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Does Service Recovery Affect Customer Satisfaction? A Study on Co-Created Retail Industry

Muhammad Hafiz Abd Rashid^{a,*}, Fauziah Sh. Ahmad^b, Abdul Kadir Othman^b^a*Faculty of Business Management, Universiti Teknologi MARA, 42300 Puncak Alam, Selangor, Malaysia*^b*International Business School, Universiti Teknologi Malaysia, 54100 Kuala Lumpur, Malaysia*

Abstract

In today's hyper-competitive business environment, customer satisfaction is vital for success. However, in many businesses, service failure may surface despite consistent avoidance efforts. The purpose of this study is to investigate the relationship between service recovery and customer satisfaction in co-created retail industry. Co-created retail industry which reflects the engagement of customers in business value creation is a win-win approach to customers and retailers particularly in context of service recovery. Although predominant attention on service recovery has been assessed in hospitality context especially in hotel and restaurant setting, there are very limited explorations in co-created retail context to lend sufficient understanding for retail recovery management. A conceptual framework and three propositions were developed indicating that customer satisfaction is influenced by three justice dimensions of service recovery which is outcome justice, procedural justice and interactional justice. Managerial implication of this study is discussed to exhibit the importance of service recovery in winning back the upset customers.

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1. Introduction

In today's highly competitive service environment, the ability of the organization to solely compete on price has increasingly become difficult. Therefore, most organizations today recognize the importance of providing exceptional service to the customers. However, even the best organizations produce errors in delivering the service –

* Corresponding author. Tel.: +6-012-653-0253 ; fax: +6-03-3258-5000
E-mail address: hafiz.rashid@puncakalam.uitm.edu.my

or widely known as service failure. Service failures have been categorized as failure of the core service (service provider error), or product and policy failures as attributable to the organization or the customers (Komunda & Osarenkhoe, 2012). The only way to correct the error is by performing service recovery. Successful service recovery can enhance customers' perceptions of the quality of the service and the organization, lead to positive word-of-mouth (WOM) communication, enhance customer satisfaction, and build customer relationships and customer loyalty (Michel, Bowen & Johnston, 2009). In today's environment, customer satisfaction is critical for the victory and continuity of business operations. Earlier study by Timm (2001) has identified several strategies for building customer loyalty, one of them is to recover dissatisfied customers. When recovering a dissatisfied customer, dissatisfaction is replaced with satisfaction, a concept tightly associated with loyalty (Söderlund, 2001). To date, less attention has been devoted to study the effect of service recovery towards customer satisfaction in co-created business context. Latest trend demonstrates that customers are actively engaged in value co-creation, either by serving themselves (such as at an ATM) or by cooperating with service providers (e.g., health care) (Claycomb, Lengnick-Hall & Inks, 2001). Besides, a study conducted by Nikbin, Ismail, Marimuthu and Jalalkamali (2010) exhibited that a number of service recovery studies have been conducted towards hotel customers (Karatepe 2006), mobile phone buyers (Kau & Loh 2006), undergraduate students, hotel customers (Smith, Bolton & Wagner, 1999) and airline passengers (McCollough, 2000). Despite the potential importance of these findings, to the researcher's best knowledge, no previous studies have investigated service recovery in co-created retail industry. Thus, this study aims to contribute to a growing body of service recovery knowledge by examining the relationship between service recovery and customer satisfaction in co-created retail industry.

2. Theoretical background

2.1. Service recovery

Research into service recovery has been rapidly developing with the emergence of service economies and customer-focused strategies employed by increasing numbers of organizations (Michel & Johnston, 2008). Service recovery refers to the action taken by a service provider to address a customer complaint regarding a perceived service failure (Grönroos, 1988). It is the process by which steps are taken as a result of negative customer perception of initial service delivery. Recovery management is considered to have a significant impact on customers who experienced service failures because they are usually more emotionally involved and observant of service recovery efforts (Berry & Parasuraman, 1991). Tax and Brown (1998) found that as much as 85% of the satisfaction with a service recovery was due to the justice dimensions of the service recovery process. There are three dimensions of fairness in this model which is procedural justice, interactional justice and outcome justice.

- Outcome Justice

Outcome justice (or sometimes called as distributive justice) concerns the compensation that a customer receives as a result of the losses and inconveniences cause by the service failure. This includes compensation for not only the failure, but also time, effort and energy spent during the service failure and the process of service recovery (Lovelock, Wirtz & Chew, 2009). Maxham and Netemeyer (2002) defined outcome justice as the extent to which customers feel they have been treated fairly with respect to the final recovery outcome. The outcome justice may be represented in the form of discounts and refunds offered to customers after a service failure (Tax, Stephen & Murali, 1998). Previous study by Smith, Bolton and Wagner (2002) in the hotel and restaurant settings found that outcome justice affects customer satisfaction with service recovery. In gauging the relationship between outcome justice and customer satisfaction, the following proposition is introduced:

P1: Outcome justice will affect the customer satisfaction.

- Procedural justice

Procedural justice concerns the policies and rules that any customer will have to go through in order to seek service recovery. Here, customers expect the firm to take responsibility. This is the key to the start of a fair procedure, followed by a convenient and responsive recovery process. That includes flexibility of the system, and consideration of customer inputs into the recovery process. (Lovelock et al., 2009). Previous study by Maxham and Netemeyer (2002) indicated that the procedural justice can affect customers' satisfaction with a service failure and recovery context. Therefore, the following proposition is suggested:

P3: Procedural justice will affect the customer satisfaction.

- Interactional Justice

Interactional justice focuses on interpersonal interactions during the process of service delivery. It means the evaluation of the degree to which the customers have experienced justice in human interactions from the employees of service organization during the recovery process (Sparks & McColl-Kennedy, 2001). In service recovery context, interactional justice means the evaluation of the degree to which the customers have experienced justice in human interactions from the employees of service firms during the recovery process (Sparks & McColl-Kennedy, 2001). Previous research has confirmed that interactional justice will affect customer satisfaction. For example, Tax, Stephen and Murali (1998) found the effects of interactional justice on satisfaction with complaint handling. With the support of previous findings, the following proposition is framed:

P2: Interactional justice will affect the customer satisfaction.

2.2. *Customer satisfaction in service recovery*

Customer satisfaction is a customer's overall or global judgment regarding the extent to which product or service performance matches expectations (Anderson & Sullivan, 1993). Customer satisfaction is crucial to the survival of any business organization. However, service failures are often unavoidable due to human and non-human errors. Such failures to perform a service inevitably lead to customer dissatisfaction (Kau & Loh, 2006). Customer dissatisfaction requires service recovery action in order to win back customer's heart. This is supported by Grootenboer (1998) who stated that the purpose of service recovery is to make customers satisfied despite service failures and to maintain and if possible improve the long term relationship - to keep customers as well as long term profitability instead of creating short term cost saving. Understanding satisfaction from the perspective of service recovery is important because, as Spreng, Harrel and Mackoy (1995) showed, customer satisfaction with service failure recovery has a greater impact on overall satisfaction than does any other individual aspect of the outcome of the service delivery.

2.3. *Co-creation*

Customer co-creation is becoming increasingly popular among companies, and intensive communication with customers is generally seen as a determinant of the success of a new service or product (Gustafsson, Kristensson, & Witell, 2012). In a co-creating process, the enterprise works in cooperation with all the stakeholders, especially the customers. Customers (end users, e-customers, global customers, customer communities, and even non-customers) know what they want and how products/services can be changed to provide new values. The core principle of co-creation is "engaging people to create valuable experiences together" while enhancing network economies (Ramaswamy & Gouillart, 2010). For example, furniture retailer IKEA sells at steeply discounted price, profiting from co-creation by encouraging customers to provide their own product transportation and assembly services. (Kambil, Friesen & Sundaram, 1999). Other examples are such as performing transaction using self-service technologies, dining at buffet restaurant, designing and producing products, green IT and greening by IT, and

sustainable products are often the result of co-creation processes with customer groups (Lee, Olson & Trimi, 2012). To date, the benefits of customer co-creation in the service recovery context are not well recognized. However, in the study conducted by Dong, Evans and Zou (2007), it was mentioned that as the level of customer participation increases, customers will evaluate their own work more positively and become more satisfied with recovery outcomes.

3. Conceptual framework

The independent variables for this study was derived from the justice dimension of service recovery process. Meanwhile the independent variable in this study is the variable that reflects the outcome of the research study which is customer satisfaction. There are 3 (three) elements served as independent variables which consist of outcome justice, interactional justice and procedural justice. Those elements are used to assist the study in investigating the relationship between service recovery implemented by co-created retail industry and its customer satisfaction.

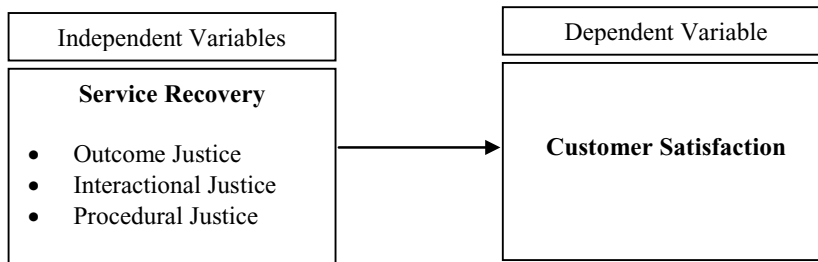


Figure 1: The conceptual framework on the relationship between service recovery and customer satisfaction in co-created retail industry.

4. Methodology

Experimental scenario will be used in conducting this study. This method has been widely applied in studies related to service recovery (Ok, 2004). The application of experimental scenario is acceptable because this method avoids the problems of intentionally imposing service failures on customers and it minimizes memory-bias (Matilla, 2001). The proposed methodology will be executed based on a 2 (outcome justice) X 2 (procedural justice) X 2 (interactional justice) between-subjects design to test the hypotheses. Subjects will be exposed to a written scenario describing a service failure within the context of a co-created retail industry and they will be given a set of questionnaire to answer based on the scenario.

5. Conclusion

This paper has proposed that the justice dimension of service recovery will influence customer satisfaction. A number of studies that has been discussed earlier confirmed that all three (3) dimensions (outcome, procedural and interactional justice) affect customer satisfaction. It is suggested that researchers and strategists aiming to nurture satisfied customer should pay close attention to the issues of these three (3) justice dimensions of service recovery. With a growing concern of businesses to sustain their relationship with customers, it is believed that these three (3) justice dimension of service recovery will result in developing loyalty among customers, leading to growth and increase reputation of the organization at large. Although there are abundance of studies on investigating the relationship between service recovery and customer satisfaction has been conducted, however, most of it employed the justice dimension of service recovery in normal business settings. There is limited number of research that applied justice dimension of service recovery in a co-created business context especially in retail industry. Therefore, it is worthwhile to explore the influence of justice dimensions of service recovery towards customer satisfaction in co-created context, specifically in retail industry.

6. Implication for managers

The purpose of this paper is to help the co-created retail industry to understand the effects of service recovery rendered when service failure happens. It is expected that managers will consider the outcome, procedural and interactional justice in recovering from service breakdown. Companies have to be more proactive to win back the upset customers and make them loyal for life. A study on service recovery paradox has suggested that 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 (McCullough & Bharadwaj, 1992). This is somehow true if the company proactively take action towards the problem faced by the customers. They will remember the effort taken by the company and will spread positive word-of-mouth to other customers. Although companies put their very best effort to avoid service failure from happening, however even the best company in the world experienced service failure. It is unavoidable and employees have to equip themselves with required skills and knowledge in recovering from the problem.

7. Recommendations for future research

Future research could replicate this study in other industries and different countries since numerous studies were conducted in hotel and restaurant setting. A consideration to conduct this study in co-creation context also should be taken into account since there is limited number of study has taken place in co-created environment. This is imperative in order to lend sufficient generalization to the concept and theory of service recovery. Furthermore, future researcher may consider incorporating moderating or mediating variables in the relationship between service recovery and customer satisfaction. A number of studies have used corporate image, failure severity and brand equity as a moderator. Future research also should test this framework in order to contribute to new theory whereby it can be referred by practitioners.

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