheld and Sasser 1990). Service failures have the potential to destroy organization’s reliability in customer loyalty (Mattila 2001). So the development and effective implementation of service recovery program are directly linked to organization survival and growth (Hoffman and Kelley 2000).

**Service Recovery**

Service recovery is an umbrella term which consists of all the systematic efforts taken by a firm to rectify a problem following a service failure, in order to retain customers’ goodwill (Yunus 2009). It can be observed as a sequence of events wherein a procedure, beginning with communicating the complaint, generates a process of interaction through which a decision and outcome takes place (Tax, Brown and Chandrashekaran 1998). Service recovery is one of the reasons a customer may stay or exit a service organization after a service failure (Colgate and Norris 2001).

It is not possible for service providers to provide flawless service in every transaction but the way a firm responds to a clients’ post-consumption dissatisfaction can has a vital impact on preserving the customer and lead to positive word-of-mouth (WOM) and referrals for future business (Durvasula, Lysons and Mehta 2000). Service failure and recovery represents critical ‘moments of truth’ for the service providers to satisfy and retain customers (Smith and Bolton 2002). Because when a service failure takes place, the organizational response has the potential to either re-establish customer satisfaction
and loyalty or aggravate the situation and let the customers switch to competitors (Smith and Bolton 1998).

Recovery therefore, is a management philosophy that embraces customer satisfaction as the primary goal of business (Hart, Heskett and Sasser Jr. 1990). Service recovery involves actions taken by service provider to respond to a situation where the customers have experienced a failure in the firms’ offering (Mattila and Patterson 2004). Service recovery is taken by firms to ensure that the original promise made to the customer is kept and he gets what he expected from the service provider and restoring trust and confidence in the firms’ ability to make the customer completely satisfied (Zemke and Bell 2000).

Customers who become dissatisfied due to service failure and subsequent recovery may dissolve the buyer seller relationship or move to competitors (Dwyer, Schurr and Oh 1987). When customers experience dissatisfaction they may do nothing, complain to service firm, take third party action or defect and never patronize the firm again and tell others about their negative experience, thus engaging in negative word-of-mouth behavior (Tax, Brown and Chandrashekaran 1998; Stephenes and Gwinner 1998; Lovelock, Patterson and Walker 2001).

Zemke and Bell (1990) defined Service Recovery as

“a thought-out, planned process for returning aggrieved customers to a state of satisfaction with the firm after a service or product has failed to live up to their expectations”.

Armistead, Graham and Paula (1995) defined service recovery as

“the specific actions taken to ensure that the customer receives a reasonable level of service after problems have occurred to disrupt normal service”.

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When customers come across a service failure, they can choose one of the two alternatives either not to complain about the failure or complain, and give the service provider an opportunity to rectify the problem (Colgate and Norris 2001). The customers’ choice of whether to complain or not to complain depends on factors such as perceived likelihood of success, ones’ attitude towards complaining, level of importance attached to service (Blodgett, Wakefield and Barnes 1995). Successful firms encourage customers to complain through their aggressive company policies and by empowering their frontline employees whereas an average firm takes an inactive approach to complaint management (Voorhees and Brady 2005).

Researchers have recognized some reasons for customers not complaining to firms. The reasons include: customers believe that the organization will not respond to their problem, they do not want to face the individual who was responsible for the failure, they are not clear about their rights and the firms’ responsibility, they are concerned about the probability of success and about the costs and benefits involved in complaining and the type of service involved (Singh 1990; Bamford and Xystouri 2005). When dissatisfied customers do not complain, firms lose on both fronts: first they lose the customer along with his future profit stream and second the capacity to redress the type of problems through the feedback from the dissatisfied customers (Chebat, Davidow and Codojovi 2005).

Customers’ complain to the service providers for the failure because they perceive inequality and expect that the provider will offer them a recovery, which will compensate for the inequality (Chebat and Slusarczyk 2003). Equity theory suggests that when people experience inequity, they will try to reduce their discomfort by trying to restore either physical or psychological equity (Goodwin and Ross 1990). Providing justice is essential to account for those who experience an inequitable advantage as well as those who feel they get less than their deserved contribution (Deutsch 1975).
Justice Dimensions: Antecedents to Customer Satisfaction with Service Recovery

**Distributive Justice:** Distributive justice is based on social exchange theory where in people judge equity of an exchange by comparing inputs of the service encounter with its outcomes (Maxham III and Netemeyer 2003). In service recovery, distributive justice is described as whether the outcome received by customers’ was perceived to be deserved, met their need or was fair (Tax, Brown and Chandrashekaran 1998). It is the degree to which rewards are allocated in an equitable manner (Niehoff and Moorman 1993). Based on equity theory it suggests that people calculate their perceived input/outcome ratio and compare it with that of others’ input/outcome ratio (Loi, Hang-Yui and Foley 2006). Distributive justice reflects perceived fairness of the tangible outcome of service recovery i.e. what did the service firm offer to pacify the offended customer to recover from service firm and whether the outcomes offset inputs of service failure (Hoffman and Kelley 2000; Weun, Beatty and Jones 2004). “Distributive justice can be conceptualized as customers’ evaluations of whether they got ‘their money’s worth’; it also can include non-monetary inputs and outputs involving such intangibles as emotions (anger and embarrassment), complaining costs (time and effort) and ego benefits” (McCollough, Berry and Yadav 2000).

Tax, Brown and Chandrashekaran (1998) stated that the fairness of compensation is affected by customers’ prior experience with the firm, awareness of other customers’ resolution and perceptions of one’s own loss. The amounts of compensation expected by customers depend upon the severity of service failure (Hocutt, Bowers and Donavan 2006). Distributive justice outcomes include compensation such as discounts, refunds, replacements, coupons, apologies and free ancillary etc. (Tax, Brown and Chandrashekaran 1998; Hoffman and Kelley 2000).

**Procedural Justice:** Procedural justice is the perceived fairness of the process through which ends are achieved (Tax, Brown and Chandrashekaran 1998). Procedural justice refers to fairness issues concerning the methods, mechanisms and processes used to
determine outcomes (Folger and Cropanzano 1998). The purpose of procedural justice is to examine the impact of the process of decision making on the quality of productive exchange relationships (Tax, Brown and Chandrashekaran 1998; Hocutt, Bowers and Donavan 2006). The perceived fairness of procedural justice is influenced by voice (Goodwin and Ross 1992) and neutrality (Sparks and McColl-Kennedy 2001). Voice means that the consumer has been given the opportunity to present information and expressing consumers’ dissatisfaction directly to the company (Yavas et al. 2003). Goodwin and Ross (1992) defined value expressive and functional role of voice, where according to functional view, voice of consumers can enhance the fairness perceptions by influencing the outcome, whereas value expressive model offers cathartic satisfaction by presenting ones’ view. Neutrality takes place when organization follows a set procedure to redress the situation (Sparks and McColl-Kennedy 2001).

Procedural justice is important in service recovery because process is an essential part of the service offering and consumers might be satisfied with the kind of recovery offered but dissatisfied with the process undertaken to recover service (Maxham III and Netemeyer 2002; Kau and Loh 2006). Procedural justice is characterized as the one which provides process control, is easy to access, flexible, convenient, adaptive, timely, accurate, consistent and gives the consumers freedom to communicate views on a decision process (Tax, Brown and Chandrashekaran 1998; Seiders and Berry 1998; Schoefer and Ennew 2005). Procedural justice aims to resolve the conflict in a way that encourages the continuation of productive relationships (Tax, Brown and Chandrashekaran 1998). Researchers have suggested that procedural justice is one which is easy to access, is flexible, convenient, timely, accurate, consistent and gives the consumers freedom to communicate views on a decision process (Tax, Brown and Chandrashekaran 1998; Seiders and Berry 1998).

**Interactional Justice**: Interactional justice is the extent to which customers feel that they have been treated fairly while personally interacting with the employees of company while going through the recovery process (Maxham III and Netemeyer 2002). It refers to “the fairness of the interpersonal treatment people receive during the enactment of the
procedures” (Tax, Brown and Chandrashekaran 1998). It is the customers’ perceptions of the fairness of the organizational representatives, attitude and personal interaction with the customers (Davidow 2003). Interactional justice is the manner in which service providers deal with people during the complaint handling process including elements such as courtesy, politeness, empathy, effort observed in resolving the situation and the firms’ willingness to provide an explanation as to why the failure occurs (Collie, Sparks and Bradley 2000; McColl-Kennedy and Sparks 2003; Schoefer and Ennew 2005).

The ability and willingness of the contact employees to respond and handle service failures can result in the service encounter being remembered as satisfactory or dissatisfactory (Bitner, Booms and Mohr 1990). Goodwin and Ross (1992) showed that one aspect of interactional justice i.e. an apology represents an important component for retaining customer satisfaction.

**Customer Satisfaction with Service Recovery and Behavioral Intentions**

Customer satisfaction/dissatisfaction is a relative judgment that considers both the qualities and benefits obtained through a purchase as well as the costs and efforts borne by a customer to obtain that purchase (Ostrom and Iacobucci 1995). Satisfaction with service recovery is a function of negative affect caused by initial service failure, expectations of service recovery, perceived quality of service recovery, disconfirmation of execrations and perceived fairness of outcome of service recovery i.e. equity (Andreassen 2000).

Customer satisfaction is an important determinant for the survival of an organization which is possible only by providing quality product or service (Cronin and Taylor 1992). It has a positive effect on customer loyalty intentions across a wide range of product and services (Fornell 1992). Delight, disappointment (Oliver 1999), behavioral intentions (Smith and Bolton 1998), and positive or negative word-of-mouth communications (Richins 1983) have been modeled to understand loyalty and to predict firms’
profitability (Rust and Zahorik 1993). Improving both quality and customer satisfaction reduces costs associated with defective goods and services such as warranty costs, replacing defective goods and complaint handling (Anderson, Fornell and Rust 1997). High quality will lead to high customer retention which in turn is strongly related to profitability (Reichheld and Sasser 1990; Fornell 1992).

When quality of product or service is recognized by buyer it is reflected in customer satisfaction (Fornell 1992). Customers continue to purchase those products or services with which they are satisfied and in telling others about those pleasing products and services (Richins 1983). Products or services that provide high customer satisfaction are less vulnerable to competitors (Fornell 1992).

**Word-of-Mouth:** Word-of-mouth (WOM) intention is the likelihood that one would favorably recommend a firms’ product or service after a service failure and recovery encounter (Maxham III and Netemeyer 2002). It is the communication between consumers about a product or service in which the sources are considered independent of commercial influence (Litvin, Goldsmith and Pan 2008). Positive WOM is a valuable vehicle for promoting firms’ products and services because an existing customer is the most creditable method of stimulating new business from the potential customers (Gremler, Gwinner and Brown 2001). In the post purchase context, consumer WOM consists of informal communications directed at other consumers about the ownership, usage or characteristics of particular goods, services and their sellers (Westbrook 1987). WOM provides information to customers about firm which helps them to decide whether to repatronize it or not (Zeithaml, Berry and Parasuraman 1993). WOM is perceived as highly incredible information and a customers’ negative word-of-mouth is the most detrimental response to a business (Singh 1990).

**Repurchase Intentions:** Repurchase intentions are the individual’s judgments about buying a designated product or service from the same company again while considering his current situations (Hellier et al. 2003). It represents customers’ self-reported likelihood of engaging in future repurchase behavior (Maxham III and Netemeyer 2002;
Seiders et al. 2005). Future repurchase intentions are considered as a positive outcome of customer satisfaction (Cronin and Taylor 1992; Andreassen and Lervik 1999). It is the degree to which customers intend to purchase firms’ products or services in future (Maxham III and Netemeyer 2002). A customers, decision to repurchase from his/her existing supplier is often complex and may involve performance, cost and competitive considerations (Kumar 2002).

**Severity of Service Failure**

Severity of failure is the magnitude of loss that customers experience due to failure (Hess Jr., Ganesan and Klein 2003). It is customers’ perceived intensity of service failure (Weun, Beatty and Jones 2004). Service criticality is the perceived importance of successful service delivery in a given service encounter (Levesque and McDougall 2000). The magnitude or severity of service failure may vary according to some individual and situational factors (Hoffman and Kelley 2000). Smith, Bolton and Wagner (1999) found that service failures are weighted more heavily than gains from service recovery. Researchers have proved that customer’ expectations for service recovery rise with the severity of failure and excellent recoveries can reduce the dysfunctional consequences of failure (Hess Jr., Ganesan and Klein 2003). Ostrom and Iacobucci (1995) proved that when a service purchase event is more severe to customer, he is likely to value different properties than when the purchase occasion is less severe. The magnitude or severity of service failure may vary according to some individual and situational factors (Hoffman and Kelley 2000).

**Service Recovery Paradox**

Service marketing researchers have explored ‘service recovery paradox’. It is based on the grounds that if consumers received excellent service recovery in response to service failure, it will lead to enhanced customer satisfaction and increased repatronage intentions that would not have been attained if they had not had a service failure or
recovery experience with the service provider (Smith and Bolton 1998; McCollough, Berry and Yadav 2000; Hocutt, Bowers and Donavan 2006; Kau and Loh 2006; Matos, Henrique and Rossi 2007). In simple terms it is defined as the situation where customers’ post-recovery satisfaction increases their prior satisfaction with the firm. If a service recovery paradox exists, firms should focus learning efforts on recovery. Smith and Bolton (1998) found that “excellent service recovery can lead to increased customer satisfaction and repatronage intentions. However, the result was only obtained at the very high level of customers’ recovery ratings.” The authors suggested that the organizations might be better off reducing service failures rather than using recovery as an opportunity to increase satisfaction.

**Behavioral Intentions of Non Complainants**

The dissatisfied customers who do not complain to the firm or service providers about their experiences may either exit the firm or may engage in negative word-of-mouth behavior (Blodgett, Wakefield and Barnes 1995; Kau and Loh 2006;). When dissatisfaction with the service encounter occurs, customers may engage in activities directed against the organization, such as spreading negative word-of-mouth, exiting or complaining directly to the firm (Sparks and McColl Kennedy 2001). Anderson (1998) found that dissatisfied customers engage more in word-of-mouth than satisfied customers and negative communications may be delivered with greater force than positive ones. NWOM is an interpersonal communication among consumers concerning a product or service which denigrates the object of the communication (Richins 1984).

When dissatisfied customers do not complain to firm and move away silently it may cost to the firms as they will lose benefits to retain customers, redress the problem through feedback from customers, incur higher costs in attracting new customers and loss from advertising through NWOM (Colgate and Noriss 2001, Chebat, Davidow and Isabelle 2005). Spreading WOM indicates that consumers try to convince themselves of their decision by convincing others, which is one of the strategies most often employed by individuals for reducing post decision dissonance (Wangenheim 2005).
Hirschman (1970) emphasized that in competitive markets it is not necessary that buyers will voice their complaints because they can easily exit and go elsewhere. Moreover, before making a complaint buyers make a trade-off of cost benefit i.e. whether their actions will yield positive outcomes (Huppertz 2007). There are certain factors which influence customers’ complaint behavior: level of dissatisfaction or severity of service failure (Colgate and Norris 2001; Weun, Beatty and Jones 2004), level of control over environment and self-monitoring (Bodey and Grace 2006), firm’s response to failure (Richins 1983), attribution of blame (Bitner, Booms and Mohr 1994) and time and effort (Voorhees, Brady and Horowitz. 2006).

Exit is voluntary separation from service provider (Farrell 1983). Exit is an escape from an objectionable situation or it is an active effort by customer to terminate relationship with the seller (Hirschman 1970). It implies that the customer stops buying from the service provider (Andreassen 2000). It means voluntary termination of exchange relationship (Singh 1990). As per Hirschman (1970) exit means that customers discontinue purchasing from the seller or firm. Therefore, we propose that customers who do not complain to firm after facing service failure, will either exit or indulge in NWOM behavior.

**Context of the Study**

The present study has been conducted in the Telecommunication sector in India. This sector is characterized by both high customer turnover and high customer acquisition costs (Bolton 1998). Due to intense competition in the market and wide range of availability of products, customers expectations about service quality are increasing and they tend to be more demanding (Wong and Sohal 2003). Reichheld and Sasser (1990) indicated that by reducing defections 5% can help a firm to boost its profit from 25% to 85%. They also reported that 5% improvement in defection rates increases company’s average customer value by more than 125%.
The telecommunications market in India has experienced radical change in the recent past years. The country is having third largest telecommunications network in the whole world. However, customers churn in many service industries, but this problem is extremely severe in telecommunications industry due to immense competition (TRAI 2009). The churn rate of customers in Indian telecommunications sector is 53.2% in 2009 and the ratio is expected to increase to 59.6% in 2013 (Gartner 2009). The Indian mobile connection market is dominated by prepaid customers (Gartner 2009). It is easy for prepaid customers to switch their providers because of the availability of large number of service providers in the market, better information resources and low switching costs.

In telecommunications market it is often indicated that once the customers have been acquired and connected to a particular service provider, their long-term relations with that service provider are of great importance to the success of the company (Gerpott, Rams and Schindler 2001). Therefore, it becomes reasonably essential for telecom companies to retain their customers by providing them good network, excellent service recovery, latest technology and great value for their money.

Edvardsson and Ross (2003) have focused on understanding customers’ complaint and switching behavior in telecommunication industry to build long-term and profitable relationships with customers based on meaningful communication. Therefore service recovery appears to be a relevant concept in Indian Telecommunication sector, as it will help service providers to formulate strategies to retain their customers by understanding and solving their complaints with justice at the right time.

**Justification of the Study**

Customer defections can adversely affect bottom lines because companies lose great deal of price premium and loss of referrals from existing service customers (Reichheld and Sasser 1990). The maintenance of long-term relationships is particularly salient for service firms for three reasons: (1) customers are more likely to form relationships with individuals than with goods because services provide more opportunities for person-to-
person interaction (Berry 1995) (2) many services by nature require ongoing membership (Lovelock 1983) and (3) perceived risk is greater in service due to intangible nature, thus customers reduce risk through engaging in relationships (Bendapudi and Berry 1997; Henning-Thurau et al. 2004).

The research has provided evidence that the negative evaluation of services by customers instigate behavioral responses that translate directly into losses for service firms (Smith and Bolton 1998). An increasing number of complaints make the customer more prone to leave the firm, so the objective of service recovery is to turn a dissatisfied customer into a loyal one (Fornell 1992).

Service failures and the subsequent complaints from customers are possible occurrences over a product/service lifetime and the timely and effective handling of failures has proved to be of imperative in maintaining customer satisfaction and loyalty (Bamford and Xystouri 2005). A dissatisfied customer will tell between eight to ten people about the bad service he received whereas a customer who was satisfied with the service initially will inform only three (Eccles and Durand 1998). Therefore, service recovery should be the cornerstone of customer satisfaction strategy (Bamford and Xystouri 2005).

To secure future revenue, to enhance customer retention and to improve quality, service providers must understand their customers’ needs (Bodey and Grace 2006). Service firms who do not effectively cater to the needs and wants of their customers risk not only losing dissatisfied customers to the competitors but also ultimate failure (Boshoff and Allen 2000). Businesses loose 15 percent to 20 percent of its customers every year (Reichheld and Sasser 1990). Researchers have shown that it costs five times more to acquire a customer than to retain an old customer (Hart, Heskett and Sasser Jr. 1990). Reichheld and Sasser (1990) reported that service companies can boost their profits by almost 100% by increasing its customer retention just by 5%. Therefore, service providers should encourage customers to complain whenever a failure occurs otherwise it would be more detrimental for the service providers as it will affect their profitability (Blodgett, Wakefield and Barnes 1995). If customers face a failure and move away without
complaining, they give organizations virtually no opportunity to fix their dissatisfaction (Barlow and Moller 2008).

Research has shown that it costs more to acquire and serve new customers than existing ones; therefore, it makes sense to retain the existing customers (Reichheld 1996). Given the high churn rate, immense competition and high acquisition costs, the mobile telecom companies should focus on providing a good network, excellent service recovery, latest technology and great value for money to their customers to sustain in the market and to earn long-term profits.

Therefore, companies that want to be competent of recovering from service problems should measure the cost of effective recovery, break customer silence and listen closely for complaints, anticipate needs for recovery, act fast, train employees, empower the front line employees and close the customer feedback loop (Hart, Heskett and Sasser Jr.1990).

**Gaps in the Literature**

The present study expands the existing research by investigating the moderating role of severity of service failure on customer satisfaction with service recovery and three dimensions of perceived justice - distributive, procedural and interactional. The previous research has taken only two justice dimensions - distributive and interactional to test the moderating role of customers’ perceived severity of service failure (Weun, Beatty and Jones 2004). It has been observed that severity of service failure plays an important role in shaping customers’ post-recovery satisfaction (Hess Jr., Ganesan and Klein 2003; Weun, Beatty and Jones 2004), therefore we examined the interactive relationship between three justice dimensions and severity of service failure on customers’ satisfaction with service recovery.

There are very few studies which addresses the concept of ‘service recovery paradox’. In previous research for service recovery paradox some researchers find lack of its existence (Smith and Bolton 1998; McCollough, Berry and Yadav 2000; Kau and Loh 2006) but
Michel and Meuter (2008) reports the existence of service recovery paradox in some situations. Therefore, the present study also examines whether ‘service recovery paradox’ exists or not.

**Objectives of the Study**

The objectives of the study are:

1. To investigate the role that perceived justice plays in shaping customer satisfaction and dissatisfaction.

2. To determine the impact of satisfaction or dissatisfaction on behavioral outcomes of the affected customers.

3. To examine the indirect impact of customers satisfaction with service recovery on the behavioral outcomes of the affected customers.

4. To examine the moderating impact of severity of service failure on customer satisfaction with service recovery.

5. To examine whether a service recovery paradox exists or not.

**Organization of the study**

Following this introductory chapter, the thesis is organized into following chapters:

Chapter 2 presents the literature review. This chapter provides a detailed review of studies dealing the concept of service recovery, antecedents of service recovery and the behavioral outcomes of the satisfied customers.
Chapter 3 provides the theoretical framework of the study to be tested. It reviews the relevant literature for the formulation of the hypothesis.

Chapter 4 presents the methodology being used for the study and the research techniques used. It also presents the details about the questionnaire designing, universe of study and respondent characteristics. It details out the tools and techniques used to determine the scale reliability, validation and hypothesis testing.

Chapter 5 presents the results of pre-testing study and confirmatory factor analysis. The chapter provides a detailed discussion of the procedure used for development, refinement and validation of measures.

Chapter 6 presents the results the estimation of the full structural model that tested the hypotheses in the proposed model and the competing model.

Finally, Chapter 7 concludes the study by summarizing the findings and discussing their implications. The limitations of the research are discussed followed by suggestions for further research.