

Effects of Service Recovery on Customer Satisfaction and Relationship Retention in Catering Industry

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ABSTRACT The raise of consumer awareness in modern competitive catering markets presents that the discontented customers are likely to express the discontentment through word of mouth. Consumers would directly or indirectly express when the quality of the service process does not conform to the expectation. Service recovery therefore cannot be avoided and neglected in catering industry, and it relates to the service performance and the customer retention. It was found in the past research that, when there was a service failure, the perceived justice of customers towards the service recovery policies of an enterprise could enhance the customer satisfaction and promote the reliability towards the catering enterprise so that they would be willing to retain the transactional relationship. For this reason, this study would like to discuss the relations between service recovery and relationship retention and explore the mediating effects of customer satisfaction. The customers of Noble Family in northern Taiwan, as the research samples, are distributed 500 copies of questionnaires. Total 267 valid copies were retrieved, with the retrieval rate 53%. The research findings are concluded as - 1. Service recovery presents significant correlations with customer satisfaction. 2. Customer satisfaction shows remarkable correlations with relationship retention. 3. Service recovery reveals notable correlations with relationship retention. 4. Customer satisfaction appears partial mediating effects on the correlations between service recovery and relationship retention.

INTRODUCTION

Commonwealth Magazine investigated Top 1000 enterprises with the rapidest growth on various revenues, including Happiness, Green, Health, and Action, in 2012. From the data in the past five years, four mainstream markets grew more than 30% in 2007-2011, clearly presenting the explosive effort. Tourism and catering industry, related to Happiness in the four mainstream industries, increased the revenue about as much (46%). Moreover, one out of five enterprises in top 50 service enterprises was retail and catering service related enterprises this year, showing the potential business opportunities of catering industry in Taiwan. According to Department of Statistics, Ministry of Economic Affairs (2012), the total revenue of domestic catering industry

was 372 billion dollars and the annual growth rate 7.94% in 2011, and the annual revenue revealed positive growth since 2004. The revenue also appeared slight growth even when encountering the economic impact of the financial tsunami few years ago, showing the growth and competitiveness of domestic catering markets. Hospitality industry is labor-intensive, which obviously requires more manpower, and the quality of human resources is rather critical. Each part of the services, from making reservations, ushering, ordering, serving, to billing, should be carefully completed the standard processes. The responses of the staff are further tested when the customers propose special service requests. However, the high turnover rate in catering enterprises has increased the difficulty in management.

Based on Nature of Service Demands and Types of Service Organization and Customer Relationship, catering industry presents the characteristics of wide waviness with time, exceeding production capacity at peak hours, non-continuous delivery nature, and informal relation-

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ship between the service organization and the customers. Moreover, catering services are high-touch services as the customers are in the service areas directly participating in the services in the process and touch with the service personnel (Lovelock, translated by Chou 1999). Such characteristics increase the difficulties and challenges of management in catering industry that the service recovery strategies after the service failure become the primary tests for catering enterprises. Relationship Retention of existing customers is critical in making profits in catering industry (Chen and Chen 2014). Service Recovery policies in catering industry are also the key issues in the management of customer relationship. The success would highlight the competitiveness of the enterprise in catering industry.

Definition and Hypothesis

Service Recovery

Service Recovery refers to the actions of service suppliers when noticing the customers perceiving service failure and making complaints (Grönroos 1988); the cycle of the service suppliers coping with the complaints of discontented customers and offering new services to the customers is Service Recovery (Andreassen 2000). Weng (2011) indicated Service Recovery as the measures a company adopting to change the discontented customers into satisfactory and loyal ones when there was service failure. Boshoff (2007) regarded Service Recovery as the actions a service company adopting to recover the customer's satisfaction after the service failure. Beugre and Viswanathan (2006) referred Service Recovery as a service supplier's actions to reduce or recover the customer's loss caused by the service failure. Río-Lanza et al. (2009) proposed that Service Recovery was the response and process of a service supplier attempting to make up for the mistakes.

Sabharwal et al. (2010), with the dimensions of justice theory, measured the satisfaction of complainers and the effects of the satisfaction on the word-of-mouth and repurchase intention after experiencing the service recovery and discussed the behaviors of the ones without complaints. The dimensions of Distributive Justice, Procedural Justice, Interactional Justice, proposed by Sabharwal et al. (2010), are utilized for measuring Service Recovery in this study.

Customer Satisfaction

Overall speaking, Customer Satisfaction is a customer's evaluation of the purchased products or accepted services in the comparison between the experiences and the real situation (Hunt, 1977). Price et al. (1995) argued that either rational utilitarianism or sensual pleasure would induce the positive/negative emotions of customers, which would further affect the satisfaction evaluation. Kotler (2000) pointed out satisfaction as the ex-post evaluation of a selected project being at least consistent or expected. Anderson (1973) organized four theories to explain the factors in inconsistency.

- (1) *Assimilation Theory*: A customer would reveal cognitive dissonance when there are differences in the expectation and performance of products. The perception of the products would be adjusted to reduce the differences and remove the psychological dissonance.
- (2) *Contrast Theory*: Contrary to Assimilation Theory, a customer would perceive the product performance lower than the objective performance when the product objective performance is not as expected. On the other hand, a customer would perceive higher product performance when the product objective performance is higher than the expectation.
- (3) *Assimilation-Contrast Theory*: The theory concerns the zone of acceptance and the zone of refusal of customer satisfaction. A customer would assimilate small differences between product performance and the expectation into satisfaction. Otherwise, the obvious contrast would appear when the difference between product performance and the expectation exceeds the zone of acceptance.
- (4) *Generalized Negativity Theory*: A customer would present negative attitudes to a product and reduce the perception of the product performance when the expectation and the product performance appear differences, no matter large or small, positive or negative.

In terms of the measurement of satisfaction, the dimensions of Product Price, Service Efficiency, and Perceived Value, proposed by Chen (2009) are covered in this study.

Relationship Retention

Retaining Customers in Relationship Retention stresses on the permanent relationship, i.e. a type of loyalty, where a company focuses on retaining the existing customers to create the loyal customers (Sim et al. 2006). Zeithamal et al. (1996) explained that a customer's positive evaluation and preference for a company would enhance the purchase or pleasant pay for the premium; such customer behaviors represented the integration with the company. When a customer perceived worse service performance of a company, preparing for leaving the company, or spending less on the company were the behavioral signals. Ranaweera and Prabhu (2003) defined customer retention as the future retention tendency of customers and service suppliers. Akhter (2010) considered that purchase intention presented the behavioral results in the connection from intention to behaviors; favorable intention could possibly result in repurchase better than unfavorable intention. To Retain Customers, Relationship Retention emphasizes the permanent relationship, as a type of loyalty, where a company focuses on the existing customers to create the loyal customers (Sim et al. 2006). Researchers often measured the intention of Relationship Retention with repurchase intention or customer retention (Ranaweera and Prabhu 2003; Akhter 2010). The scale proposed by Ramirez, Robinson, and Lawson (2008) for discussing the satisfaction with service failure and the intention of repurchase behavior is applied to measuring Relationship Retention in this study.

Deduction of Research Hypothesis

Taylor (2004) indicated that service enterprises should be able to reduce customer complaints when dealing with customer-related service recovery measures so as to further enhance the customer satisfaction. Accordingly, Service Recovery presents close relations with Customer Satisfaction. Customer Satisfaction after Service Recovery appears great effects on an enterprise that it is important to have the customers perceive the concerns of an enterprise with customers and the sincerity to solve problems in the service recovery. Favorable service recovery would have the customers consider the higher possibility of solving the complaints and make

more complaints to the enterprise. However, the repurchase possibility would be reduced, possibly because the consumers with higher expectation of the enterprise being able to solve complaints would be disappointed and tend to purchase services from other providers (Berry 1980; Spreng et al. 1995; McCollough et al. 2000).

Types of Service Failure and Service Recovery are also broadly studied. Regarding Customer Satisfaction, the overall satisfaction of a customer is not simply affected by the quality of service, but also influenced by the service recovery actions of the enterprise (Webster and Sundaram, 1998). A satisfied customer would remain longer relationship with the enterprise and enhance the loyalty to the company to promote the competitive advantages and profit sources of the enterprise (Kotler 2003). Feng (2010) considered that the overall service satisfaction was affected by not only the quality of services, but also the recovery measures of an enterprise.

The following hypotheses are therefore proposed in this study.

- H1:* Service Recovery presents significant correlations with Customer Satisfaction.
- H2:* Customer Satisfaction shows remarkable correlations with Relationship Retention.
- H3:* Service Recovery reveals notable correlations with Relationship Retention.
- H4:* Customer Satisfaction appears mediating effects on the correlations between Service Recovery and Relationship Retention.

RESEARCH METHODOLOGY DESIGN

Conceptual Framework of this Study

By summarizing the above literatures, the conceptual framework (Fig. 1) is drawn for this study to discuss the correlations among Service Recovery, Customer Satisfaction, and Relationship Retention.

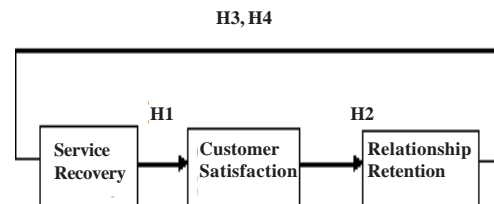


Fig. 1. Conceptual framework

Research Subject

Based on the principle of sustainable management and the spirit to serve the public, Noble Family Co., Ltd. operates the businesses with the heart. The first Noble Family Steak House was established in Banqiao in 1995. In such a short period, it has created the unique image and opened about 200 branches. Relating to the business principle of perfection as well as the rapid and keen observation and judgment, Noble Family insists on "plain prices, most comfortable enjoyment" to serve the consumers. It creates the product characteristics, constantly innovates, breaks through, and makes progress for a better extent, and pursues the quality of customer-centered services. The customers of Noble Family in northern Taiwan, as the research samples, are distributed 500 copies of questionnaires. Having deducted invalid and incomplete ones, total 267 valid copies are retrieved, with the retrieval rate 53%.

ANALYSIS AND DISCUSSION

Factor Analysis of Service Recovery

With Factor Analysis, the Service Recovery scale was extracted three factors of Distributive Justice (eigenvalue=2.067, $\alpha=0.87$), Procedural Justice (eigenvalue=1.324, $\alpha=0.81$), and Interactional Justice (eigenvalue=1.146, $\alpha=0.83$). The covariance explained achieved 80.422%.

With Factor Analysis, the Customer Satisfaction scale was extracted three factors of Product Price (eigenvalue=2.786, $\alpha=0.85$), Service Efficiency (eigenvalue=2.344, $\alpha=0.86$), and Per-

ceived Value (eigenvalue=1.992, $\alpha=0.88$). The covariance explained reached 85.149%.

With Factor Analysis, the Relationship Retention scale (eigenvalue=3.875, $\alpha=0.88$) showed the covariance explained up to 76.423%.

Correlation Analysis of Service Recovery and Customer Satisfaction

With Multiple Regression Analysis to test the hypotheses and the theoretical framework, the first regression, Table 1, showed the regression equation achieving the significance ($F=17.586$, $p<0.001$). Service Recovery appeared remarkable effects on Product Price, where Distributive Justice, Procedural Justice, and Interactional Justice in Service Recovery presented significantly positive effects on Product Price in Customer Satisfaction ($B=1.541$, $p=0.043$, $B<1.738$, $p=0.031$, $B<1.827$, $p<0.018$).

The second regression, Table 1, revealed the regression equation reaching the significance ($F=22.419$, $p<0.001$). Service Recovery showed remarkable effects on Service Efficiency, where Distributive Justice, Procedural Justice, and Interactional Justice in Service Recovery appeared notably positive effects on Service Efficiency in Customer Satisfaction ($B<1.682$, $p<0.037$, $B<2.075$, $p=0.002$, $B<2.346$, $p<0.000$).

The third regression, Table 1, presented the regression equation achieving the significance ($F=29.903$, $p=0.001$). Service Recovery revealed significant effects on Perceived Value, where Distributive Justice, Procedural Justice, and Interactional Justice in Service Recovery showed notably positive effects on Perceived Value in Customer Satisfaction ($B<1.942$, $p<0.011$, $B<1.787$, $p<0.029$, $B=2.192$, $p<0.000$). H1 therefore was agreed.

Table 1: Regression analysis of service recovery and customer satisfaction

Dependent variable → Independent variable ↓	Consumer satisfaction					
	Product price		Service efficiency		Perceived value	
Service recovery	\hat{a}	\hat{n}	\hat{a}	\hat{n}	\hat{a}	\hat{n}
Distributive justice	1.541*	0.043	1.682*	0.037	1.942*	0.011
Procedural justice	1.738*	0.031	2.075**	0.002	1.787*	0.029
Interactional justice	1.827*	0.018	2.346**	0.000	2.192**	0.000
F	17.586	22.419	29.903			
p	0.000***	0.000***	0.000***			
R ²	0.206	0.237	0.292			
Adjusted R ²	0.018	0.027	0.032			

Note: * stands for $p<0.05$, ** for $p<0.01$.

Correlation Analysis of Service Recovery and Customer Satisfaction towards Relationship Retention

With Multiple Regression Analysis to test the hypotheses and the theoretical framework, the first regression, Table 2, presented the regression equation reaching the significance (F=27.823, p=0.001). Service Recovery showed remarkable effects on Relationship Retention, where Distributive Justice, Procedural Justice, and Interactional Justice in Service Recovery revealed notably positive effects on Relationship Retention (B=1.818, p=0.016, B=1.967, p=0.012, B=2.088, p=0.004) that H3 was agreed.

The second regression, Table 2, appeared the regression equation reaching the significance

(F=33.698, p=0.001). Customer Satisfaction presented significant effects on Relationship Retention, where Product Price, Service Efficiency, and Perceived Value in Customer Satisfaction showed remarkably positive effects on Relationship Retention (B=1.922, p=0.014, B=2.006, p=0.008, B=2.120, p=0.000) that H2 was agreed.

Analysis of Mediating Effects of Service Recovery and Customer Satisfaction on Relationship Retention

With Hierarchical Regression Analysis, Table 3, the mediating effects of Customer Satisfaction revealed the notable explanation of Service Recovery on Relationship Retention (F=27.823, p<0.001). According to Model 2, the

Table 2: Regression analysis of service recovery and customer satisfaction

Dependent variable→ Independent variable↓ Service recovery	Relationship retention			
	<i>â</i>	<i>ñ</i>	<i>â</i>	<i>ñ</i>
Distributive justice	1.818*	0.016		
Procedural justice	1.967*	0.012		
Interactional justice	2.088**	0.004		
Customer satisfaction				
Product price			1.922*	0.014
Service efficiency			2.006**	0.008
Perceived value			2.120**	0.000
F	27.823	33.698		
p	0.000***	0.000***		
R ²	0.172	0.188		
Adjusted R ²	0.016	0.021		

Note:* stands for p<0.05, ** for p<0.01.

Table 3: Hierarchical regression of service recovery and customer satisfaction towards relationship retention

Dependent variable→ Independent variable↓ Service recovery	Relationship retention			
	Model 1		Model 2	
	<i>â</i>	<i>ñ</i>	<i>â</i>	<i>ñ</i>
Distributive justice	1.818*	0.016	1.673*	0.035
Procedural justice	1.967*	0.012	1.742*	0.026
Interactional justice	2.088**	0.004	1.864*	0.019
Customer satisfaction				
Product price			1.844*	0.021
Service efficiency			1.917*	0.015
Perceived value			1.996*	0.010
F	27.823	42.381		
p	0.000***	0.000***		
R ²	0.172	0.433		
Adjusted R ²	0.016	0.097		

Note:* stands for p<0.05, ** for p<0.01.

effects of Service Recovery and Customer Satisfaction on Relationship Retention were considered to discuss the mediating effects of Customer Satisfaction. It was found that the β of Distributive Justice notably dropped from 1.818 ($p < .05$) down to 1.673 ($p < .05$), presenting that Customer Satisfaction would reduce the direct effects of Distributive Justice on Relationship Retention. The β of Procedural Justice significantly dropped from 1.967 ($p < .05$) down to 1.742 ($p < .05$), showing Customer Satisfaction would reduce the direct effects of Procedural Justice on Relationship Retention. The β of Interactional Justice notably dropped from 2.088 ($p < .01$) down to 1.864 ($p < .05$), revealing Customer Satisfaction would reduce the direct effects of Interactional Justice on Relationship Retention. The research results presented the mediating effects of Customer Satisfaction on the correlations between Service Recovery and Relationship Retention that H4 was agreed.

CONCLUSION

From the research results, the correlations of the variables are consistent with the past research that Service Recovery would positively affect Customer Satisfaction, Customer Satisfaction would influence Relationship Retention, and Service Recovery shows significant correlations with Relationship Retention, on which Customer Satisfaction appears mediating effects. Such results reveal the service recovery strategies of the service suppliers through the perceived justice of the customers measuring the recovery (including Distributive Justice, Procedural Justice, and Interactional Justice), covering the actual result, process, and method of the recovery and the communications of the personnel dealing with the complaints, would affect the customer's satisfaction with the service recovery strategies. After experiencing the service recovery strategies provided by the service supplier, the consumers would evaluate the reputation and the goodwill of the catering enterprise as the customer satisfaction. The positive intention presented on the professional knowledge, ability, and service process would affect the customers' intention of Relationship Retention, including the positive intention of repurchase intention or customer retention.

RECOMMENDATIONS

Aiming at Service Recovery, Customer Satisfaction, and Relationship Retention in catering industry, the research results show the importance of Service Recovery. The following suggestions therefore are proposed in this study.

1. Applying suitable recovery measures aiming at customers' demands. Catering enterprises are suggested to understand the differences between customer expectation and real recovery when failure occurs, so as to promote the satisfaction after Service Recovery. When dealing with service failure, a catering enterprise should precede recovery measures aiming at distinct recovery levels. In this case, a catering enterprise should empower the frontline staff to independently make decisions, identify the seriousness of service failure, and appropriate help the customers. The catering enterprise should also praise or reward such staff.
2. Establishing service failure response criteria. Catering enterprises are suggested to have the customers perceive the polite, empathetic, respectful, and concerning attitudes of the enterprise towards the communication, explanation, and problem-solving with recovery measures and in the recovery process. In the process of dealing with failure and complaints, Customer Satisfaction could be enhanced by the catering enterprise having the customers perceive justice after Service Recovery, the designed complaint channels being fluent, the management of failure being rapid, and the kind, sincere, and empathetic attitudes to have the customer perceive the sincerity. A catering enterprise could search for a procedure through the experiences in service failure, develop the complete service recovery criteria, and further improve the operation process to reduce the failure and perfect the service process.
3. Having the customers perceive multiple compensation. When encountering service failure, it is not necessary to treat it as problem-solving, but regard it as an opportunity to create the customers' repurchase. Consequently, service failure could be turned to a positive effect by effectively practicing the recovery and further create the strong expectation of customers towards the catering enterprise.

It is suggested that catering enterprises should avoid repeated failure as much as possible. A small but repeated failure could result in the customers' doubt and discontent. The details in the service delivery process should be constantly inspected to reduce the failure and look for more efficient services. In regard to the service recovery, the small failure could be recovered for several times so that the customers perceive the multiple recoveries and enhance the satisfaction.

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