Chapter 3

Model Development

The present chapter explains the conceptual framework of service recovery based on customers’ perceived justice and perceived severity of service failure. It details out the relationship between the justice dimensions and customer satisfaction with service recovery with the moderating effect of severity of service failure. The chapter also explains the hypotheses which have been derived from extant literature review. The proposed conceptual model (Figure 3.1) includes the mediating role of customer satisfaction with service recovery on their behavioral intentions (word-of-mouth and repurchase intentions). The chapter also proposes a competing model which includes only the direct effect of customer satisfaction on their behavioral intentions.

3.1 Impact of Perceived Justice on Customers’ Satisfaction with Service Recovery

Research supports the idea that justice is the starting point to estimate the quality of the relationships between organizations and individuals which influences customers’ responses to service failures and recoveries (Philippe and Siadou-Martin 2007). Justice matters because it serves four psychological needs of human beings which are: control over the environment; need for belongingness; sense of self-identity and self-esteem (Corpanzano et al. 2001). Justice concerns not only the outcome distributions, but also how the distribution is arrived at and the manner in which it is implemented (Austin 1979). Justice theory suggests that customers will be satisfied with the service recovery effort if they receive fair outcome, fair procedure, fair conduct and were treated in a respectful manner (Tax, Brown and Chandrashekaran 1998; Hoffman and Kelley 2000; Maxham III and Netemeyer 2002; Nguyen and McColl-Kennedy 2005). The interconnection of various psychological needs of human beings suggests that justice can have both direct and indirect effects (Corpanzano et al. 2001).
Customer satisfaction refers to an individual’s subjectively derived favorable outcome or experience associated with consumption of a product or service (Maxham III 2001). Satisfaction or dissatisfaction judgment is believed to be formed as a summary of equity/inequity of one’s own outcome relative to other party’s outcome, given input (Andreassen 2000). It can be viewed as an additive function of the expectation level and the resulting disconfirmation (Oliver 1980). Customer satisfaction refers to the emotion of happiness or disappointment a customer feels after they compare the perceived effects of a certain product with the effects they expect (Juan and Yan 2009). It is a response of fulfillment and judgment that a product or service features, or the product or service itself is providing a pleasurable level of consumption-related fulfillment (Oliver 1997). It can be viewed as an additive function of the expectation level and the resulting disconfirmation (Oliver 1980).

Therefore, to know customers’ satisfaction or dissatisfaction with the recovery procedure one must know their perceptions of justice which include distributive, procedural and interactional justice. Figure 3.1 depicts the relationship between perceived justice constructs, satisfaction with recovery and behavioral intentions of complainants and non-complainants.
3.1.1 Distributive Justice and Customer Satisfaction with Service Recovery

Distributive justice is based on the principles of equity, equality and need. It is primarily concerned with the specific outcomes of the recovery effort (Kau and Loh 2006). Customers who undergo a recovery process and know how fellow customers have been treated in similar circumstances will expect the same treatment (Tax, Brown and Chandrashekaran 1998). Distributive justice is an important antecedent of customer satisfaction with service recovery (Tax, Brown and Chandrashekaran 1998; Smith and Bolton 1998; Smith, Bolton and Wagner 1999; Kau and Loh 2006).
Prior research has demonstrated a strong relationship between distributive justice and customer satisfaction with service recovery. Tax, Brown and Chandrashekaran (1998) found a direct positive effect of distributive justice on customer satisfaction with service recovery. Smith, Bolton and Wagner (1999) found to have positive relation between distributive justice and customer satisfaction with recovery encounters in hotels and restaurants. Karatepe (2006) in their study of hotel settings found that providing fair outcome positively influences complainants’ satisfaction. Maxham III and Netemeyer (2002) in their study of banking customers found support for the positive relation between distributive justice and customer satisfaction with recovery. Therefore, we hypothesize that

**H1: Distributive justice will positively affect customers’ satisfaction with service recovery.**

### 3.1.2 Procedural Justice and Customer Satisfaction with Service Recovery

Procedural justice is the perceived fairness of the process to rectify the problem (Sparks and McColl-Kennedy 2001). Procedural justice theory examines the impact of process of decision making on the quality of exchange relationships (Hocutt, Bowers and Donavan 2006). Because process is considered as the essential part of the service settings, service providers can enhance customer satisfaction with the recovery by providing them fair procedures and timely recovery (Maxham III and Netemeyer 2002). In service encounters, contact employees should provide products and resolve conflicts in a correct and functional manner (Martinez-Tur et al. 2006).

Prior empirical research provides evidence to support the premise that customers who perceive that the service provider has followed fair process and provide them timely recovery are satisfied with the providers’ service recovery. While using simulations and videotape scenarios in hotel settings, Sparks and McColl Kennedy (2001) reported that doth voice and neutrality influence the customers’ perceptions of perceived fairness of process. Donavan (2006) revealed that customers who receive prompt and on-the-spot
response to service failure are satisfied with the service provider. Mattila (2001) in her empirical study for hair stylists, dry cleaners and restaurants found that the length of time taken and flexibility to solve the problems influence customer satisfaction with recovery. In a restaurant setting, Hocutt, Bowers and Therefore, we hypothesize that

H2: Procedural justice will positively affect customers’ satisfaction with service recovery.

3.1.3 Interactional Justice and Customer Satisfaction with Service Recovery

In a service recovery situation, interactional justice focuses on the perceived fairness of the manner in which the customer is treated throughout the service recovery effort (Hocutt, Bowers and Donavan 2006). Research suggests that even if customers perceive the procedure and outcome as fair, they may still consider themselves treated unfairly, if they perceive injustice during interactions with service provider (Bies and Shapiro 1987; Maxham III and Netemeyer 2003).

Tax, Brown and Chandrashekaran (1998) proved that providing an explanation, concern and honesty affects customer satisfaction with the recovery process. McCollough, Berry and Yadav (2000) in an experiment for airline travels, found that if customers perceive the service provider as apologetic, empathetic and responsive, it results in satisfaction. Hocutt, Bowers and Donavan (2006) in the hotel settings reported that customers’ perceived empathy and courtesy of service provider positively influence their satisfaction. Maxham III nad Netemeyer (2002) proved a strong impact of interactional justice on customers’ post recovery satisfaction. As the evaluation of service recovery process is heavily influenced by the interaction between customers and service agents, we hypothesize that

H3: Interactional justice will positively affect customers’ satisfaction with service recovery.
3.2 Customer Satisfaction with Service Recovery and Behavioral Intentions

Customer satisfaction with service recovery is referred to as a customers’ affective psychological response based on subjective evaluations of the overall service performance after organizational recovery efforts (Hess Jr., Ganesan and Klein 2003). Research has shown positive relationship between satisfaction and behavioral intentions of customers (Zeithaml, Berry and Parasuraman 1996). Quality of service or product leads to higher levels of customer retention (Hart, Heskett and Sasser Jr. 1990) which in turn leads to profitability (Fornell 1992; Reichheld and Sasser 1990). Intentions are said to be a function of satisfaction (Oliver and Swan 1989). Service recovery benefits a firm because it positively influences customers’ expected utilities of a purchase, their perception of product quality and word-of-mouth (Blodgett and Anderson 2000). Effective service recovery significantly improves all facets of behavioral intentions (Zeithaml, Berry and Parasuraman 1996).

3.2.1 Satisfaction with Service Recovery and Word-of-Mouth (WOM)

Word-of-mouth is defined as the informal communications between private parties concerning the evaluations of goods and services (Anderson 1998). Satisfaction with the service recovery has proved to have a positive effect on customers’ post recovery word-of-mouth. A word-of-mouth message that is actively sought will have more impact on the dependent variable than a message which is passively attained (Bansal and Voyer 2000). Research has shown that word-of-mouth is a more effective tool than advertising, personal selling and radio advertising in converting customers’ negative or neutral predispositions into positive attitudes (Harrison-Walker 2001). Blodgett, Wakefield and Barnes (1995) in their study being conducted at a retail store found that customers who receive fair treatment and perceive that justice has been done to them are more likely to repatronize the seller and may engage in positive WOM, thus spreading goodwill for the seller. In the banking sector, Maxham III and Netemeyer (2002) reported that customers who are satisfied with service recoveries feel delighted and hence want to tell others
about their experience. Kau and Loh (2006) also supported the fact that customer satisfaction with recovery positively affects their word-of-mouth intentions. Therefore, we hypothesize that

**H4: Satisfaction with service recovery will have a positive effect on customers’ post recovery word-of-mouth.**

### 3.2.2 Satisfaction with Service Recovery and Repurchase Intentions

Cronin and Taylor (1992) while measuring the service quality in banking, dry cleaning, fast food and pest control industries have found to have a positive relation between satisfaction and repurchase intentions of the customers. In the study of cellular telephone industry, Bolton (1998) has found positive relation between satisfaction and customers intentions to repurchase. Maxham III and Netemeyer (2002) reported that customers who are satisfied with service recoveries are more likely to repurchase from the firm. Hellier et al. (2003) reported that overall satisfaction with the service is strongly associated with the behavioral intentions to repurchase from the same service provider. Zboja and Voorhees (2006) found in two product categories that is computers and electronics that satisfaction with firm has a direct positive influence on customers’ repurchase intentions. A good service recovery will positively influence repurchase intentions whereas bad service recovery will have negative effect on repurchase intentions. Based on the above literature, we hypothesize that

**H5: Satisfaction with service recovery will have a positive effect on customers’ post recovery repurchase intentions.**

### 3.3 Satisfaction with Service Recovery as a Mediator between Perceived Justice and Behavioral Intentions

Satisfaction with complaint handling is the central mediator that links perceptions of fairness dimensions to post complaint attitudes and behavior (Tax, Brown and
Chandrashekaran (1998). Previous research has shown positive relations between customers’ perceived justice, their satisfaction with recovery process and their future intentions to repatronize the firm (Smith and Bolton 1998; Smith, Bolton and Wagner 1999; McCollough, Berry and Yadav 2000). Maxham III and Netemeyer (2002) in their longitudinal study of banking customers’ have found that satisfaction with service recovery mediates the effects of justice dimensions and customers’ future behavioral intentions. No doubt, many researchers have supported the idea that customers’ perceived justice influence their satisfaction with service recovery and satisfaction with service recovery has a positive effect on customers’ post-purchase decisions, but there is dearth of research which takes satisfaction with service recovery as a mediator between customers’ perceived justice and their post-purchase behavioral intentions. Therefore, the present study aims to find the mediating role of satisfaction with service recovery on customers’ future behavioral intentions and hypothesize that

H6: Customers’ perceptions of justice will be positively related to WOM and repurchase intentions through mediation of satisfaction with service recovery.

3.4 Severity of Service Failure: Direct and Moderating Effect

Researchers have proved that as loss gets greater due to failure, customers will view exchange as inequitable and become dissatisfied than when the loss is less (Ostrom and Iacobucci 1995; Smith, Bolton and Wagner 1999; Hess Jr., Ganesan and Klein 2003). Both the magnitude of service failure and type of recovery efforts affect satisfaction and post purchase intentions of customers (Smith, Bolton and Wagner 1999; Levesque and McDougall 2000). Weun, Beatty and Jones (2004) in their experimental study have found that perceived severity of service failure negatively influence customers’ satisfaction with the recovery. The researchers have also found the partial support for the moderating role of severity of service failure. Therefore, the present study is testing both the direct and the moderating effect of severity of service failure customers’ justice perceptions and their satisfaction with service recovery to know their satisfaction or dissatisfaction with
the recovery process when they perceive failure more severe and less severe. Hence, it is hypothesized that

**H7:** Customers’ perceived severity of service failure will have a negative effect on customers’ satisfaction with service recovery.

**H8:** Customers’ perceived severity of service failure moderates the relationship between customers’ perceived justice and their satisfaction with service recovery.

### 3.5 Service Recovery Paradox

There are contradictory views about the existence of service recovery paradox and both academicians as well as practitioners have not reached on a consensus about whether the service recovery paradox exists or not. McCollough, Berry and Yadav (2000) conducted a scenario-based experiment with passengers from 50 departures at the airport. The authors found no evidence for the service recovery paradox. Whereas, Hocutt, Bowers and Donavan (2006) in their experimental study of undergraduate marketing students found partial support for the service recovery paradox. Kau and loh (2006) did not found any support for the existence of service recovery paradox. Even excellent recovery did not yield higher satisfaction levels compared to error-free service delivery. Therefore, it is hypothesized that

**H9:** The post-recovery satisfaction of customers’ will increase as compared to their pre-recovery satisfaction if they are satisfied with firms’ recovery process.

### 3.6 Competing Model

Obtaining an acceptable level of fit for both the measurement model and the structural model does not assure the researcher that the best model has been found. Therefore, to find the best model from the alternative models is to identify and test the competing
models that represent truly different hypothetical structural relationships (Hair et al. 2006). The alternative models may provide equivalent or better fit thus, competing models strategy helps in overall model comparisons and choosing the best one (Hair et al. 2006). Therefore, in the present study an alternative model of service recovery has been proposed and examined.

In the competing model (Model 2) to test the behavioral intentions of complainants after service recovery, we included only the direct effects of justice dimensions and satisfaction with service recovery on customers’ behavioral intentions and did not take satisfaction with recovery as mediator. Figure 3.2 shows the competing model which excludes the mediating role of satisfaction with service recovery.

**Figure 3.2: Competing Model (Excludes the Mediating Role of Satisfaction with Service Recovery between Justice Dimensions and Behavioral Intentions)**
3.7 Summary

This chapter provides an understanding of the constructs that influence customer satisfaction with recovery and outlines the various hypotheses formed and derived from the literature which are to be tested. The nine hypotheses have been formed from the literature survey. The chapter also presents a competing model which excludes the mediating effect of satisfaction with service recovery. The next chapter discusses the database and research methodology being used for the study.