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Service recovery in marketing education: evidence from a developing country

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ABSTRACT

The purpose of this study is to assess the influences of perceived justice with service recovery on recovery satisfaction and word of mouth, and to examine the mediating role of recovery satisfaction in the relationship between perceived justice and word of mouth intention. Data were gathered on perceived justice with service recovery, recovery satisfaction and word of mouth by means of survey from management undergraduate students, who experienced failure within last one year in a university in Iran. The results show that distributive and procedural justices have a significant and positive relationship with recovery satisfaction. However, there was no significant relationship between interactional justice and recovery satisfaction. The results also found that recovery satisfaction has a positive relationship with word of mouth. Moreover, the results of this study confirmed that recovery satisfaction mediates the relationship between perceived justice with service recovery and word of mouth in all perceived justice dimensions except for distributive justice. Managerial implications of these findings are briefly discussed.

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Introduction

No service is perfect all of the time and this is certainly the case in higher education. Bitner (1993) argues that due to the unique nature of services it is impossible to ensure 100% error-free service. Keaveney (1995) states that service failures represent a potential threat to the foregoing benefits associated with long-term customers, as service failure and failed recoveries are among the major causes of customer - switching behavior. Examples of service failure in nuveirsty setting can be: Exam questions are sometimes ambiguous. Exam answers are sometimes mis-graded. Grades can be misreported. Students can be given improper information. Students can be misadvised. Guest speakers can be brought in who provide misinformation to students. However, the list of mistakes possible in higher education is limitless. As we teach our marketing classes, mistakes will invariably occur. In the service industry, these errors are often called service failures, and how a firm responds to them to restore the relationship is called service recovery (Blodgett et al., 1997; Kelley & Davis, 1994; Tax & Brown, 2000). Service failure can prompt customer dissatisfaction with the service provider, and due to that customers may exit silently, spread a negative word-of-mouth (WOM), voice their complaints to the operator, or continue to patronage the same service provider despite their dissatisfaction (Kim et al., 2009).

Brown (2000) found that the majority of customers are dissatisfied with the way most companies respond to their complaints and concerns. Marmorstein and Sarel (1999) argued that when firms do not successfully handle their service failures, they fail the customers twice—once in the initial service failure and once in the lack of adequate service recovery. Therefore, service recovery is a moment of truth for the firm, being critical both for satisfying its customers and strengthening its relationships with them (Blodgett et al., 1997; Smith & Bolton, 2002).

Service recovery refers to the actions an organization takes in order to respond to a service failure (Gronroos, 1988). The ultimate goal of service recovery is to pacify dissatisfied customers through appropriate actions in order to reduce potential damage to customer relationships caused by service failures (Ha & Jang, 2009; Zemke, 1993). Zemke (1993) states service recovery can have a great effect on customers' overall satisfaction. This is very important because customer satisfaction is significantly related to increased customer loyalty (Reichheld & Sasser, 1990) positive word-of-mouth communications (Reichheld & Sasser, 1990; Maxham & Netemeyer, 2002) patronize service provider in the future (Maxham & Netemeyer, 2002) and superior profitability (Anderson et al., 1994).

In order to more fundamentally comprehend effective service recovery, researchers have utilized justice theory as the main framework for examining service recovery procedures (McColl-Kennedy & Sparks, 2003).

The rationale of justice theory is that customer perceptions regarding the fairness of service recovery efforts influence customer satisfaction and future behavioral intentions. Thus, in order for service organizations to develop effective service recovery strategies, it is imperative that they understand the dimensions of justice: distributive, procedural, interactional (Blodgett et al., 1997; McColl-Kennedy & Sparks, 2003).

One thing that higher education has in common with other service providers is that service failures occur.

There are times when students are negatively impacted by mistakes made in the classroom. According to Swanson and Davis (2000) one area where the application of marketing concepts to higher education has great promise is in the area of service failures and recovery.

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An extensive body of literature has developed in the area of services marketing about what to do when such service failures occur; however, there is scant research that focuses on service recovery within a classroom setting. Despite the obvious potential for improving marketing education by applying what has been learned from advances in the area of service recovery, only Swanson and Davis (2000) and Iyer and Muncy (2008) explicitly focused on the service recovery aspect of a service failure. Thus, there is a need to study service failure recovery in educational context.

In this regard, the purpose of this study is to bridge gaps in the literature by examining dimensions of perceived justice with service recovery on recovery satisfaction and word of mouth and to analyze whether recovery satisfaction mediates the relationship between perceived justice with service recovery and word of mouth. The current study was conducted in a university in Iran.

Literature Review and Hypotheses Development

Perceived justice with service recovery

Adams (1963) justice theory states that in every exchange that takes place, people weigh the inputs against the outcomes and compare them with those of others in similar situations. In the event that there is an equal balance between them, the exchange is considered as 'fair', but if the outcomes do not meet with the person's expectations, then this results in inequity. Current research on complaint handling has offered considerable evidence of the suitability of the concept of justice as a basis for understanding the process of service recovery and its outcomes (Blodgett et al., 1997; Goodwin & Ross, 1992; Smith et al., 1999; Tax et al., 1998). Justice theories have identified three main dimensions for justice (injustice) perception: distributive justice (DJ), procedural justice (PJ), and interactional justice (IJ).

Distributive Justice

Smith et al., (1999, pp. 358–359) defined distributive justice as "the allocation of costs and benefits in achieving equitable exchange relationships". In a service failure/recovery context, it refers to the perceived fairness of the service failure/recovery outcome (Holloway et al., 2009). Distributive justice focuses on the outcome of the exchange that includes such monetary rewards as refunds for failed service, discounts, coupons, etc (Mattila, 2001; Sparks & McColl-Kennedy, 2001; Maxham & Netemeyer, 2002). Previous literature in service recovery have measured distributive justice by the "justice," "fairness," "need," "value" and "reward" of outcomes (Chebat & Slusarczyk, 2005; Smith et al., 1999; Wirtz & Mattila, 2004).

Procedural Justice

Blodgett et al (1997, p. 189) define procedural justice as "the perceived fairness of policies, procedures, and criteria used by decision makers to arrive at the outcome of a dispute or negotiation". In service recovery context, procedural justice means the customer's perception of justice for the several stages of procedures and processes needed to recover the failed service (Mattila, 2001). Procedural justice focuses on the way that the outcome is reached. Thus, even when a customer may be satisfied with the type of recovery strategy offered, recovery evaluation maybe poor due to the process endured to obtain the recovery outcome (Hoffman & Kelly, 2000). Based on previous literature, there are six sub-dimensions for procedural justice, namely, flexibility, accessibility, process control, decision control, response speed and acceptance of responsibility

(Blodgett et al., 1997; Tax et al., 1998; Thibaut & Walker, 1975).

Interactional Justice

Tax et al. (1998, p. 62) define interactional justice as "the perceived fairness of interpersonal treatment that people receive during the enactment of procedures". 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 researches highlight the importance of interactional justice. Several researchers have noted that when people describe what they feel constitutes unfair treatment, their responses primarily focus on the interpersonal aspects of the situation rather than outcomes of recovery. Thus, evaluations of service recovery are heavily influenced by the interaction between customers and service representatives (Maxham & Netemeyer, 2002). Previous literature states that there are six sub-dimensions for Interactional justice. These sub-dimensions are: courtesy, honesty, empathy, endeavor, and offering apologies (Clemmer, 1988; Tax et al., 1998; McColl-Kennedy and Sparks, 2003; del Río-Lanza et al., 2009).

Recovery Satisfaction

Davidow (2000, p. 478) defines satisfaction with complaint handling as "the customer's overall affective feeling about the firm as a result of the firm's complaint handling". According to Kim et al. (2009) customer satisfaction with service recovery means a positive status of emotion perceived by customers in the process and result of recovering the failed service. Moreover, Stauss (2002) states that satisfaction with complaint handling is the satisfaction of that customer who complains with the service provider's response to the complaint.

Satisfaction with service recovery is a transaction specific satisfaction. Oliver (1997) claims an individual consumer's state of satisfaction based on a single observation or transaction is called encounter- or transaction-specific satisfaction. The transaction-specific concept of customer satisfaction is the assessment right after the specific purchase, while overall satisfaction refers the customer's rating based on all encounters and experiences (Rosen & Suprenant, 1998). When customers experience service failures, their post-failure satisfaction or pre-recovery satisfaction – transaction specific satisfaction will be lower to some degree than previous overall satisfaction. An appropriate service recovery will mitigate harmful effects and raise satisfaction (recovery will mitigation harmful effects and raise satisfaction (recovery will mitigation harmful effects and raise satisfaction) (Tax et al., 1998).

Word-of-Mouth Intention

Grönroos (1990) defines WOM as "the message about an organization, its credibility and trustworthiness, its way of operating and its services, communicated from one person to another" (Grönroos, 1990, p 158). On the other hand, Anderson (1998) defined word-of-mouth as informal communications between private parties concerning evaluations of goods and services rather than formal complaints to firms. Word-of-mouth behavior has been identified as an important post purchase behavior. Consumers usually talk about when it comes to products that according to Rosen (2000) are: new, exciting, noticeable, personally experienced, complicated and expensive products and services. Except from new and different things, people like to talk about their holidays and their experiences with hospitality services (Haywood, 1989).

Previous research mentions that word of mouth is the source of generating revenue. Struebing (1996) stated that revenue streams can be generated by attracting new customers via word-of-mouth recommendations and increasing the percentage of repeat customers. Rust et al. (1996) showed that managers tend to believe that an overall increase in revenue will result only by greater advertising and promotional efforts. They also claimed that word-of-mouth recommendations from friends, family, and colleagues who are satisfied with a company or restaurant have a measurable impact on sales.

Perceived Justice with Service Recovery and Recovery Satisfaction

In the recent marketing literature, within the service recovery area, perceived justice is recognized as a key influence in the formation of customers' evaluative judgments on organizational responses to a service failure (Ambrose et al., 2007; Blodgett et al., 1997; Schoefer & Ennew, 2005; Tax et al., 1998). According to previous studies, customers assess the level of justice of the service recovery (Smith et al., 1999; Tax et al., 1998) and this perception of justice influences their satisfaction (Maxham & Netemeyer, 2002; Oliver & DeSarbo, 1988). It can be accepted that customers' complaints arise from a perceived unfairness, i.e. from an imbalance in the customer-provider relationship, which causes customers to expect a recovery from the provider that compensates this imbalance (Chebat & Slusarczyk, 2005). Afterwards, customers make judgments about the degree to which the recovery process was fair and these judgments then influence their satisfaction (Schoefer & Ennew, 2005).

The effects of perceived justice with service recovery on satisfaction have been stated by a number of researchers. Zemke (1993) states the objective of service recovery efforts is to move a customer from a state of dissatisfaction to a state of satisfaction. Wirtz and Mattila (2004) indicate that recovery outcomes (e.g. compensation), procedures (e.g. speed of recovery) and interactional treatment (e.g. apology) have a joint effect on post-recovery satisfaction.

Distributive Justice and Recovery Satisfaction

A large number of empirical works study this component of justice, and considerable evidence exists to indicate that distributive justice is positively related to satisfaction with complaint handling (Homburg & Fürst, 2005; Karatepe, 2006; Tax et al., 1998). Researchers also find that distributive justice raises service recovery satisfaction (Maxham & Netemeyer, 2002; Smith et al., 1999). Besides, although in general, some studies suggest that compensating customers after a service failure leads to more favorable consumer responses, however, there are conditions in which compensation has no impact on evaluations (Grewal et al., 2008).

Kim et al. (2009) found that the effect of distributive justice on customer satisfaction with service recovery is stronger than those of procedural justice and interactional justice. Smith et al. (1999), Clemmer and Schneider (1996), Goodwin and Ross (1992) and Santos and Rossi (2002) found the same results that distributive justice is the most significant justice factor that affects satisfaction.

Procedural Justice and Recovery Satisfaction

Several studies show that procedural justice has a positive effect on the consumer's satisfaction with complaint handling (Homburg & Fürst, 2005; Karatepe, 2006; Tax et al., 1998), but its relationship with service recovery satisfaction is not clear. On the one hand, in a study of banking and new home construction

services, Maxham and Netemeyer (2002) find that procedural justice does not have a significant effect on recovery satisfaction. But, on the other hand, in a study of the online purchase of electronic equipment, these same authors (Maxham & Netemeyer, 2003) determine that procedural justice significantly influences the consumer's recovery satisfaction.

Interactional Justice and Recovery Satisfaction

Empirical studies show that fair interpersonal treatment contributes to satisfaction with complaint handling (Davidow, 2003; Homburg & Fürst, 2005; Karatepe, 2006; Tax et al., 1998), and service recovery satisfaction (Smith et al., 1999). But Maxham and Netemeyer's (2002, 2003) studies find no evidence that interactional justice affects service recovery satisfaction.

Recovery Satisfaction and Word of Mouth

Customer satisfaction is very important for the business organizations because it has been found that it affects customer retention and companies' market share (Hansemark & Albinsson, 2004). Thus, organizations need to constantly increase customer satisfaction due to its influence on different behaviors with important benefits. Farquhar and Panther (2007) found that the impact that satisfaction with service recovery have an impact on loyalty (intention to continue and recommendation). Kau and Loh (2006) in their study on mobile phone buyers found that the behavioral outcomes of the complainants in terms of trust, word-of-mouth (WOM) and loyalty are affected by their satisfaction with service recovery. There is also evidence that correctly solving and addressing a customer's dissatisfaction leads to higher loyalty than if the customer had been satisfied "first time around" (e.g. Oliver, 1997). In contrast, a dissatisfied customer whose problem is not solved and he/she is not satisfied with the complaint handling is a threat to the service provider in many ways, for example, he/she may leave the company and do business elsewhere and the customer may talk negatively about the service provider to others (Bailey, 1994).

Theoretical Framework

Figure 2.1 shows the framework of this study. The independent variable in this study is perceived justice with service recovery, composed of three dimensions, namely, distributive, procedural and interactional justice. Word of mouth is the dependent variable. The mediating variable is recovery satisfaction. The rationale underlying this research framework is straightforward. First, customer satisfaction with service recovery is driven by customers' perception of justice including distributive justice, procedural justice, and interactional justice. A higher level of customers' perception of justice will lead to higher level of customer satisfaction with service recovery. Second, a higher level of customers' satisfaction with service recovery will lead to positive word of mouth.

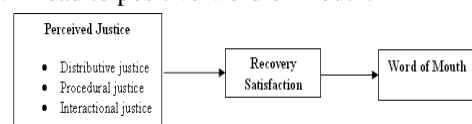


Figure 1. Research Framework

Method

Sample and Procedure

The present study was conducted in Chabahar International University in Iran. The sample consisted of undergraduate Management students attending university classes and who have experienced service failure within past one year. A pilot test was performed by distributing the questionnaire to 25 undergraduate management students from Chabahar International University.

The pilot test was conducted in order to improve the overall quality of the questionnaire. Based on their feedback, several minor changes were made to modify the questionnaires. Self-administered questionnaires were distributed to the students attending the class and they were asked to think about the failure that they have experienced and complete the survey. A total of 300 questionnaires were distributed. A total of 126 questionnaires (a response rate of approximately 42%) were collected from respondents. However, of the 126 questionnaires, only 121 questionnaires could be used. Five respondents either answered the questionnaires incompletely or questionnaires contained improper answers.

The measurement

Multiple item scales were used to measure each construct in this study. If possible, validated scales from previous literature were employed after a slight modification. The measures of the three justices were adapted from the scales used by Smith et al. (1999) and Mattila (2001). All scale items were rated on a 7-point Likert scale ranging from strongly disagree, which is weighted as 1, to strongly agree, weighted as 7. Distributive justice was measured using a four-item scale. Procedural justice was measured using a four-item scale, and interactional justice was measured using a two-item scale. Word of mouth and satisfaction with professor were adopted from Zeithaml et al. (1996). In this part, the respondents were also asked to respond to the statement using a seven-point Likert scales ranging from strongly disagree, which is weighted as 1, to strongly agree, weighted as 7.

Results

Goodness of measure

Factor analysis and reliability analysis were used in order to determine the data validity and reliability for the perceived justice with service recovery. Factor analysis was performed to assess convergent validity. The results of the factor analysis and reliability tests are presented in Tables 2 and 3. All individual loadings were above the minimum of 0.5 recommended by Hair et al. (1998). The reliability values were all above 0.7 except for word of mouth which was slightly lower than 0.7. Thus it can be concluded that the measures used in this study are valid and reliable.

Multiple Regression

Table 4 illustrates the results of regression analysis. In the first analysis, the model tested H1 by regressing different dimensions of perceived justice as independent variables on recovery satisfaction as dependent variable. The model is significant with adjusted R square = 0.72 ($p < 0.00$). Table V shows the results of the regression analyses.

Two of the independent variables appeared to contribute significantly to the variance in the regression equation—distributive and procedural. Hypotheses 1a (distributive justice has a positive relationship with recovery satisfaction), was accepted at $p < 0.05$. This result of the regression clearly demonstrated that the higher distributive justice would lead to higher recovery satisfaction. The model support Hypothesis 1b as well. It means that there is a positive relationship between procedural justice and recovery satisfaction ($p < 0.00$).

Regression analysis was also evaluated to determine the relationship between recovery satisfaction and word of mouth. Recovery satisfaction was defined as independent variables and word of mouth was defined as dependent variable. The results confirm H2, that recovery satisfaction has a positive relationship

with word of mouth. Table VI shows the results of the regression analyses.

In the third step, regression analysis on perceived justice dimensions as independent variables, recovery satisfaction as the mediator and word of mouth as the dependent variable was performed. The results are presented in table 6 below. As can be seen from the results, recovery satisfaction mediates the relationship between perceived justice with service recovery and word of mouth in all perceived justice dimensions except for distributive justice.

Discussion and Implications

When a service failure occurs, students are primarily concerned with whether or not the professor effectively solves the problem. According to Iyer and Muncy (2008) students seem to be less concerned that service failures occur and much more concerned with whether or not these failures were handled effectively. If they are effectively addressed, then much less damage appears to occur. An effective recovery after a failure plays an important role in satisfying them (Kim et al., 2009). Therefore, an effective recovery must be carefully planned and carried out in order to achieve the student's satisfaction.

The empirical results testing the relationships between perceived justice with service recovery, recovery satisfaction, and word of mouth demonstrated that almost all hypothesized relationships were supported. The impact of procedural justice on recovery satisfaction appears to be stronger than that of distributive justice, which is consistent with the previous findings of Ok et al. (2005). Therefore, universities should implement an effective way of procedural justice. Regarding the procedural justice, university authorities must keep in mind that timeliness in resolving conflicts, high customer voice and the neutrality of the recovery process must be handled carefully. In terms of distributive justice, universities should implement fair distributive treatment like fair outcome which is important in restoring the students' satisfaction back.

The findings also show that the effect of recovery satisfaction on word of mouth is significant and positive. The results are consistent with findings of Farquhar and Panther (2007), Kau and Loh (2006) and Bailey (1994) who demonstrated that recovery satisfaction have a positive relationship with positive word of mouth. Thus, when students are satisfied with the outcome of the recovery, they will say positive things about the university to others, recommend the university to others, and encourage friends to take classes in this university.

Moreover, the results of this study confirmed the mediating role of recovery satisfaction in the relationship between perceived justice with service recovery (in procedural and interactional dimensions) and recovery satisfaction. The results are consistent with the findings of Kim et al. (2009). In other words, a good procedural justice and interactional justice positively affect customers' recovery satisfaction and consequently generate positive word of mouth.

From a marketing education perspective, the significance of these findings is that the major concern of faculty when mistakes happen should be whether or not they effectively correct them. Small mistakes that cause small affective responses can still create significant problems if they aren't effectively handled. On the other hand, professors must avoid concluding that because the mistake was small and the affective response was minimal, no problem exists. Even with small problems, student's satisfaction with the professor, satisfaction with the outcome, the

hall talk, and the perceptions of fairness will be determined primarily by whether or not the problem was solved. In the end, from the student's perspective, what really matters is what the professor does, not who caused the problem or how big the problem was (Iyer & Muncy, 2008).

The results of this study will be useful to the university authorities in order to prevent failure in future and in the case of failure know how to recover it more efficiently in order to achieve students' satisfaction and generate positive word of mouth to attract more students in future. This study also provided empirical evidence that which recovery strategy or combination of recovery strategies is most effective in restoring students' satisfaction after a failure and subsequent recovery and word of mouth.

Limitations and future research

Like all other studies, this study suffers from various limitations, that restrict the generalization of the findings and opens directions for future research. First, this study only focused on one service sector (university setting) and in a specific country. Accordingly, the findings cannot be generalized to other service sectors and different geographical areas. Therefore, future research can replicate this study in other service sectors and different countries. Second, since this study was based on the cross-sectional survey to respondents, the findings might be affected by the respondent's memory bias. Future research needs to adopt a longitudinal design. A third limitation is regarding the sample of this study. This study used a convenience sampling method consisting of 121 responses. Future research can overcome this limitation by taking a larger, randomly-selected, sample which may provide a more comprehensive result.

Conclusion

This study investigated the impact of perceived justice with service recovery on satisfaction and word of mouth intention in a university setting. Based on the responses from the 121 management undergraduate students, the findings of this study found that distributive and procedural justice have a significant and positive relationship with recovery satisfaction. However, there was no significant relationship between interactional justice and recovery satisfaction. The results also found that recovery satisfaction has a positive relationship with word of mouth. Moreover, the results of this study confirmed that recovery satisfaction mediates the relationship between perceived justice with service recovery and word of mouth in all perceived justice dimensions except for distributive justice.

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Table 2. Results of the Factor Analysis

Variables	Components		
	1	2	3
Distributive Justice			
DJ1	.131	.862	-.083
DJ2	.021	.862	-.024
DJ3	-.063	.877	.086
DJ4	-.007	.805	.177
Procedural justice			
PJ1	.950	.003	.055
PJ2	.922	.025	.272
PJ3	.912	.040	.337
PJ4	.901	.030	.376
Interactional Justice			
IJ1	.383	.020	.891
IJ2	.311	.102	.913
Eigenvalue	4.653	2.872	1.062
Variance Explained [%] – Total 85.87%	36.61	29.18	20.06
<i>KMO</i> .806			

Table 3. Reliability Statistics of the Factors

Constructs	No of Items	Remain	Items Dropped	Cronbach Alpha	n
Distributive Justice	4	0	0	0.875	121
Procedural justice	4	0	0	0.970	121
Interactional Justice	2	0	0	0.947	121
Recovery satisfaction	4	0	0	0.920	121
Word of Mouth	3	0	0	0.668	121

Table 4. Results of Regression Analysis

	Std. Beta	t-value
<i>Independent Variables</i>		
Distributive justice	0.111	2.301**
Procedural justice	0.801	13.531***
Interactional justice	0.067	1.120
F Value		106.896***
R ²		0.733
Adjusted R ²		0.726

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.00$ **Table 5. Results of Regression Analysis**

	Std. Beta	t-value
<i>Independent Variables</i>		
Recovery satisfaction	0.639	9.051***
F Value		81.924***
R ²		0.408
Adjusted R ²		0.403

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.00$ **Table 6. Mediation results**

Variable	IV >DV	----- IV--- Med	> IV + Med DV	---> Conclusion
Distributive justice → WOM	.027	.111**	.012	No mediation
Procedural justice → WOM	.111**	.801***	.102**	Partial mediation
Interactional justice → WOM	.810***	.067	.787***	Partial mediation
Recovery Satisfaction = 352***				