

PROCEEDING
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**INNOVATION AND BEST PRACTICES
IN BUSINESS MANAGEMENT:
“HOW TO ENHANCE
ORGANIZATIONAL
EFFECTIVENESS ON FREE
TRADE AREA IN ASIA?”**

Universitas Surabaya, March 17th 2012



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EDITED BY: DR. HENDRIKUS HENDRIKUS, DR. HENDRIKUS HENDRIKUS, DR. HENDRIKUS HENDRIKUS

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THE EFFECTS OF SERVICE RECOVERY ON CUSTOMER SATISFACTION IN RESTAURANT INDUSTRY

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Abstract

The primary objective of this study is to investigate the effects of service recovery on customer satisfaction in restaurant industry. Specifically, it examines the perception of “justice” in service recovery and how it affects the level of satisfaction and behavioral outcomes.

Data in this research were collected through a survey using a structured questionnaire. The 316 respondents were analyzed according to whether they did or did not make a complaint to the restaurants.

The findings of this research showed that the complainants’ level of satisfaction with service recovery was significantly affected by perceived justice. The behavioral outcomes of the complainants in terms of trust, word-of-mouth (WOM) and loyalty were also found to be affected by their satisfaction with the service recovery. T-tests confirmed that the levels of trust, WOM and loyalty were significantly higher for those respondents who were satisfied with the service recovery compared with those who were dissatisfied. Further t-tests also indicated that respondents who were initially satisfied with the service expressed greater trust and positive WOM compared with the satisfied complainants. Finally, the study showed that dissatisfied complainants would exhibit a lower level of trust and were more likely to engage in negative word-of-mouth behavior compared with those who were dissatisfied initially but chose not to complain.

Keywords Customer satisfaction, Complaints

INTRODUCTION

Current condition of business competition is very tight, especially in the service sector. This is due to low entry barriers in the services sector. As a result, new competitors will come easily. Therefore, customer satisfaction becomes an important aspect of business continuity services. Ekiz (2009) states that to attain and retain a pool of loyal and profitable customers, companies try to provide a flawless high quality service to their customers (Kotler and Armstrong, 2006). Nevertheless, as hard as they try, even the best service companies cannot eliminate problems utterly (Gursoy, 2007a; Hart *et al.*, 1990). Most of the time companies only hear from few of these problems through consumer complaints (Hedrick *et al.*, 2007; Plymire, 1991). The factor that distinguishes between few successful companies from the remaining not so successful ones is how they view these complaints as opportunities (Zem ke and Anderson, 2007).

The importance of customer satisfaction has been the attention of researchers and business consultants. A study of customer satisfaction conducted from various viewpoints. According to Chu, Gerstner, and Hess (1998), many researchers and business consultants have emphasized the importance of defensive marketing in recent years. As opposed to offensive marketing, which is aimed at attracting new customers, defensive marketing is aimed at keeping existing customers satisfied and preventing them from defecting to competitors (Hauser and Shugan, 1983; Schmidt and Kernan, 1985; Westbrook, 1981; Woodruff, Cadotte,

and Jenkins, 1983). To keep existing customers satisfied, companies have different policies and systems to handle complaints by dissatisfy customers.

Currently, customer dissatisfaction is an important concern for companies. Some researchers point out the importance of retaining customers, including customers who felt dissatisfaction with the products / services consumed. Kim and Lee (2010) stated that customer satisfaction is a compelling issue because in the service industry customer retention is more important than is attracting new customers (Kim, Ng, & Kim, 2009; Lee, Lee, & Yoou, 2000; Namkung & Jang, 2007; Park, Robertson, & Wu, 2004). Reichheld and Sasser (1990) show that retaining customers has a stronger impact on company profit than does attracting new customers. They determined that to maximize profits companies should strive for zero defection through customer satisfaction. For instance, a 5% improvement in the customer retention rate resulted in a 25–85% increase in the company's profit. Gupta, Lehmann, and Stuart (2004) state that a 1% increase in the customer retention rate had a 5% influence on the company's profit.

Attention to customers is becoming increasingly important because of rapid growth in the services sector. The service sector has the characteristics of the close relations and a more intensive interaction with customers. The customer is part of the process itself. Watt (2007) states, customer or interactive service work, i.e. that which involves the provision of a service based upon either face-to-face or voice-to-voice contact with the public, is a major growth pole of the 'new economy' as seen in the expansion of industry sectors such as hospitality, leisure, retailing and call centers. It is often claimed, not least by industry representatives, that interactive service work represents a new form of non-regimented employment that offers great possibilities for discretion and even creativity in how workers interact with customers and certainly more possibilities than existed within manufacturing industry (Butler and Watt, 2007, pp. 135-47).

One part of the hospitality industry is the restaurant industry. Restaurant industry is the industry's fastest growing and most important role in the economy. Studies Wahab (2003) and Suyitno (2001) conducted in several countries found evidence that tourists travel on average spend 50% of travel expenses for hotel accommodation and meals. Food and beverage (restaurant) is one component of tourist activity (Rahayu and Andajani, 2010).

In addition, human life is inseparable from the activities associated with food. Conditions of public life today is characterized among others by: dual carrier household (making ever increasing level of prosperity of the family), but the opportunity to prepare their own meals for the family be quite difficult at this time. Thus, the restaurant became an alternative in meeting the food needs for the family. Kennedy, Way, and Ryan (2003) stated that for the past three decades, the restaurant industry has consistently posted yearly sales gains. Today's consumers regard food prepared away from home as a necessity. Conveniences, a need for socialization and gains in real disposable income have led consumers to spend more of their food dollars in restaurants (Rahayu and Andajani, 2010).

Restaurant industry growth rate is independent of consumer behavior towards food needs. Survey conducted by Nielsen Indonesia for 26 202 Internet users in 52 countries (in which 7060 of them in Asia Pacific and 510 in Indonesia) showed that as many as 44% of global consumers eating out 1-3 times a week. While 39% just enjoying eating out once a month, even less (<http://caricara.com/2009/04>).

Consumers in Asia Pacific do not eat at home more often than consumers in other regions. In fact, in Hong Kong, 31% of consumers eat in restaurants every day. Indonesia's consumer spending trends indicate that they are more concerned with the needs of food compared to other needs. Survey in five major cities (Jakarta and surrounding areas, Surabaya, Medan, Semarang and Bandung) concluded that the sale of the food sector in January 2009 increased by 13.5%. Food sector contributed 26.4% of Indonesia's economic growth. Nielsen

survey in the first quarter of 2009, showed that 77% of consumers expressed more concerned with food shopping (<http://caricara.com/2009/04>).

Rahayu and Andajani (2010) states that the average Indonesian consumer do not eat at home is as much as three times a week. As many as 44% of consumers said it was not home for dinner 1-3 times a week. Of these 44%, 5% reported eating in restaurants every day. Surabaya city respondents do not eat breakfast at the restaurant, but 82% of Surabaya's consumers prefer to dining outside the home. As for the lunch is only 18% only (<http://caricara.com/2009/04>). To meet the needs of consumers eating outside the home, there are 996 restaurants in Surabaya of various types (http://telpon.info/restoran_rumah-makan/surabaya).

In line with its growth, the restaurant industry will pay attention to what the consumer demand for the restaurant industry. Edralin and Castillo (2001) states that the raising quality standards and improving service has also been focal points of competition, particularly in the fast food sub-sector. Players give incentives and compensations to motivate employees to be efficient on their jobs and thus help maintain the fast food outlet's high standards of quality service and cleanliness. Also, a major importance in a fast food and restaurant is courteous and friendly personnel. Not surprisingly, a speedy service is among the more salient attributes people would highly expect from a fast food/restaurant.

Fornell and Wernerfelt (1987) states that a truism that the way to retain customers is to treat them well. However, all firms cannot achieve 100% customer satisfaction for all customers all the time. There will always be some customer dissatisfaction due to a variety of causes (including, at least for certain types of products, customer desire for variety).

LITERATURE REVIEW

1. Customer Satisfaction

Studies conducted by Ennew and Schoefer (2003) in the tourism industry show that, one of the most basic principles in marketing is that organizational performance is enhanced by satisfying customers. Consequently, organizations involved in the delivery of tourism and tourism-related services might reasonably be expected to have customer satisfaction as a key target. In practice, not all customers will be satisfied and few organizations can guarantee to deliver 'zero defects' service every time. Some service failures and customer dissatisfaction may be inevitable, particularly in tourism.

Research related to customer satisfaction is also conducted by Richins (1983) for leasing products. Marketing firms have traditionally been interested in customer satisfaction, and with good reason. Richins (1983) avers that customers continue to purchase those products with which they are satisfied, and in telling others about particularly leasing products, they may influence the brand perceptions of those with whom they communicate

Andaleeb and Conway (2006) emphasize that customer satisfaction is at the heart of marketing. The ability to satisfy customers is vital for a number of reasons. The current issue and full text archive of this journal is available at them more often to relieve cognitive dissonance and failed consumption experiences (Oliver, 1987; Nyer, 1999). If service providers do not properly address such behavior, it can have serious ramifications. In extreme cases of dissatisfaction, customers may resort to negative word-of-mouth as a means of getting back. A disgruntled customer can, thus, become a saboteur, dissuading other potential customers away from a particular service provider. Customer satisfaction is defined here in Oliver's (1997) terms: that it is the consumer's fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provides a pleasurable level of consumption related fulfillment. In other words, it is the overall level of contentment with a service/product experience.

Satisfying customers is to be done consistently. These efforts must be improved continuously by the company. Even if a company is committed to a high level of quality, mistakes

and incidents leading to dissatisfaction are unavoidable. So the only way out is providing a good recovery system as well as knowing how customers react to a critical incident. The better a company deals with a complaint, the higher the (complaint) satisfaction will be. According to the recovery paradox, the successful resolution of a complaint may even lead to a higher overall satisfaction than before the critical incident, thus leading to higher profit for the company (Zaugg, 2006).

According to Kau and Loh (2006), customer satisfaction is crucial to the survival of any business organization. However, service failures are often unavoidable due to human and non-human errors. Such failures to perform a service inevitably lead to customer dissatisfaction. The consequences can be dire to a service provider. The breakdown in relationship can contribute to a rise in customer complaints, bad word-of-mouth communications and defections. It has been found that a dissatisfied customer may relate his or her bad experience with the service provider to 10 to 20 other people (Zemke, 1999), thus eroding potential patronage of the service provider. It has therefore been recognized that once a service failure occurs, it becomes crucial that service recovery, defined as the action taken by the service provider to seek out dissatisfaction (Johnston, 1995) and as a response to poor service quality (Groenroos, 1988), be effectively carried out to reduce the damage in relationship and to pacify the dissatisfied customer. It has also been suggested that effective service recovery had led to higher satisfaction compared to service that had been correctly performed on the first time (Etzel and Silverman, 1981; McCollough and Bharadwaj, 1992). This phenomenon of service recovery paradox has also been discussed more recently by McCollough et al. (2000), Smith and Bolton (1998) and Tax et al. (1998).

Although much research has been conducted on customer satisfaction, but the measurement of customer satisfaction is not easy to do. Hallowell (1996) utters that the service management literature argues That customer satisfaction is the result of a customer's perception of the value received in a transaction or relationship – where value equals perceived service quality relative to price and customer acquisition costs (see Blanchard and Galloway, 1994; Heskett *et al.*, 1990) – relative to the value expected from transactions or relationships with competing vendors (Zeithaml *et al.*:1990). Loyalty behaviors, including relationship continuance, increased scale or scope of relationship, and recommendation (word of mouth advertising) result from customers' beliefs that the quantity of value received from one supplier is greater than that available from other suppliers. Loyalty, in one or more of the forms noted above, creates increased profit through enhanced revenues, reduced costs to acquire customers, lower customer-price sensitivity, and decreased costs to serve customers familiar with a firm's service delivery system (see Reicheld and Sasser, 1990).

Johnston (1995) said that despite all attempts by a firm to maintain positive customer satisfaction, mistakes do happen on occasion. A customer may accidentally be overcharged for an item, a product may fail to operate to the customer's expectations, a restaurant may deliver poor service or food quality – and the customer complains. It is these mistakes or service failures which can make or break a firm. Disgruntled customers cost companies millions of dollars in revenue each year since 90% refuse to repurchase from an offending company, if given a choice (Business Week 1984). Whether or not a firm recovers from a failure depends on the way that the firm responds to the complaint. Responding to complaints seems like a logical and simple task. Nevertheless, service providers' responses to complaints often reinforce negative reactions by customers and lead to lost business (Hart, et. al.1990). Another danger facing managers who fail to respond effectively is negative word-of-mouth. Customers who have a negative experience with a provider share their experience with 11 other people on average, whereas customers relay positive experiences to between 3 and 6 people (Business Week 1984; Hart et. al. 1990).

2. Customer Complaint Behavior (CCB)

Not all companies do business in satisfying the customer is successful. Many of those businesses fail and cause dissatisfaction. Valenzuela, et al. (2005) stated, in an ideal world, when consumers are dissatisfied they would immediately speak up so firms would have the opportunity to respond immediately by improving the quality of their services. However, not many people complain, so firms do not know that they are incurring in a service failure. Based on this, it is evident that failure in management is not necessarily through having a high percentage of consumer complaints to deal with (Zairi, 2000), rather firms should encourage consumers to speak up every time they are dissatisfied (Barlow and Moller, 1996:26). One aspect in which there is consensus among researchers is the fact that not all consumers engage in some of complaint action. In this line, Andreassen (2001) mentioned that the number of consumers who complain is lower than that of those who do not complain. Chakrapani (1998:12) suggested that only 4% of dissatisfied consumers complain, and this is due to different reasons, which are: a) consumers might not know to whom to complain, b) negative experiences related to having their complaints handled poorly, and c) consumer belief that complaining is an exercise in futility because they will be either ignored or patronized. In general, these reasons can be categorized coming from two sources: company attitude toward responses to complaints and consumer attitude toward complaining. The latter is the personal tendency of dissatisfied customers to seek compensation from the firm (Beardon and Mason, 1984).

There have been many attempts by companies to address customer dissatisfaction. These efforts did not make all the customers who are dissatisfied to complain. Why do customers choose not to complain? According Ekiz (2009), it is very well established in CCB literature that consumers, in general, are reluctant to complain and only a very low percentage of them complain (Hedrick *et al.*, 2007; Maheswaran and Shavitt, 2000). Some studies reported that between 60 percent (Andreassen, 2000) to 70 percent (Ekiz and Arasli, 2007) of all dissatisfied consumers take no action. In addition, research demonstrates that businesses are never hearing from 96 percent of their unhappy customers (Plymire, 1991). Then, 'why consumers do not complain? This question kept -and still keeping- many scholars uneasy. To solve the mystery behind this, scholars proposed and tested several constraints, such as; cost involved in complaining, not being easy, attitude towards complaining, cultural factors and so on (Chebat and Slusarczyk, 2005; Kowalski, 1996; Stephens and Gwinner, 1998; Voorhees *et al.*, 2006). Some early research underscored the financial loss to explain why people choose not to voice their dissatisfaction (Diener and Greyser, 1978; Day, 1984; Gilly and Gelb, 1982). They concluded that the consumers tend to first consider the costs such as time, money, psychological issues etc. and benefits like full redress, partial atonement, discount etc. and perform a simple calculation in their mind, and then they decide whether or not to complain (Susskind, 2002). High cost of presenting complaints to service providers and/or to other potential complaint handlers can be one of the most important constraints. Cost of complaining includes additional effort and investment of time spent filling in a feedback/complaint form or talking to front office manager of a hotel. Financial investment, in form of the need for going back to travel agency to present your case, or psychological burden, such as embarrassment (Zeithaml *et al.*, 2006) are among other investments. Lee and Sparks (2007) explored the cultural values that Chinese consumers hold in service failure and recovery occasions and they found out that the most reason not to complain is face protection - being concerned with the protection of one own and other people reputation (Lee and Sparks, 2007, pp: 510).

The phenomena of customers who feel discontent, but do not complain are also investigated by Ekiz (2009). According Ekiz (2009), the following reasons may provide further clarification why majority of the customers do not choose to voice their dissatisfaction to the service provider. First, sometimes it may be hard to complain due to the fact that customers simply may not know how to lodge their complaints (Plymire, 1991; Sanes, 1993). Second, failure may be perceived insignificant to be voiced and/or the loss may be perceived as

bearable thus a dissatisfied customer may think that complaining is not worth his/her effort (Chebat *et al.*, 2005). Third, consumers may think that complaining will do no good. In other words, consumers may feel that their complaint will not change anything or they may not see any benefit of doing so (Ekiz, 2003). Fourth, not all employees and companies want to hear bad news, thus they rarely encourage feedback from their customers (Zemke and Anderson, 2007). Fifth, customer may think that complaining will make him/her look cheap: Stephens and Gwinner (1998) conducted a series of in-depth interviews with elderly consumer and reported that desire to not look cheap and rag like are some reasons why people avoid confronting the service providers, especially when the problem caused negligible amounts of financial losses.

Ndubisi and Adeline (2007) affirmed, CCB is also known as consumer complaint responses (Singh & Widing, 1991). Crie (2003: 61) defined CCB as a process that "constitutes a subset of all possible responses to perceived dissatisfaction around a purchase episode, during consumption or during possession of the goods or services". He argued that consumer complaint behavior is not an instant response, but a process, which does not directly depend on its initiating factors but on evaluation of the situation by the consumer and of its evolution over time. Broadbridge and Marshall (1995) explained that consumer complaint behavior is a distinct process, which begins when the consumer has evaluated a consumption experience (resulting in dissatisfaction) and ends when the consumer had completed all behavioral and non-behavioral responses.

Butelli (2007) confirmed that CCB in short, is an area of research which deals with the identification and analysis of all the aspects involved in the consumer reaction to a product or a service failure and the consequent perceived dissatisfaction. Paradoxically, the direct expression of complaints is not the core of CCB studies. Complaints directly expressed are not the unique, neither the first reaction of customers toward a problem. On the contrary, consumers voice their complaints only seldom and under some determined conditions. The particular combination of satisfaction/dissatisfaction with a product or service and satisfaction/dissatisfaction with the service recovery process and complaint behavior, allow grouping customers in four distinct categories (Kau and Loh, 2006): ordinary satisfied customers, dissatisfied non-complainants, satisfied complainants, and dissatisfied complainants.

Zain (2011) testifies that with the volatility of the present economic condition, every business endeavors to maintain and to sustain business continuity. Marketers are increasingly recognizing the importance of building a pool of loyal customers. Thus, the focus on understanding post-purchase behavior has long been an important agenda of most researches and discussions. While satisfaction presumably leads to brand loyalty, positive goodwill, and repeat sales, dissatisfaction can conversely lead to redress seeking behavior. Some dissatisfaction feelings transpire customers to seek compensation in the form of monetary refunds, goods exchange, repairs, and varying other means. Complainants who perceive lack of justice from the complained responses are very likely to engage in negative word-of-mouth or to exit. Studies have reported that dissatisfied customers tell more people about their negative experiences in comparison to their positive ones. This causes businesses to lose much of their potential customers or possibly even their existing customers as negative word-of-mouth have proven to have a big impact on consumer's perception of a particular store, product or service provider. In addition, it could cost a firm up to five times more to attract new customer as it does to retain an old one. Hence, it is essential that retailers should not only pay attention to customer complains but also work towards resolving them. Thus, the importance of identifying and responding to customer complains cannot be overstated as consumers do stop choosing products that fail to satisfy them after the purchase, and firms can in fact change this post-consumption behavior by analyzing the determinants of customer complain and non-complain.

3. Service Recovery

According to Ennew and Schoefer (2003), when a consumer experiences a service failure – ie the service fails to match expectations and the consumer is dissatisfied, a number of responses are possible. A number of researchers have attempted to identify and explain the different ways in which consumers respond to failure. Understanding this process is important from an organizational perspective, not least because service recovery can only be initiated if the organization is aware of a service failure and customer complaints are probably one of the most effective ways of collecting such information. Unfortunately, many customers do not complain following a service failure, but they do engage in activities such as negative word-of-mouth and brand switching (e.g., TARP, 1986). This suggests that many organizations may miss out on the opportunity to undertake service recovery because they do not know that a failure has occurred.

McQuilken (2009) stated that one approach to service recovery is the implementation of a service guarantee programmed. A service guarantee is “... a statement explaining the service customers can expect (the promise) and what the company will do if it fails to deliver (the payout)” (Hart et al. 1992, p. 20). To date, the influence of service guarantees during a recovery encounter has mainly been tested empirically at the proprietary level (McColl et al. 2005). Although McDougal et al. (1998, p. 279) observed more than a decade ago, “... empirical studies [are required] to further the understanding of consumers’ views of guarantees,” little empirical research has since been undertaken examining consumers’ reaction to service recovery when a guarantee is offered (McQuilken and Bednall 2007).

According to Stefan and Meuter (2008), increasing competitive pressures in many service industries, coupled with declining perceptions of customer service, have led to increased attention to service recovery in recent years (Andreassen, 2001, Kelley *et al.*, 1993, Maxham, 2001, Maxham and Netemeyer, 2002, Maxham and Netemeyer, 2002, Maxham and Netemeyer, 2003, McCollough *et al.*, 2000, McCollough and Bharadwaj, 1992, Smith *et al.*, 1999, Swanson and Kelley, 2001, Tax *et al.*, 1998). Service failures can lead to negative disconfirmation and ultimately dissatisfaction, though appropriate service recovery efforts may restore a dissatisfied customer to a state of satisfaction (Bitner *et al.*, 1990). Although some researchers have argued that the best strategy is to fail-safe the original service delivery, it is nearly impossible to eliminate all failures. Thus, firms with the ability to react to service failures effectively and implement some form of service recovery will be in a much better position to retain profitable customers. A service failure is defined as “any service-related mishaps or problems (real and/or perceived) that occur during a consumer’s experience with the firm” (Maxham, 2001). In line with this wide definition of a service failure, service recovery can be defined as the service provider’s action when something goes wrong (Grönroos, 1988). More recently, Smith, Bolton and Wagner (1999, p. 357) have treated service recovery as “a ‘bundle of resources’ that an organization can employ in response to a failure.” Both complaint management and service recovery are based on service encounter failures. However, complaint management is based on the firm’s reaction to a customer complaint, whereas service recovery also addresses the firm’s ability to react immediately to a failed service encounter, pleasing the customer before he or she finds it necessary to complain. Because many customers dissatisfied with a service encounter are reluctant to complain (Andreassen and Best, 1977, Singh, 1990), proactive service recovery efforts—that is, those that attempt to solve problems at the point of the encounter—are the most effective way to minimize negative outcomes of a service failure (Lewis, 1996). Finally, the term “recovery paradox” refers to situations in which the satisfaction, word-of-mouth intentions, and repurchase rates of recovered customers exceed those of customers who have not encountered any problems with the initial service (McCollough and Bharadwaj, 1992).

4. Perceived Justice

Behavioral outcomes resulting from satisfaction with service recovery

Kau and Loh (2006), avow that service recovery refers to the action taken by a service provider to address a customer complaint regarding a perceived service failure (Grönroos, 1988). It is the process by which steps are taken as a result of negative customer perception of initial service delivery. Recovery management is considered to have a significant impact on customers who experienced service failures because they are usually more emotionally involved and observant of service recovery efforts (Berry and Parasuraman, 1991). Understanding service recovery is particularly important for managers as the unique nature of service (inseparability of production and consumption) makes it impossible to ensure 100 percent error-free service (Fisk et al., 1993).

Although there is a substantial literature on customer (dis)satisfaction and consumer complaining behavior, rather less is known about how customers evaluate a company's response to their complaints. Increasingly, studies that explore consumer responses to complaints have focused on the construct of perceived justice. This theoretical perspective suggests that the fairness of the complaint resolution procedures, the interpersonal communications and behaviors, and the outcome are the principal antecedents of customer evaluations. Kau and Loh (2006), customers often use the equity theory (Adams, 1965) to evaluate service recovery efforts. Adams (1965) first proposed that people felt fairly treated in social exchange relationship when they perceived their own economic outcomes relative to their inputs are in balance. On the contrary, inequity is said to exist if the perceived inputs and outcomes in an exchange relationship are perceived to be unjust or unfair. As such, the presence of inequity is expected to result in both dissatisfaction and behavior that might provoke actions to bring about a balance. In a service marketing situation, customer inputs could be the costs associated with a service failure such as economic, time, energy, and psychic costs (Hoffman and Kelley, 2000). Collectively, these antecedents are referred to as perceived justice and individually they are described as: procedural justice, interactional justice, and distributive justice (Blodgett et al., 1997; Tax et al., 1998; Nel et al., 2000; Schoefer and Ennew, 2005).

According to Hoffman and Kelley (2000), perceived justice proposes that "the service recovery itself; the outcomes connected to the recovery strategy; and the interpersonal behaviors enacted during the recovery process and the delivery of outcomes are all critical" in service recovery assessment (p. 419). Hence, Tax et al. (1998, p. 62) proposed a three dimensional concept of justice: Distributive justice (dealing with decision outcomes), procedural justice (dealing with decision-making procedures) and interactional justice (dealing with interpersonal behavior in the enactment of procedure and delivery of outcomes) Kao and Loh (2006).

Dimensions of perceived justice

Schoefer and Ennew (2003) use a perceived justice framework to examine complaints to tour operators and find evidence for all three dimensions of perceived justice having an impact on consumer's evaluations of the way in which complaints have been handled. The outcomes of a complaint (distributive justice) were clearly important but so were the systems for dealing with a complaint (procedural justice) and the behavior of staff (interactional justice).

Distributive justice is concerned primarily with the specific outcome of the recovery effort, i.e. what did the service provider do to pacify the offended customer and whether the consequent outcomes more than offset the costs incurred by the customer (Greenbery, 1990; Gilliland, 1993). Schoefer and Ennew (2005) state that distributive justice focus on the perceived fairness of the outcome of the service encounter. In other words, what specifically did the offending firm offer the customer to recover from the service failure (Tax and Brown, 2000; Tax et al., 1998; Blodgett et al., 1997). Some often quoted distributive outcomes include

compensation in the form of discounts, coupons, refund, free gift, replacement, apologies and so on (Blodgett et al., 1997; Goodwin and Ross, 1992; Hoffman and Kelley, 2000; Tax et al., 1998). The assessment of whether the compensation is fair may be also affected by the customer's prior experience with the firm, knowledge about how other customers were treated in similar situations and perception of the magnitude of his or her own loss (Tax et al., 1998). Blodgett et al. (1997) found that in a retail setting, distributive justice had a significant effect on customers' repatronage and negative word-of-mouth intentions (Kau and Loh, 2006).

Procedural justice is operationalized as the delay in processing the complaint, process control, accessibility, timing/speed, and flexibility to adapt to the customer's recovery needs (Schoefer and Ennew, 2005). Procedural justice focuses on the "perceived fairness of the policies, procedures, and criteria used by decision makers in arriving at the outcome of a dispute or negotiation" (Blodgett et al., 1997, p. 189). Tax et al. (1998) described five elements of procedural justice including process control, decision control, accessibility, timing/speed and flexibility. Laventhal et al. (1980) concluded that procedures must be consistent, unbiased and impartial, representative of all parties concerned and based on correct information and ethical standard to be judged fair. It has also been found that procedural justice is important in service recovery as consumers who might be satisfied with the type of recovery strategy offered but still could be unhappy if the process endured to seek redress were unsatisfactory (Kelley et al., 1993). However, Blodgett et al. (1997) found that in a retailing setting, procedural justice (timeliness) did not have a significant effect on customers' repatronage intentions nor their negative word-of-mouth intentions (Kao and Loh, 2006).

Kao and Loh (2006), interactional justice refers to the manner in which people are treated during the complaint handling process including elements such as courtesy and politeness exhibited by personnel, empathy, effort observed in resolving the situation, and the firm's willingness to provide an explanation as to why the failure occurred (Schoefer and Ennew, 2005). Interactional justice focuses on the "fairness of the interpersonal treatment people receive during the enactment of procedures" (Tax et al., 1998, p. 62). They further identified five elements of interactional justice: explanation/causal account, honesty, politeness, effort and empathy. In a service recovery situation, interactional justice would refer to the manner in which the recovery process is operationalized and recovery outcomes presented. This distinction is important as Bies and Shapiro (1987) found that people might view the procedure and outcome to be fair and yet felt being unfairly treated as a result of interactional factors. Other research has shown that the manners in which managers and employees communicate with customers (Clemmer, 1988; Goodwin and Ross, 1992) and efforts taken to resolve conflicts (Mohr and Bitner, 1995) affected customer satisfaction. Heskett et al. (1997) also confirmed that display of empathy, being polite and willingness to listen to customers were critical elements in service encounters. Blodgett et al. (1997) also discovered that interactional justice had the strongest effect on subjects' repatronage and negative word-of-mouth intentions in their experimental study. Behavioral outcomes resulted from satisfaction with service recovery.

Perceived justice would affect the level of customer's satisfaction of a service recovery strategy. Blodgett et al. (1995) observed that satisfactory or unsatisfactory resolution of the dispute would affect whether the complainant would repatronize the seller (or exit) and whether that person would engage in bad or good word-of-mouth communication. Bitner et al. (1990) also found that customers were likely to react positively if initial service failures were followed by amiable recovery. Tax et al. (1998) argued that repurchase intentions could be influenced by "structural factors such as switching costs, availability of alternatives or contractual agreements". As such, they advocated the inclusion of commitment and trust to be the two elements in the study of customer satisfaction. In this study, trust, word-of-mouth intention and consumer loyalty (commitment) would be investigated as consequences of customer satisfaction (Kau and Loh, 2006).

Trust has been a central construct in the study of marketing and customer relationships since its importance was emphasized by Dwyer et al. (1987). Research has shown that relationship marketing is built on the foundation of trust (Crosby et al., 1990; Morgan and Hunt, 1994). Trust exists when “one party has confidence in an exchange partner’s reliability and integrity” (Morgan and Hunt, 1994, p. 23). Moreover, repeated satisfaction over times would strengthen the perceived reliability of the provider and contribute further to trust formation (Ganesan, 1994). As such, satisfaction with service recovery would lead to the building of trust (Kao and Loh, 2006).

Word-of-mouth (WOM) refers to the informal communication between consumers about the characteristics of a business or a product (Westbrook, 1987). It provides consumers with information about a firm that assist them to decide if they should patronize it (Lundeen et al., 1995; Zeithaml et al., 1993). Word-of-mouth communication is a powerful force in influencing future buying decisions, particularly when the service delivered is of high risk for the customer; and it helps to attract new customers as relational partners to a company’s offerings (Molina, Consuegra, and Esteban, 2007). In a service setting, it is important that if failure occurs steps must be taken to pacify the dissatisfied customers. If not, it is highly likely that they will either exit or engaged in negative WOM to the detriment of the service provider. The end result would be lost sales and profits. On the other hand, consumers who receive fair service recovery are more likely to repatronize the service provider and even engage in positive WOM behavior, thus spreading goodwill for the service provider. Blodgett et al. (1997) confirmed that interactional justice had large impact on WOM intentions. As such, satisfaction with service recovery would encourage positive WOM communication (Kau and Loh, 2006)

Customer loyalty underlies a commitment to a particular vendor and is often reflected as the continued patronage of the same provider. Loyalty concerns itself with purchase reiteration behavior and is activated by company marketing activities (Molina, Consuegra, and Esteban, 2007). Customer loyalty is important as the long term survival of the firm lies in its ability to retain and attract profitable customers. Loyal customers generally possess lower marketing requirements and are deemed to be more profitable than new customers (Dawkins and Reichheld, 1990). Reichheld and Sasser (1990) also reported that a service company could boost profits by 100 percent just by increasing customer retention rate by 5 percent. Retention is believed to be a function of existing customers’ level of satisfaction. Other studies have also shown that an important variable that contributes to customer and employee commitment is satisfaction (Kelley and Davis, 1994; Kelley et al., 1993). When a firm develops a good system of resolving customer complaints, it leads to greater customer loyalty (Tax and Brown, 2000). On the other hand, Tax et al. (1998) discovered that as dissatisfaction with complaint handling increases, commitment would decrease. Similarly, Andreassen (1999) also affirmed that satisfaction with service recovery had a strong impact on customer loyalty. As such, it can be hypothesized that satisfaction with service recovery would lead to higher consumer loyalty (Kao and Loh, 2006).

The model proposed in this study based on the model of research Kau and Loh (2006). Previous literature on consumer satisfaction/dissatisfaction has focused predominantly on complainants who are dissatisfied with the service recovery process. In contrast, there is a lack of studies on non-complainants who are satisfied (ordinary satisfied customers) as well as those who are dissatisfied (non-complaining dissatisfied customers) with the service provider. As such, customers in a service setting can be broadly divided into two distinct classes: those who complain (complainants) and those who do not complain (non-complainants). Of the non-complainants, they are either satisfied with the service (ordinary satisfied customers) or dissatisfied with the service provider but did not lodge a complaint (dissatisfied non-complainants). Of the complainants, they are either satisfied (satisfied complainants) with the service recovery provided or dissatisfied (dissatisfied complainants). These four types of consumers may experience different service encounters and would be expected to display

different levels of satisfaction with the service provider. This satisfaction or dissatisfaction would lead to different behavioral outcomes. Specifically, they would exhibit different levels of trust, WOM intentions and loyalty to the service provider. This research model is illustrated in Figure 1. This study would examine the differences in the behavioral outcomes among the four groups of consumers.

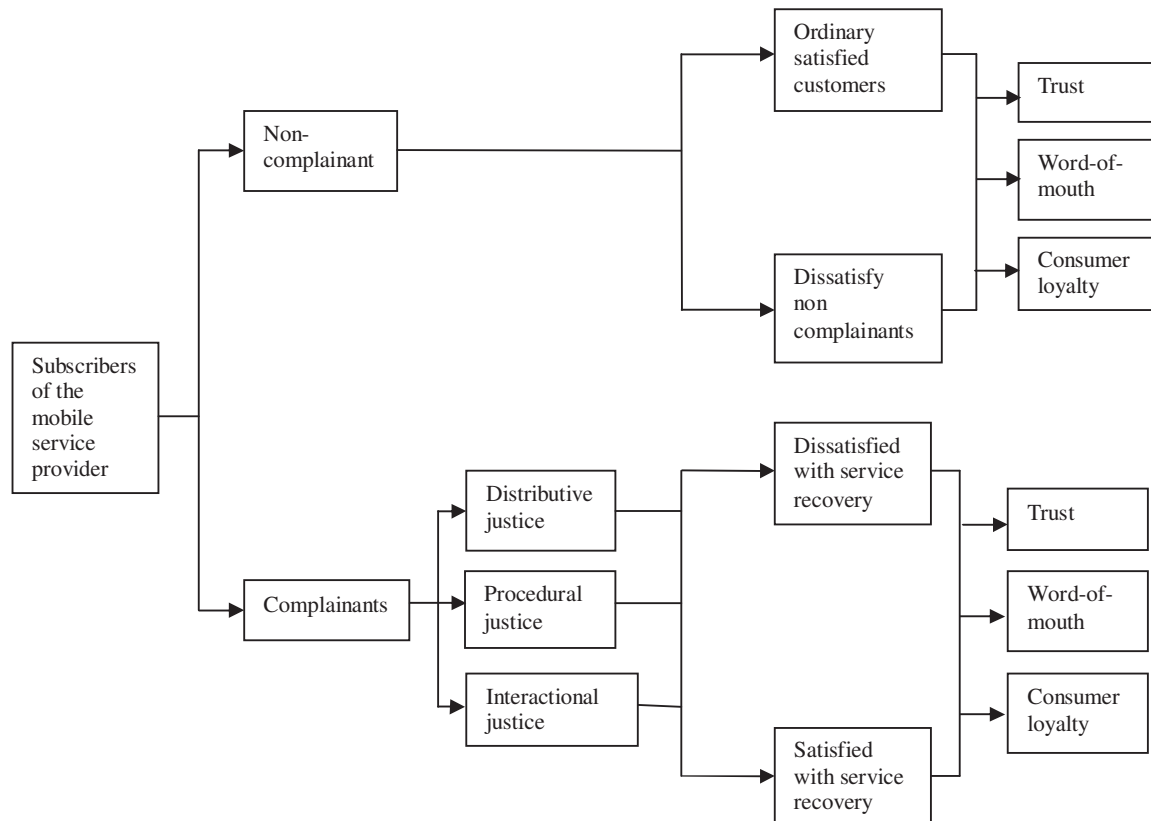


Figure 1
The Research Model

METHODS OF STUDY

The sampling process

Data were collected through a survey using a questionnaire. The questionnaire was given to the people who visit the restaurant at least 2 times in the last 3 months in Surabaya. Respondents in this study were not identified (non-probability sampling). Sampling technique used in this study was convenience sampling. Number of respondents in this study is 316 people. Respondents in this study were divided into non-complainants and complainants. The questionnaire in this study refers to Kau and Loh (2006) who studied "The Effects of Service Recovery on Consumer Satisfaction" to the mobile service provider.

RESULT AND DISCUSSION

Profiles of respondents

Table 1 shows the demographic characteristics of respondents. In this study, respondents were divided into two complainants and non-complainants. Percentage of respondent's sexes is almost equal between men and women. Based on the last level, the majority of respondents were recent high school educated. The number of majority age of the

respondents were in the range of 20-24 years with the work of student / student, as well as with the majority spending / pocket money < Rp. 1 million / month.

Table 1
Demographic Characteristic of Respondents

Characteristics	Number	Total (%)	Complainants (%)	Non-complainants (%)
Gender:				
Male	157	48,7	36,31	63,69
female	159	50,3	31,45	68,55
Educational Background:				
SMA (high school)	194	61,4	33,51	66,49
Diploma	25	7,9	32,00	68,00
S1	86	27,2	36,05	63,95
S2	7	2,2	42,86	57,14
S3	0	0	--	--
Other	4	1,3	0,00	100,00
age:				
15-19	90	28,5	31,11	68,89
20-24	139	44,0	38,85	61,15
25-29	42	13,3	33,33	66,67
30-34	17	5,4	17,65	82,35
35-39	6	1,9	50,00	50,00
≥40	22	7,0	22,73	77,27
Income / allowance per month:				
< Rp. 1.000.000	108	34,2	34,26	65,74
Rp. 1.000.000 – Rp. 1.999.999	87	27,5	36,78	63,22
Rp. 2.000.000 – Rp. 2.999.999	45	14,2	37,78	62,22
Rp. 3.000.000 – Rp. 3.999.999	35	11,1	28,57	71,43
Rp. 4.000.000 – Rp. 4.999.999	14	4,4	35,71	64,29
≥ Rp. 5.000.000	27	8,5	22,22	77,78
Occupations:				
Student / student	197	62,34	35,53	64,47
Servants	3	0,95	33,33	66,67
Private employees	72	22,78	36,11	63,89
entrepreneur	25	7,91	24,00	76,00
professional workers	14	4,43	21,43	78,57
Other	5	1,58	20,00	80,00
Notes: complainants (n = 107; dissatisfied = 24,5%; satisfied = 74,5%); non complainants (n = 209; dissatisfied = 11,1%; satisfied = 88,9%); total respondent (n = 316)				

Validity and Reliability

Table 2 and 3 show the results of validity and reliability. Validity test is used to test whether the instrument used to measure an attribute can actually be used to measure the attribute in question. An attribute is said valid if the factor loading was greater than 0.50. Reliability test is used to demonstrate the stability and consistency in measuring the concept. In this study, data from respondents is reliable because it has a Cronbach's alpha values above 0.6.

Table 2
Factor and Reliability Analysis of The Dimensions Justice

No	Statements	Factor loadings
1	I was given no chance by the restaurant to tell about my complaint	0,636
2	I find it difficult to determine where I can convey the complaint to the restaurant	0,740
3	The restaurant does not let me explain the important events in my complaint	0,794
4	The restaurant is very slow in responding to my complaint	0,737
5	The restaurant makes it easy to convey my complaint	0,720

6	It's hard for me to understand to whom I should complain in this restaurant	0,757
7	I get a chance to tell my problems to the restaurant	0,763
8	The complaint process at the restaurant is easy to do	0,679
9	The restaurant to listen to all my complaints	0,750
10	Time taken to resolve my complaint longer than the conditions that should	0,706
11	Handling of customers waiting to do less well served by the restaurant	0,566
12	The restaurant to tell me why the service failure from the beginning	0,600
13	The restaurant looks very interested in helping me	0,804
14	I was given a reasonable explanation by the restaurant about why the problem occurred	0,790
15	The restaurant did not tell me the cause of service failure	0,713
16	The restaurant strives to solve my problem	0,815
17	No reason was given by the restaurant for poor service I received	0,764
18	Attentive in the restaurant provides a good service for me	0,709
19	The restaurant has always behaved decently to me	0,644
22	The restaurant understands me	0,634
23	The restaurant politely listen what I say	0,695
24	The restaurant very concerned about my problems	0,655
25	Attentive in the restaurant providing good service to me	0,688
26	In resolving a complaint, the restaurant provides what I need	0,822
27	I did not receive what I need from the restaurant	0,741
28	The results of the complaints that I did for the restaurant did not match expectations	0,817

Tabel 3
Factor and Reliability Analysis of Behavioral Outcomes

No	Statements	Factor loadings
29	Although I use the service of this restaurant, I recommend others not to use the services of the restaurant	0,747
30	I complained to friends and relatives about this restaurant service	0,683
31	My recommendation for this restaurant is a positive	0,819
32	I have something good to say about this restaurant	0,824
34	I will continue to survive using this restaurant	0,872
35	In the future, I intend to use more services from this restaurant	0,861
36	I would consider myself to be a loyal customer at this restaurant	0,842
37	I believe this restaurant can be relied upon to keep his promise	0,871
38	I believe that this restaurant can be trusted	0,875
39	I feel quite negatively to this restaurant	0,567

Perceived justice on satisfaction and behavioral outcomes

Multiple regressions in this study are used to determine the relationship between perceived justice and customer satisfaction on service recovery. All aspects of perceived justice (distributive, procedural, and interactional) regressed with satisfaction of service recovery. The satisfaction will be an impact on trust, word-of-mouth, and consumer loyalty. The result can be seen in table 4.

In the regression of perceived justice on satisfaction obtained R2 value of 0.477. 'Perceived justice' have a significant impact on service recovery. It is evident from the significance value of 0.00. The regression equation is $Y = 0.583 + 0.215 X_1 + 0.125 X_2 + 0.132 X_3 + 0.444 X_4$. 'Explanation and effort' had the greatest contribution to satisfaction with service recovery, while procedural justice has the smallest contribution to satisfaction with service recovery. This is consistent with the results of Kau and Loh (2006) on mobile phone services. In the study conducted on restaurant services, 'perceived justice' has a significant influence on dissatisfaction / satisfaction with service recovery is carried out by the restaurant. This is because the restaurant service is a service that the process is followed from the

beginning to the end of the service, so that 'justice' be perceived directly by the customer which will ultimately affect the dissatisfaction / satisfaction with service recovery.

Regression of satisfaction on trust suggests that the 'satisfaction' has a significant influence on trust by the regression equation $Y = 0.1390 + 0.608 X_1$, and the value of $p < 0.05$. 'Satisfaction' has a significant influence on word-of-mouth by the regression equation $Y = 1.532 + 0.578 X_1$, and the value of $p < 0.05$. Satisfaction also affects customer loyalty with the regression equation $Y = 1.008 + 0.675 X_1$, and the value of $p < 0.05$. Satisfaction felt by customers who do complain effect on trust. This is consistent with the results of Kau and Loh (2006). In this study, if the customer feel satisfied with the service recovery is carried out by the restaurant, customers will feel trust towards the restaurant. Satisfaction is also a significant influence on word-of-mouth. This shows that if customers get a satisfactory recovery service from the restaurant, customers will easily tell it to others. Satisfaction of service recovery also affects customer loyalty, which shows that when restaurant customers get good service recovery, customer will be loyal to the restaurant.

Table 4
Model Testing for Complainants Using Multiple Regressions

Dependent variable	Independent variable	β	Beta	p-value	R^2	F-value	Sig
Regression 1							
Satisfaction	Distributive justice	0,215	0,181	0,00	0,477	22,618	0,00
	Procedural justice	0,125	0,166	0,00			
	Empathy and politeness	0,132	0,132	0,00			
	Explanation and effort	0,444	0,370	0,00			
Regression 2							
Trust	Satisfaction	0,608	0,721	0,00	0,515	111,427	0,00
Regression 3							
WOM	Satisfaction	0,578	0,686	0,00	0,471	91,707	0,00
Regression 4							
Consumer loyalty	Satisfaction	0,675	0,712	0,00	0,507	106,010	0,00

Table 5 shows the difference in mean values between dissatisfied and satisfied complainants. Significant differences between dissatisfied and satisfied complainants only found in the variable 'trust'. This is indicated by the value of $p < 0.05$. This suggests that between dissatisfied and satisfied complainants against the service recovery made by the restaurant will have different levels of trust towards the restaurant. Customer dissatisfaction in this regard greatly affects customer trust towards the company, although satisfied in the service recovery. As for the variable word-of-mouth there was no significant difference. Customers, who have felt disillusioned, would tell the bad experience to others, although not satisfied or satisfied with service recovery. The same thing happened to customer loyalty. Customers who are satisfied or not his service recovery is likely to have the same level of loyalty. This is because although is not satisfied by the recovery service, customers will continue to visit the restaurant. This is because customers still want the food or the restaurant (which makes the customer's complaint) is a customer favorite restaurant.

Tabel 5
Independent Samples t-test for Complainants (Dissatisfied vs Satisfied)

Variabel	Complainants		Complainants		t-test	1-tailed p-value
	Dissatisfied		Satisfied			
	Mean	SD	Mean	SD	t-value	
Trust	3,686	0,884	3,881	0,817	-1,942	0,030
Word of Mouth	3,503	0,987	3,487	0,862	0,148	0,440
Consumer Loyalty	3,648	0,882	3,718	0,805	-0,707	0,240

Table 6 shows that there are significant differences of mean values between the satisfied complainants and non-complainants satisfied. This happens in all the variables, namely trust, word-of-mouth, and consumer loyalty, as indicated by the value of $p < 0.05$. This suggests that customers who are dissatisfied and complain (but were satisfied with the restaurant service) will feel the trust, word-of-mouth, and consumer loyalty are higher when compared to dissatisfied customers, but do not complain (but feel satisfied for restaurant services).

Table 6
Independent Samples t-test for Complainants (Satisfied) vs Non-complainants (Satisfied)

Variabel	Complainants		Non-complainants		t-test	1-tailed p-value
	Satisfied		Satisfied			
	Mean	SD	Mean	SD	t-value	
Trust	3,909	0,691	3,120	1,301	3,948	0,000
Word of Mouth	3,788	0,792	2,693	0,990	5,667	0,000
Consumer Loyalty	3,904	0,708	2,920	0,873	5,730	0,000

Table 7 shows significant differences from the mean value of three variables, namely trust, word-of-mouth, and consumer loyalty shown by the value of $p < 0.05$. This suggests that both the customer who did complain and complain but do not feel the dissatisfaction has a significant difference in trust, word-of-mouth, and consumer loyalty. In this study, customers who complain and are dissatisfied will have a greater influence on trust, word-of-mouth, and consumer loyalty. Consumer confidence in the restaurant may be greatly decreased, will tell the bad experience to more people, and will not be loyal to the restaurant service.

Table 7
Independent Samples t-test for Complainants (Dissatisfied) vs Non-complainants (Dissatisfied)

Variable	Complainants		Non-complainants		t-test	1-tailed p-value
	Dissatisfied		Dissatisfied			
	Mean	SD	Mean	SD	t value	
Trust	4,016	0,717	2,815	0,809	7,466	0,000
Word of Mouth	3,571	0,832	2,812	0,834	4,122	0,000
Consumer Loyalty	3,790	0,779	3,159	0,822	3,638	0,000

CONCLUSION

From the results of this study can be summarized as the following matters. (1) The perception of fairness is important to note that the restaurant industry, as customers who feel dissatisfied and did complain would be disappointed if not treated fairly by the restaurant. (2) For customers who do complain, very important for companies to pay attention to the issue of trust.

If the customer did complain and was not satisfied, the effect of trust is higher when compared to word-of-mouth and consumer loyalty. (3) Customer who do complain are very important to note the company, because customers who do complain and are satisfied greater effect on trust, word-of-mouth, and consumer loyalty than those who do not complain but feel satisfied. (4) The company must also consider the customer to complain, because if they feel dissatisfaction, a sense of trust customers will decline, bad experiences to more people, and less loyal to the restaurant.

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Certification of Participation

Siti Rahayu

Committee

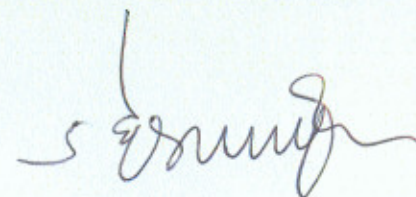
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Certification of Appreciation

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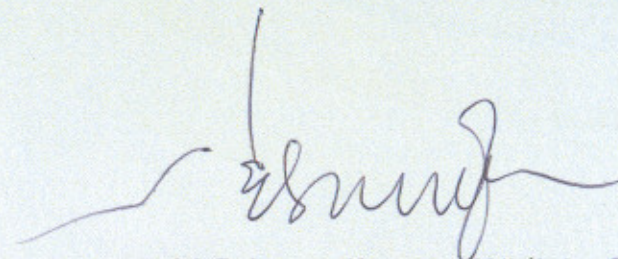
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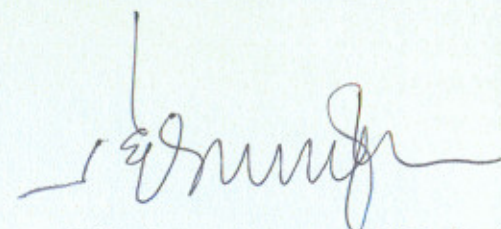
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