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Investigating consequences of service recovery performance: emotional response, perceived value and customer experience

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Abstract

Creating long-term bonds between a company and its customers results in competitive advantage in complicated competitive environment of today. So, Service providers are in a crucial position to shape this link and are able to bolster relationships with the customers through the higher performance of service recovery. Customers often shape their opinions on service quality of the firm based on how well the frontline employees perform. The purpose of current study is to provide a service recovery model to investigate three consequences of service recovery include recovery impact on emotional response, perceived value and customer experience. After reviewing and applying the related literature on the research topic, a questionnaire designed and distributed. The statistical population of this study is composed of all the customers of the Tejarat bank's branches in the Tehran. The collected data have been analyzed using SPSS 22 and smart pls 2 software. As the result shows, all of the hypothesis proposed in this study have been confirmed.

Key words: service recovery performance, emotional response, perceived value, customer experience.

Introduction

acquiring a reputation through offering perfect services to the customers enables organizations to achieve competitive advantage (Lai et al., 2006). Hence, service quality could be defined as the core of the service promise (Lai, Liao, & Zhu, 2006). service recovery is a cause for concern for organizations (Hassan, 2015). For the banks customers, the service recovery has been emerged as the most significant factor of global satisfaction (Chebat & Ben-Amor, 2010). Drastic changes in all fields of customer service have influenced the banking sector (Rejikumar, 2015).

In turn, profitability, revenues, growth and reputation of an organization is positively affected by this process (Hassan, 2015). In banking industry, customer services is a matter of great importance and the main strategy of gaining competitive advantage is delivering the successful services to customers. Inasmuch as banking industry is one of the most vulnerable industries against service failure, retail banking has been selected as the sector of this study. In terms of quantity of grievance, this sector is ranked the third (Tax , Brown & Chandrashekaran, 1998).

New challenges in the field of Iran's banking and commerce activities have been accrued by privatization, globalization and fast deregulation, also to overcome the emerging huge demand for more effective banking services, banking industry scenario in Iran has been reviewed recently (Ronaghi, Dehdarizadeh, Safaee, & Asadpoor, 2012).Further, banks need to structural changes and improvement in process to expedite the service recovery solutions to elevate the customer evaluations favorably (Valenzuela, Cooksey, Chandralal, & Hassan, 2013). Considering service recovery in the context of banking services is not fully covered and also investigating three consequences of service recovery in a model and especially in banking industry of Iran is almost neglected which has emerged as a vital requirements of survive in competitive environment of banking industry in this country.

Literature review

Service Recovery (SR) could be described as a situation in which the mistake or failure of the service delivery transforms into a suitable state by taking an acceptable action. Proper implementation of service recovery permits service-providers to recover customers trust, diminish further potential losses and improve customer loyalty (El-Helaly, Ebeid, & El-Menbawey, 2015). Customer service provider seems to be an important source of competitive strength as the variety in demand as well as supply grows because of competition (Nwokorie, 2016). del Río-Lanza, Vázquez-Casielles, and Díaz-Martín (2013) argued that consumers' emotions could be impacted by the service provider's efforts to recover the services. The proper respond of service personnel to Service personnel to a customer complaint can improve customer's joyful mood (Chang, Ho, & Tseng, 2015). Mirani, Heidarzadeh Hanzaee, and Bameni Moghadam (2015) showed that fair service recovery experienced by consumers will increase their positive emotions and reduce negative ones. Implementation and management of recovery systems designed to elicit positive evaluative judgments from consumers is possible through a better understanding of the nature and causes of the emotions experienced by customers during service recovery (Schoefer & Ennew, 2005). Bettencourt and Brown (1997) Stated that by offering ''little extras'' and spontaneous exceptional service for customer satisfaction and positive emotional responses during the service encounter enables contact employees to ''delight'' the customer. Smith and Bolton (2002) stated that customers' satisfaction judgments and recovery effort evaluations could be influenced by the customers' emotional responses to service failures and the impact of emotions differ across industry settings.

H1: service recovery performance has a significant and positive influence on emotional response.

Customer perceived value is clarified as "the consumer's overall assessment of the utility of a product based on the perceptions of what is received and what is given"(Safaei Mazid, 2012). Since quality impacts value, customer satisfaction and repurchase intention, quality management is a matter of great importance. The perception of quality has a direct impact on the perception of value and the quality and the value of products/services are closely related (Choi & Kim, 2013). According to the conducted researches to examine the relationships between service quality and customer's perceived value in conventional retailing and online shopping, most of the empirical researches have mentioned that service quality will impact perceived value positively (Kuo, Wu, & Deng, 2009). Daskin and Kasim (2016), conducted a research to investigate the impact of service recovery on perceived value in a service industry context and found significant relationship between them.

Chang, Ho, and Tseng (2015) stated that the customer interactive justice could be escalated by the psychological dimension of service recovery, in addition perceived emotional value might be increased through this dimension. Positive influence of perceived value on brand loyalty has been confirmed by most of the researches (Moosa & Hassan, 2015). Diverse effects of perceived value on brand popularity, satisfaction, and brand loyalty have been found in a study conducted by Rad, Elahi, and Tazeabad (2014), and also they concluded that brand loyalty has been more important than brand popularity for customers. Moosa and Hassan (2015) found that overall customer perceived value is highly correlated with customer satisfaction and brand loyalty. Abdolvand and Norouzi (2012) showed that customer perceived value leads to a situation in which customer act as the firm voice among colleagues and other firms, also considers maintaining his/her interactions with firm, becomes more loyal to service provider and consequently free promotion is conducted in market and persistent relationships with customers is established along with marketing goals of firm.

H2: service recovery performance has a significant and positive influence on perceived value.

Customer experience could be defined as the accumulation of all experiences of a customer with a service provider during his/her relationship with that provider which is the outcome of the direct interaction with the offered services (Morais et al., 2012). Customer will have an experience; good, bad or indifferent, regardless of type of the product or service purchased or received by a customer, i.e. a service always comes with an experience (Carbone & Haeckel, 1994) and however mundane the product or service might be, an opportunity for emotional engagement would be provided by all service encounters (Berry & Carbone, 2007). Customers would be satisfied with the store if they have a positive experience with the service recovery process (Chumpitaz & Paparoidamis, 2005). While a service is the process or activity, the customer's experience is their personal interpretation of the service process and their interaction and involvement with this process during their journey through a series of touch points, and how customers feel about those things (Johnston & Kong, 2011).

H3: service recovery performance has a significant and positive influence on customer experience.

Proposed model

The hypothesized relationships proposed in this study has been illustrated in figure 1. Totally, 3 hypotheses have been developed based on the theoretical and empirical backgrounds. The proposed model hypothesizes that having the remarkable performance in term of recovering the failed services will affect

the customer's emotional response, value perceived by the customers and finally will create considerable valuable experience for them.
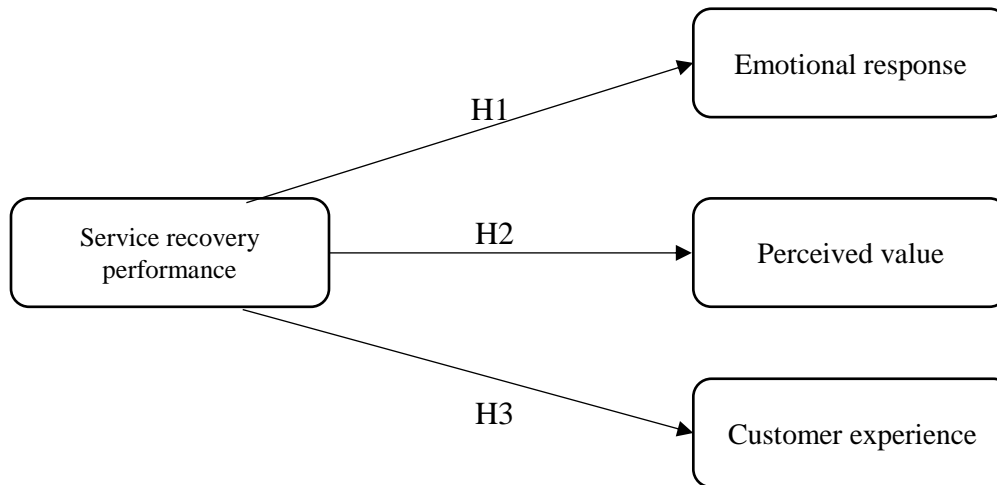

Figure 1: research conceptual model

According to the importance of service recovery performance in banking industry, this sector has been chosen to collect the required data to test the hypothesis. Tejarat bank is one of the most important banks in Iran that coverage the whole range of customers and this bank is one of the largest Iranian banks in terms of the number of branches. Hence, research statistical population of this study consists of all customers of Tejarat bank's branches in Tehran city, therefore, the population is considered as unlimited statistical population. To obtain the sample size (due to the unlimited statistical population), unlimited sample size Cochran formula has been used. So, the study sample size encompasses 384 individuals:

$$n = \frac{z_{\frac{\alpha}{2}}^2 \, p(1-p)}{\varepsilon^2} = \frac{(1.96)^2 \times 0.5 \times 0.5}{0.05^2} \cong 384$$

According to the geographical position of Tehran which is divided into 5 main regions (North, South, Center, East and West), so the cluster random sampling method has been used in this research (which is a stratified random sampling method based on geographic area). In order to measure the proposed constructs of the current research, after conducting a thorough review of the existent and relevant literature, validated scales as shown in table 1, have been extracted and adopted to this study.

Reliability analysis has been established by testing whether the items grouped under a factor are internally consistent and stable (Nikbin, Ismail, & Marimuthu, 2010). The reliability of the scales have been ascertained with the help of Cronbach alpha and composite reliability. according to the result, scores of the Cronbach's alpha for all of the constructs have been higher than preferable scores of 0.70, illustrating that the measurement scales of the constructs have been stable and consistent in measuring the constructs (Cavana, Delahaye, & Sekaran, 2001).

To assess composite reliability, Hair et al. (1998) have suggested a threshold value of.70, all of the composite reliabilities have been higher than 0.7, indicating adequate internal consistency. Cronbach's alpha and composite reliability for the 6 constructs has been provided and summarized in Table 1. Convergent validity for the measurement-scale items has been obtained based on high factor loadings on the intended variables and AVE estimates, (Fornell & Larcker, 1981). AVE value of at least 0.5 indicates sufficient convergent validity, meaning that a latent variable is able to explain more than half of the variance of its indicators on average (Henseler, Ringle, & Sinkovics, 2009). The factor loadings or regression assessment of latent to the experiential variable should be more than 0.50 (Umrani, Ahmed, & Memon, 2015).

According to the factor loadings demonstrated in table 1, all indicators loaded on the proposed constructs has been significant at p <.001, the average variance extracted (AVE) has been more than the.50 cut-off for all constructs.

Table 1: reliability and validity of measures.

Latent variables	Source of questions	Cronbach alpha	CR	AVE	Question symbol	Factor loadings
Service recovery performance	El-Helaly, Ebeid, and El-Menbawey (2015), Liao (2007)	0.933	0.942	0.508	SR1	0.7276
					SR2	0.6087
					SR3	0.5644
					SR4	0.6117
					SR5	0.7314
					SR6	0.6764
					SR7	0.8451
					SR8	0.7879

						SR9	0.5233
						SR10	0.6411
						SR11	0.8117
						SR12	0.7278
						SR13	0.7381
						SR14	0.7149
						SR15	0.8503
						SR16	0.7517
Customer experience	7	0.862	0.894	0.550		CE1	0.8269
						CE2	0.6131
						CE3	0.7033
						CE4	0.7830
						CE5	0.7351
						CE6	0.7621
						CE7	0.7501
Emotional response	Schoefer and Diamantopoulos (2009), Price, Arnould, and Deibler (1995)	0.790	0.864	0.616		EMO1	0.6914
						EMO2	0.8486
						EMO3	0.8405
						EMO4	0.7480
Perceived value	Carlos Fandos Roig, Sanchez Garcia, Angel Moliner Tena, and Llorens Monzonis (2006), Safaei Mazid (2012)	0.842	0.884	0.562		PV1	0.6589
						PV2	0.6720
						PV3	0.7885
						PV4	0.8330
						PV5	0.8066
						PV6	0.7213

Regarding the overall quality of the research model, Tenenhaus, Vinzi, Chatelin, and Lauro (2005) Proposed the GOF as a means to validate a PLS path model globally. This measure is the geometric mean of the average variance extracted and the average R^2 for the endogenous variables. GOF is calculated using the following formula:

$$GOF = \sqrt{\overline{cummunality} * \overline{R^2}}$$

$$GOF = \sqrt{0.559 * 0.670} = 0.612$$

Wetzels, Odekerken-Schröder, and Van Oppen (2009) Suggested the baseline values of GOF as: small = 0.1, medium = 0.25, large = 0.36. According to the GOF value of 0.612, this model goodness of fit measure is large and adequately fit.

Findings

The overall model has been analyzed through SEM and proposed hypotheses have been examined. Figure 2 and figure 3 show the path coefficient and t-values. H1 which proposed a significant relationship between service recovery performance and emotional response has been supported by a positive path coefficient of 0.83 and t value of 69.40 meaning that one unit increase in quality of the performance in recovering failed services will increase emotions of the customers by the .83 unit. H2 which argues a significant relationship between SRP and perceived value has been confirmed by a positive path coefficient of 0.87 (t = 65.54). H3 has been supported by a positive standardized coefficient of 0.74 (t = 30.28) which argued that there is a significant relationship between SRP and brand loyalty. As shown above, SRP has the most impact on perceived value (0.87).
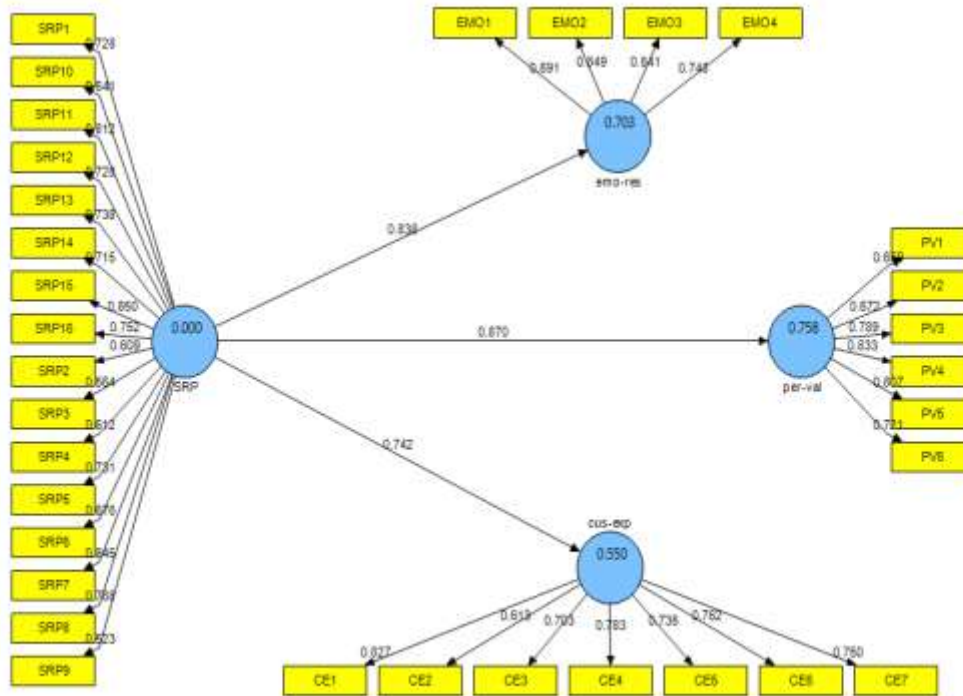
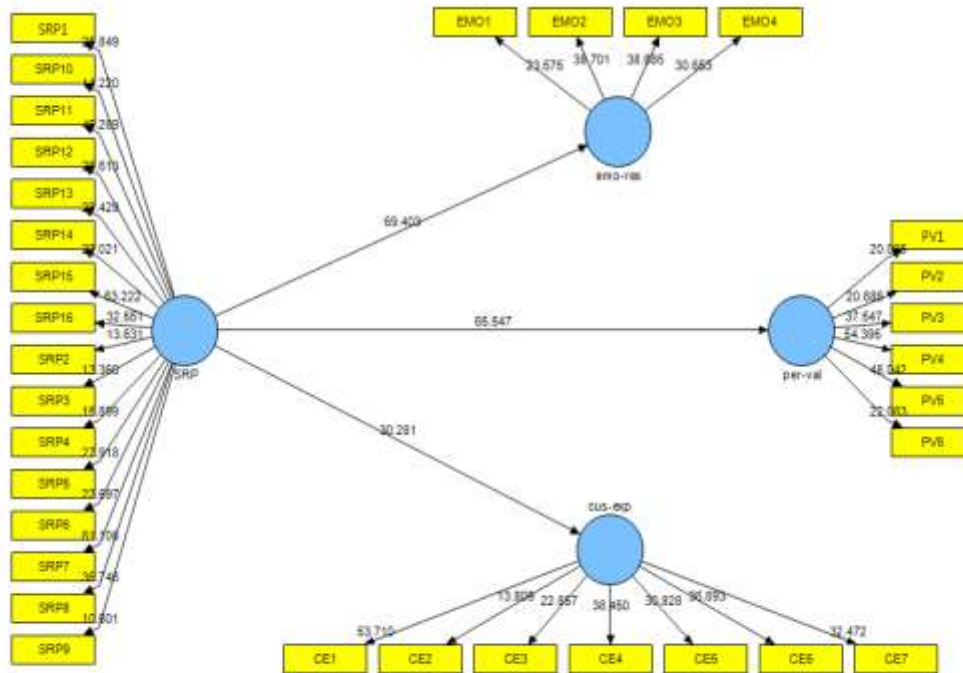Figure 2: hypotheses testing results (path coefficients).

Figure 3: hypotheses testing results (t-values).

Table 2: the structural equation model result

hypothesis	path coefficient	t-value	result
H1. Service recovery performance ▶ emotional response	0.83	69.40	Supported
H2. Service recovery performance ▶ perceived value	0.87	65.54	Supported
H3. Service recovery performance ▶ customer experience	0.74	30.28	Supported

Discussion and conclusion

Illustrating the important consequences of the service recovery in a model is the purpose of this study in contributing to the scientific research literature of serviced recovery. Hence, Customers who have had pleasant experience with the services and also their perception have been deeply affected by receiving fair service recovery outcome, will raise positive emotions and decrease negative ones. Also, customer emotions play a crucial role in building emotions raised through satisfaction with proper and expected recovery of services. In addition, offering perfect services or appropriate recovery of them might lead to

have customers with great perceived value and pleasant experience of using company services, which finally lead to valuable results for companies through enhancing their loyalty, such as the customer's willingness to share their experience with others, this is kind of promotional tool with considerable effectiveness which has attracted many companies in today's competitive environment. Encountering service failure, should be considered as a significant opportunity for companies to capture customer's attention, change customer attitude toward company drastically and also providing bases of long-term relationship with customers, hence companies should be cautious that treating service failure as problem-solving should be avoided. Ignoring customer's complaint may result in customer losses and leads to a decline in profit, inasmuch as failures are unavoidable, identification and prediction of potential failures during offering services is the most important factor that companies should take into account, subsequently developing effective strategies to overcome service failures is a matter of great importance. On the other hand customers are divers in term of expectations, need and wants, so companies should make plans for identifying groups of customers as well as possible in order to understand the required style of treatment with different group of customers and to develop various strategies appropriate to meet different expectations of these groups. As mentioned, interaction with customers in banking industry is high and contact employees are those who have close and direct interaction with customers, so banks have to pay special attention to these employees and prepare them to deal with clients' grievances and have proper treatment with them. Finally, In the process of interaction with customers, service providers should take care to pay enough attention to include empathy, politeness, efforts and explanation in this process and provide the right outcome for them.

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