

Consequences of Service Recovery: Evidences from Public Sector of Pakistan

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Abstract: *The study investigates the impact of service recovery on word of mouth, customer trust and customer loyalty in public sector organizations of Pakistan (Pakistan Post, Pakistan Railways and Pakistan International Air Lines). This study employed a quantitative method approach to collect and analyse the data collected through a survey questionnaire. The study sample population comprised 300 customers from three chosen public sector organisations in the twin cities Rawalpindi/Islamabad in Pakistan. The data was analysed through the SPSS and AMOS software and data was analyzed through regression, correlation and mediation analysis. The findings show that there exists a positive relationship between service recovery, customer satisfaction, word of mouth, customer trust, customer loyalty. Further, customer satisfaction contributes in developing a positive association between service recovery and word of mouth, customer trust and loyalty.*

Keywords: *Service recovery, Customer satisfaction, Customer loyalty, Customer trust, Word of mouth*

I. Introduction:

Customer oriented companies focus on long term relationships with their customers, and proactively take preventive measures to make their customers satisfied. Due to human interactions in service industry, the encounter of front line employees and customers is greatly focused because dissatisfied customers are detrimental to corporate image and reputation. Performance of front line employees is vital in determining the service recovery (Boshoff & Allen, 2000) and service value by customers (Heskett, Sasser, & Schlesinger, 2003) in an effective way. Service providers have the capability for bringing their aggrieved customers back to the firm, therefore firms should motivate their front line employees for effective service recovery through job resources (Yavas, Karatepe, Avci & Tekinkus, 2003). Since low level of service recovery performance results in undesirable outcomes for organisations, hence organisational factors related to service recovery need to be studied (Ashill, Rod & Carruthers, 2008) because service recovery gives a second chance to companies to retrieve their angry customers (Lin, 2010).

In the competitive market place, service recovery is a key issue and a matter of great concern for companies (Yaya, Merimon & Casadesus, 2013). It is an observed norm that customers who experience service failure are typically observed discussing the incident with ten other persons. On the other hand, those customers who do not experience failure only tend to tell five other persons about the positive experience they had (Oliver, 2010). Effective service recovery therefore holds great importance and is crucial to maintaining customer and employee loyalty and satisfaction, and to bring back the aggrieved customers. This in turn has a positive impact on a company's profitability, revenues, growth and reputation (Parasuraman, Zeithaml & Malhotra, 2005; Heskett, Jones, Loveman, Sasser & Schlesinger, 2008).

It has been found that a majority of customers are dissatisfied with the way companies resolve the customers' complaints. Likewise most companies are seen not taking advantage of the learning opportunities offered by service failures and fail to resolve such issues in timely fashion (Marimon, Petnji & Casadesus, 2012; Petnji, Marimon & Casadesus, 2013). Customer loyalty is regarded as an important and crucial goal in the consumer marketing community (Yang & Peterson, 2004; Herington & Weaven, 2009). Service recovery is directly/indirectly related to customer loyalty via perceived value and satisfaction (Parasuraman et al, 2005; Marimon et al, 2012). However, complaint-handling construct has little effect on either satisfaction or loyalty (Johnson, Anders, Tor, Line & Jaesung, 2001).

It is very difficult to detect errors and service failures in intangible services in comparison to the tangible ones, where in case of tangible products, it is easy to detect the service failures or malfunctioning, and possibilities of errors (Estelami, 2000). On the contrary, in case of intangible services customers appear to have unclear expectations regarding the service recovery because they can't know what they will be getting in return (Estelami, 2000). The reason for this customers' distrust on service of intangible goods is because they have the knowledge of the possibility of service failures from both the customer and operational perspective. It is possible that this awareness may result because it is a common trend to call the customers to participate in both the service production and consumption process (East, Gendall, Hammond & Lomax, 2005). Subsequently, instead of complaining about service failures, the majority of dissatisfied customers opt to switch providers

(Johnson et al, 2001). This issue makes service recovery a complicated phenomenon which needs to be dealt in different ways for tangible and intangible products and services. Hence, in order to run an intangible service, the service provider has to develop an effective service recovery aimed at customer satisfaction for smooth running of the service operations and company's performance..

II. Literature Review

2.1 Service recovery

The term service recovery is defined and explored as the actions taken by a service provider for resolving customer complaints about the service failure (Gronroos, 1988 cited in Kau & Loh, 2006). Basically, it is a process by which a service provider takes further actions to rectify and resolve the negative perception of customers about the initial service delivery. In this respect, the recovery management has been regarded as an important consideration that impacts customers who have gone through service failures and have been emotionally involved in the service experience (Stauss & Schoeler, 2004), therefore, understanding the concept of service recovery is very important for marketers as well as researchers because delivering unique services to each customer with 100% error free assurance is very difficult (Kau & Loh, 2006).

2.2 Customer satisfaction

Customer satisfaction is one of the most researched topics within marketing literature. This term has been defined as the subjectivity of an individual regarding favourable outcome of evaluation of any experience about purchasing and consuming a particular product or service (Kerin, 2012). Traditionally, this topic has been explored as the purchase evaluation by comparing the costs and rewards of product of service with the perceived consequences (Maxham, 2001). However, the operational aspect of satisfaction suggests that it represents the accumulation of several attribute satisfaction judgments. Contrary to this, Komunda & Osarenkhoe (2012) suggest that satisfaction is the commutative assessment of service quality. This suggests that customer satisfaction means the overall judgment of a company rather than a specific transaction judgment. Several authors have demonstrated the relationship of customer satisfaction with multiple factors (de Matosa, Vieirab & Veiga, 2012). However, in this paper, this term has been explored in relation to service recovery.

2.3 Word of Mouth

The notion of word of mouth (WOM) has been defined as the informal communication between attributes of a product and customers (Kerin, 2012). On the contrary, Maxham (2001) explained word of mouth as the written or oral recommendation of a satisfied customer to a potential or prospective customer of a product of service (Kau & Loh, 2006). However, negative service outcomes can also influence customers to influence patronizing decisions of prospective customers of a product or service (Kau & Loh, 2006). In this way, word of mouth can be either positive or negative. This concept delivers considerable information to customers about the company's products and services and further assists them to patronize it. Within context of service organization, it is important for organizations to take steps for rectifying negative evaluation of customers about service failures. This is because consistent service failure can lead to development of negative word of mouth about that service provider (Colgate, & Norris, 2001; de Matosa et al., 2012). On the contrary, consumers who get high service value and fair service delivery tend to develop positive word of mouth behaviour and re-patronize that particular service provider.

2.4 Trust

The term trust has been explained as the central construct within marketing literature, specifically in the customer relationships management literature. Specifically, the relationship marketing has a strong literature on trust factor (Ndubisi & Ling, 2005). This term has been defined as the construct that takes place when one party has confidence in the integrity and reliability of the other partner (Morgan & Hunt, 1994 cited in Kau & Loh, 2006). It has been evaluated that repeated satisfaction of customers over the time again and again can strengthen the integrity and reliability of a service provider, thus builds trust (de Matosa et al., 2012). In this particular paper, the relationship between service recovery and trust has been evaluated in context of public sector of Pakistan.

2.5 Consumer loyalty

The last variable of this paper is customer loyalty that has rich value in marketing literature. This term has been explained as the commitment of a customer with a particular vendor or service provider that results in continual patronage decisions of customers with that service provider or vendor (Kau & Loh, 2006). Customer loyalty has been regarded very significant for service firms as it assures its long term revenue stream and survival even in hard financial times. In addition, it also determines the ability of firms to attract and retaining customers in the long run to remain profitable. It has been theorized that loyal customers require less

marketing effort and cost and they deliver high value and profits to the organizations (de Matosa et al., 2009). In this particular paper, the concept of customer loyalty has been elaborated in context of service recovery in the public sector of Pakistan.

2.6 Service recovery and customer satisfaction

Within marketing literature, several studies have been conducted to explain the association between customer satisfaction and service recovery efforts of firms (Kau & Loh, 2006). In this respect, the previous contributions of researchers vary from empirical assessment to theoretical modelling. Some authors have noted that if an organization undergoes a failure situation and also fails to recover effectively, it is more likely that customers will develop negative attitudes and will get dissatisfied (Magnini & Ford, 2004). Besides this, service recovery has been elaborated as critical for firm's performance and customer satisfaction (Parasuraman, 2006). In the same context, Harris et al (2006) have also noted that service recovery performance of an organization influences customer satisfaction and behavioural intentions of customers such as repeat purchasing intentions. Further evidence suggests that quick response of organizations to overcome negative impacts of service failure is more likely to satisfy customers and vice versa (de Matosa et al., 2009).

2.7 Service recovery and word of mouth

It has been specifically explained as customer communication with other firms. In this respect, marketing literature has evidence of association between word of mouth and service recovery mechanisms and efforts of service firms. For instance, Maxham (2001) has noted that efficient and reliable efforts of service firms for handling customer complaints result in developing positive word of mouth about that particular firm. On the other hand, Kau & Loh (2006) have noted that if service firms fail to address customer complaints in an effective manner, this can result to develop negative word of mouth about that service firm.

2.8 Service recovery and trust

A considerable literature stream in marketing literature has focused on defining and elaborating relationship between service recovery and trust (Parasuraman, 2006). Rod & Ashill (2010) pointed that trust has two important components from marketing viewpoint. These components include benevolence trust and credibility trust. In the competitive environment, service providers need to have an effective mechanism for service recovery to win trust of customers (Kau & Loh, 2006). This is because effective and efficient service recovery mechanisms result in developing trustworthy relations with customers (Maxham, 2001). On the other hand, Magnini & Ford (2004) noted that if firms fail to address service failure consequences, customers develop negative attitudes about those firms. In this way, failure to service recovery negatively influences credibility of firms in the minds of customers.

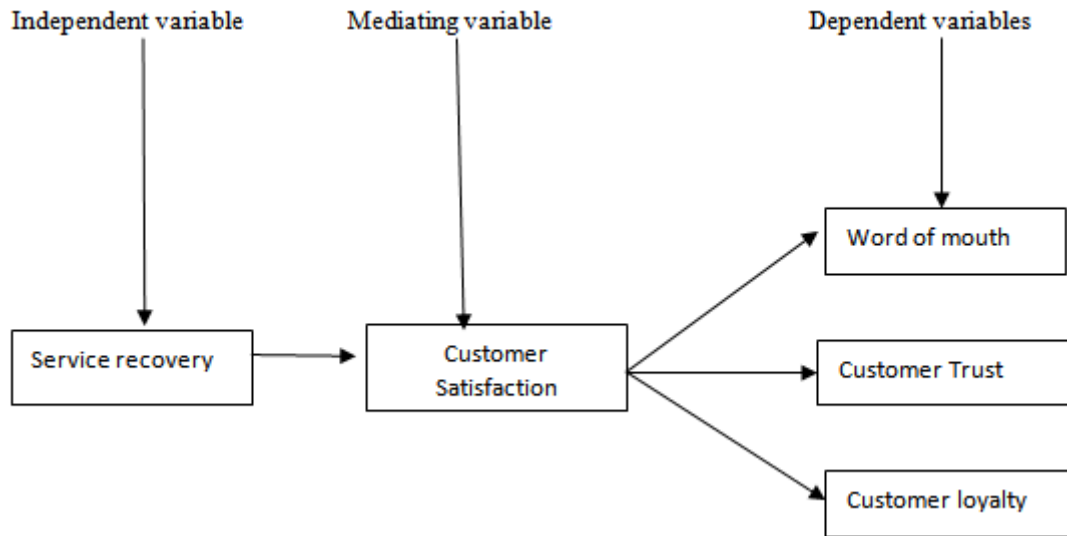
2.9 Service recovery and consumer loyalty

Several researchers have explored the concept of customer loyalty in multiple aspects including service failure and recovery (Kau & Loh, 2006). Magnini and Ford (2004) posit that a service firm can increase profits by just enhancing customer retention. Customer loyalty has been perceived as the function of current satisfaction level of customers with the firm. From perspective of service recovery, it has been noted that when a firm develops an effective system for handling customer complaints and errors in service delivery, it results in gaining high customer loyalty (Tax & Brown, 2000; Parasuraman, 2006). On the contrary, Kau & Loh (2006) have noted that as customer dissatisfaction increases because of service failures, customer loyalty reduces. The similar results were noted by other researchers such as (Stauss, & Schoeler, 2004; Parasuraman, 2006).

III. Methods

Theoretical model of the study

Figure 1 presents the conceptual framework of the study.



Key Variables

The crucial variables identified for this study were one independent variable: Service recovery; one mediating variable: Customer satisfaction; and three dependent variables: Word of mouth, customer trust and customer loyalty.

3.1 Study Hypothesis

This study had six hypothesis.

- H₁: Service recovery has positive impact on word of mouth.
- H₂: Service recovery has significant influence on trust of customers.
- H₃: Service recovery has significant influence on customer loyalty
- H₄: Customer satisfaction has mediation between service recovery and word of mouth.
- H₅: Customer satisfaction mediates the relationship between service recovery and customer trust.
- H₆: Customer satisfaction shows mediation between service recovery and customer loyalty.

3.2 Study population and sample

The study population consisted of customers from three chosen public sector organisations of Pakistan: Pakistan Post, Pakistan Railways and Pakistan International Airlines. The technique of convenience sampling was used for selecting the study population. The questionnaire was personally delivered to a total of 300 customers. Participants for this study were selected with opportunity and convenience taken into account (Bryman, 2012) for data collection from the twin cities Rawalpindi/Islamabad in Pakistan.

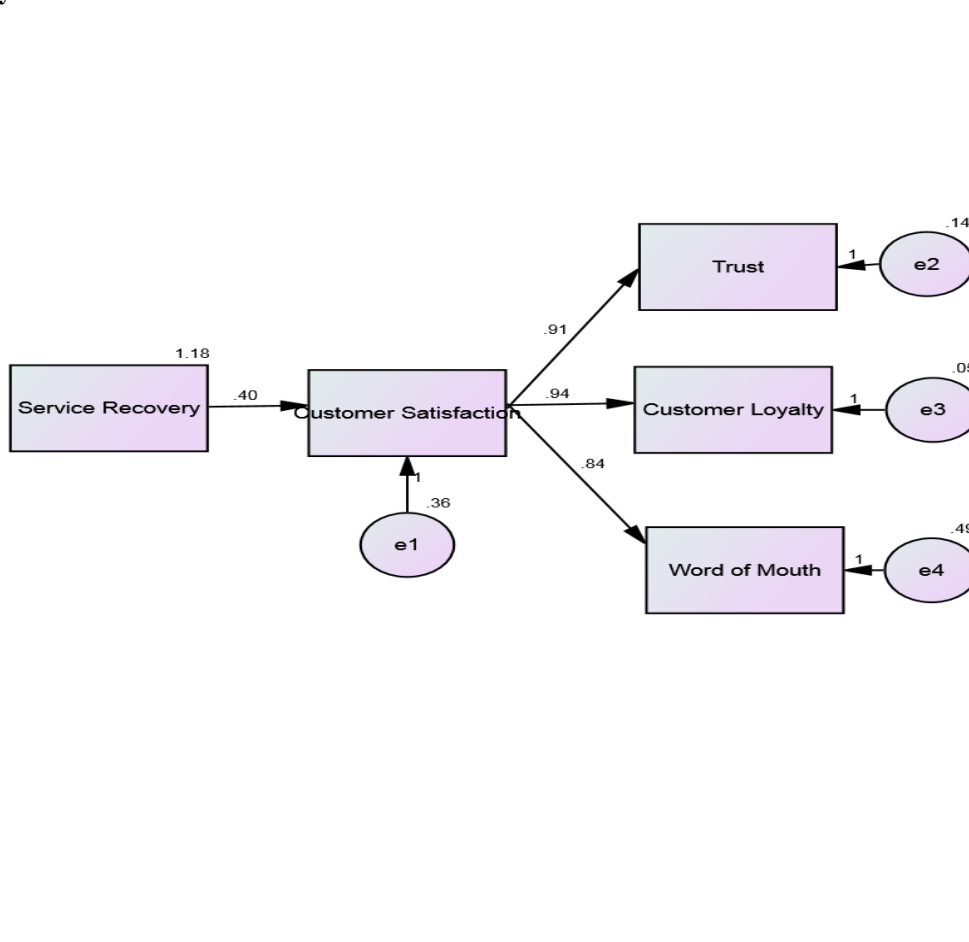
3.3 Research method and data collection technique

This study used the survey research method for collecting data. A self-administered questionnaire specially developed for the current study was used for collecting data. The questionnaire items were based on literature on service recovery, customer satisfaction and the contributing factors of word of mouth, customer trust and customer loyalty. The questionnaire comprised six sections and there were a total of 25 items. The first section aimed to collect demographic information with the help of 4 items about study participants' gender, age, public sector organisation they wished to evaluate and number of years they had been using the services of their selected public sector organisation. The second section comprised 6 items related to service recovery; section three consisted of 4 items on word of mouth; section four consisted of 3 items regarding customer trust; section five had 4 items on customer loyalty; and the last section sought to measure 4 items on customer satisfaction. Each item was rated by the respondents on a five-point Likert scale that ranged from 1=strongly agree to 5=strongly disagree, taking into consideration the organisation they wished to evaluate, while completing the questionnaire.

IV. Data Analysis:

Data was analyzed with the help of SPSS and AMOS software. Because model has more than two dependent variables structural equating model is better technique. Path analysis was run.

4.1 Path Analysis:



4.2 Table 1 ; Regression Weights: (Group number 1 - Default model)

	Estimate	S.E.	C.R.	P Label
CS <--- SR	.401	.032	12.522	***
T <--- CS	.915	.030	30.957	***
WM <--- CS	.292	.039	7.497	***
WM <--- SR	.643	.027	24.087	***
CL <--- SR	.052	.015	3.473	***
CL <--- CS	.892	.022	40.485	***

4.3 Table 2 : Regression Weights (Default Model)

	Estimate
CS <--- SR	.587
T <--- CS	.873
WM <--- CS	.232
WM <--- SR	.745
CL <--- SR	.077
CL <--- CS	.903

According to the results shown in the above given tables it has proved that service recovery shows positive impact on word of mouth so hypothesis 1 is accepted. Same as another hypothesis which is that service recovery has influence on word of mouth is also accepted as per values mentioned in the above given tables. Another hypothesis which is that service recovery has significant influence on customer loyalty is also proved because the value of p indicates significant and value of estimates also shows that service recovery influence the customer loyalty.

For analyzing the other hypothesis SPSS was used:

Independent variable to Mediator:

Dependent Variable= Word of Mouth

Independent Variable= Service recovery

Mediator Variable=Customer satisfaction

**Mediation Analysis
(Bootstrapping-2000)**

	t	se	p	Coefficient
SR<---CS	12.5006	.0321	.0000	.4015

Direct effect of mediator on dependent variable:

**Mediation Analysis
(Bootstrapping-2000)**

	t	se	p	Coefficient
WM<---CS	7.4273	.0391	.0000	.2922

Total effect of independent variable on dependent variable:

**Mediation Analysis
(Bootstrapping-2000)**

	t	se	p	Coefficient
WM<---SR	32.2118	.0236	.0000	.7599

Direct effect of independent variable on dependent variable:

**Mediation Analysis
(Bootstrapping-2000)**

	t	se	p	Coefficient
WM<---SR	24.0061	.0268	.0000	.6426

Bias Corrected Confidence Intervals

	Lower	Upper
TOTAL	.0865	.1526
CS	.0865	.1526

Dependent Variable= Trust

Independent Variable= Service recovery

Mediator Variable=Customer satisfaction

Direct effect of mediator on dependent variable:

**Mediation Analysis
(Bootstrapping-2000)**

	t	se	p	Coefficient
T<---CS	23.1655	.0354	.0000	.8194

effect of independent variable on dependent variable:Total

**Mediation Analysis
(Bootstrapping-2000)**

	t	se	p	Coefficient
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T<---SR	13.4288	.0328	.0000	.4405
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Direct effect of independent variable on dependent variable:

**Mediation Analysis
(Bootstrapping-2000)**

	t	se	p	Coefficient
T<---SR	4.6047	.0242	.0000	.1115

Bias Corrected Confidence Intervals

	Lower	Upper
TOTAL	.2669	.3936
CS	.2669	.3936

Dependent Variable= Customer Loyalty
 Independent variable= Service recovery
 Mediator variable= Customer satisfaction

Direct effect of mediator on dependent variable:

**Mediation Analysis
(Bootstrapping-2000)**

	t	se	p	Coefficient
CL<---CS	40.3496	.0221	.0000	.8919

Total effect of independent variable on dependent variable:

**Mediation Analysis
(Bootstrapping-2000)**

	t	se	p	Coefficient
CL<---SR	13.1774	.0312	.0000	.4105

Direct effect of independent variable on dependent variable:

**Mediation Analysis
(Bootstrapping-2000)**

	t	se	p	Coefficient
CL<---SR	3.4613	.0151	.0000	.0524

Bias Corrected Confidence Intervals

	Lower	Upper
TOTAL	.2957	.4190
CS	.2957	.4190

So we can see that the value of p is .0000 which is significant so the last three hypothesis are also proved and accepted. So it is proved that customer satisfaction has mediation between service recovery and (customer trust, word of mouth and customer loyalty). According to the above results there exists Partial mediation between the variables.

V. Conclusion and Recommendations:

It is concluded that service recovery is very important and valuable variable and service recovery has positive impact on customer satisfaction, customer trust, customer loyalty and word of mouth. It is proved that higher the service recovery higher will be the trust, loyalty and word of mouth of customer. So public sector organizations of Pakistan (PIA, Railway and Post) should focus on service recovery for creating more customer satisfaction, trust, loyalty and customer word of mouth and for retaining more customers and increase profitability. It was also proved that customer satisfaction mediating the relationship between service recovery and customer trust, service recovery and word of mouth, service recovery and word of mouth. An organization's reputation and its customer's satisfaction depends on the level of service recovery provided by organization to its customers. This study used small sample in only three public sector organisations in two cities. Therefore, the

generalisability of the study is low. This limitation offers an opportunity for future researchers to expand this study to a larger population of other public sector organisations in other cities of Pakistan.

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