

## **The Effects of Service Recovery on Customer Satisfaction and Loyalty: A Comparative Study of Private and Public Banks**

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Services are gaining exponentially increasing share in the economies of countries around the world. Due to some unavoidable reasons, variability is an integrated part of the service delivery and hence, every service firm encounters service failure at one or the other point of time. Firms try various recovery options to make customers satisfied and loyal. Recovery strategies vary from firm to firms and between industries. This research paper identifies various recovery strategies adopted by private and public banks to recover from the service failures. RECOVSAT model is used thereafter to record customer's satisfaction and consequent loyalty that results after bank's efforts to re-patronize the customers. Reliability analysis is done to validate the instrument. A model is constructed and Multiple Regression Analysis is carried out to find out the effects of various factors on customer's level of satisfaction. Also, effect of satisfaction on customer loyalty is examined.

**Keywords:** Service Recovery, RECOVSAT, Satisfaction, Loyalty, Service failure.

### **Introduction**

Services have become major driving force in the economies of many countries. Even product selling firms are positioning themselves as doing service to the customers. These companies now understand their part in buyer-seller dyad. Companies which are services driven are going more upward in serving the customers and other product selling companies are also giving accompanying and after-sales services to be considered as a major strategic move in their businesses.

Some characteristics of the services like its inseparability (buyer has to be present at the time of production and delivery i.e. one cannot separate service production and delivery) and variability (variable degrees of services are found from one seller to another and also from the same seller on different occasions) make services far from "error-proof". Chances of failures are far more in services than in products because there is no second-chance since service provision takes place

in front of the consumers.

Thus, companies are trying their best in hiring the right candidates for service provision, answering the customers and consulting them, changing the processes to make services more accurate and installing technologies make customers feel more comfortable and satisfied.

However because of inherent chances of failures, the services possess risks of getting awful. Service failures have been unavoidable part of the firms. Thus, managers should bear in mind all the provisions to be considered in time of service failures. McColl-Kennedy and Smith (2006) noted that "Customers engage in interactions with service providers on a daily basis. Most of these encounters (direct interactions between the customer and the frontline employee) are mundane and largely inconsequential but those that are remembered, and where customer emotions are

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heightened, are those that "go wrong."

There are many service recovery strategies adopted by most of the firms. The ways to pacify the customers, listening to their complaints, communicating the reasons for the same and having customers best interest at heart is all a company might ask its employees to do in case of service failures. Some service failures are so small that even a gesture may solve the problem (e.g. addressing someone by a wrong designation while some service failures cannot be compensated by even the best recovery strategies (e.g. a wrongly done clinical operation).

Thus, intensity of failures and thereby the recovery strategies vary from industry to industry and customer to customer but one point on the part of service recovery stands certain i.e. a rightly done service recovery win customer's heart and make customer satisfied and loyal to the firm. Many studies done in different parts of the world support this statement. The following section of the paper provides a glimpse of the studies and their findings so far.

### **Literature Review**

McColl-Kennedy and Smith (2006), through their study, observed that customers fulfill a central function in organizations, but much less study is done on their emotions. This is surprising, as emotions are frequently experienced during interactions between customers and frontline employees. These emotions can be either positive or negative. Customer emotions have important practical implications, because how customers receive a product or service impacts on customer satisfaction, switching, negative word of mouth, complaining to third parties, and loyalty (DeWitt & Brady, 2003; Keaveney, 1995; Stephens & Gwinner, 1998).

Studies by Berry and Parasuraman (1991) and Zeithaml, Berry, and Parasuraman (1993) suggest that

customers are more involved in and more conscious of recovery attempts by employees than when the service is "normal," that is, as expected, or when it is experienced for the first time (Smith & Bolton, 2002).

Price, Arnould, and Deibler (1995) found that negative emotions were generated when there was a failure by the service provider to provide the customer with a minimum standard considered by the customer to be appropriate for that service. While a strong positive emotion does not explain satisfaction, strong negative emotions can be associated with dissatisfaction (Liljander & Strandvik, 1997).

While many researchers have looked at consumer complaint behavior that results from dissatisfaction due to service failures, very little research has explored the impact that service recovery efforts may have on the level of dissatisfaction felt by consumers as a result of service failures (Hart, Heskett, and Sasser 1990).

Study by Hocutt, Chakraborty and Mowen (1997) investigates how service recovery efforts influence the level of dissatisfaction and intention to complain following a service failure. Results from an experiment show that consumers' satisfaction (intention to complain) is influenced by cause of failure and by perceived distributive and interactional justice in the recovery attempt. A prompt, courteous service recovery effort can have a significant impact on how a customer feels toward a service provider even after a service failure.

Hocutt, Chakraborty and Mowen (1997) noted that the way in which the service recovery is handled is likely to have an important influence on whether the customer returns to the service firm. The authors further investigate that there is no reason why service encounters that begin with a service failure cannot end as a service recovery success. The inability to respond to a service failure makes customers disappointed

twice, first when the service failure occurs and later when there is a lack of effort on the part of the service provider to recover from the service failure.

Core service failures have been reported most often as being dissatisfactory (Bitner et al. 1990) and as the reason consumers switch service firms (Keaveney 1995). Findings of the research by Kau and Loh (2006) showed that perceived justice was a major force in driving complainants' level of satisfaction with the service recovery. They also noted that the behavioral outcomes and loyalty also found to be a result of their satisfaction with the service recovery.

Riscinto-Kozub (2008), in his study of luxury hotel industry, shed light on how consumers define satisfaction through recovery and has showed that degree of loyalty a customer holds towards an organization affects satisfaction and this recovery satisfaction is the cause for ongoing satisfaction and loyalty. Findings of Kau and Loh (2006) too support this by demonstrating that satisfaction with service recovery also reinforces consumer loyalty and commitment. Recent study conducted by Bradley and Sparks (2012), found that not only the recovery attempts but also the kind of recovery strategies adopted too have its part in customer satisfaction. They observed that "explanation type, explanation quality, failure magnitude and compensation each had significant effects on customer evaluations. Explanation type and explanation quality interactively affected the extent to which customers were satisfied with service recovery."

McColl-Kennedy and Smith (2006) found out that extreme anger and dissatisfaction has negative implications for the firm viz. brand loyalty reduction, customer switching behavior, lower ROI and increased negative WOM. Customer satisfaction is considered to be a key outcome of service encounters whereby a comparison is made between expectations and actual

performance (Oliver, 1980; Yi, 1990).

Huang (2011) conducted a study to investigate the role of brand equity in handling service failure and analysed the effects of brand equity on service recovery. The study confirmed that it's easy to get out of the service failure in strong brands and strong brands have advantage in recovery satisfaction and behavioral intentions like loyalty and word-of-mouth.

Riscinto-Kozub (2008) further highlights the fact that the customer's overall satisfaction directly influences the customer's degree of loyalty after the service recovery process, and the customer's post-recovery emotions directly affect their overall satisfaction with the service organization.

Smith and Bolton (1998) suggest that although excellent service recoveries can enhance customer satisfaction and increase repatronage intentions, viewing service failures as opportunities to impress customers with good service performance may involve substantial risks. The findings in this study provide empirical evidence that excellent service recoveries can lead to increased customer satisfaction and repatronage intentions. However, this result was applicable only when it obtained the very highest levels of customers' recovery ratings. In their study of restaurant, Bradley and Sparks (2012) investigated how the uses of four different types of explanations affect satisfaction of customer after a service failure. McColl-Kennedy and Smith (2006) noted that effective service recovery successfully leads to higher repatronizing intentions and greater profitability.

### **Objectives and the Scope of the Study**

This research paper focuses on recovery strategies adopted by banks after the service failure. RECOVSAT model is adopted and various determinants of satisfaction and loyalty were checked. Also, a comparative study was carried out to examine the difference in customer's

perception towards recovery attempts of public and private banks. This research is first of its kind in India in carrying out study on service recovery strategies in banks. Thus, it makes important contribution to the decision-makers in banks and other similar institutions in knowing customer's psyche after facing a service failure.

### **Research Methodology**

This study is single cross sectional descriptive research. RECOVSAT questionnaire was adopted to measure the satisfaction level after the service recovery attempts by banks. RECOVSAT is an instrument with 6 dimensions comprising of 16 Likert scale statements to record customer's perception towards recovery. 2 statements were used to measure satisfaction and 3 statements to measure loyalty were used. Non probability convenience sampling method was used to get responses. Totally, 175 responses were taken, out of which, 147 were subjected to further study and others were discarded due to missing or invalid responses.

Cronbach's alpha was used to measure Construct

reliability of the adopted RECOVSAT model. To find out the level of influence of various dimensions (Communication, Empowerment, Feedback, Atonement, Explanation and Tangibles) on satisfaction Multiple Regression was carried out. Linear regression was used to examine effect of post-recovery satisfaction on loyalty of the customers. Mann Whitney U test was done to find out difference between satisfaction levels of customers of private and public bank.

### **Analysis of the Data**

#### **Reliability**

We have adopted RECOVSAT model to measure the recovery attempts done by the banks. Adoption of this well established model calls for checking the reliability of its elements. To check the reliability, we have used the Cronbach's alpha, inter item correlation and item to total correlation. These three measurements of reliability are used for all the 6 dimensions of the RECOVSAT (Communication, Empowerment, Feedback, Atonement, Explanation and Tangibles). The results of the reliability test are shown in table 1.

**Table 1 : Reliability of the RECOVSAT Dimensions**

<b>Dimensions</b>	<b>Communication</b>	<b>Empowerment</b>	<b>Feedback</b>	<b>Atonement</b>	<b>Explanation</b>	<b>Tangibles</b>
Cronbach's alpha	0.909	0.697	0.809	0.706	0.730	0.744

The standard value of the Cronbach's alpha is 0.7 i.e. a value of 0.7 or more is acceptable and the items are said to have good internal consistency and reliability which is considered good enough to carry out further research. Table 1 shows that all the dimensions possess Cronbach's alpha value of more than 0.7 which is good indicator.

Inter-item correlation shows that how items are internally correlated. Higher correlation shows higher

reliability. Inter-item correlation of 0.3 is acceptable as standard. Inter-item correlation of the all the dimensions found greater than 0.3 which is shown in the appendix and it supports the conclusion of the Cronbach's alpha about the reliability of the scale.

Item to total correlation measures that how an item is externally correlated with the other items. Item to total correlation of more than or equal to 0.5 suggests the adequate reliability of the scale. In our research we

found that inter item correlation is more than 0.5 which is also supporting the results of other two measurements

of reliability. Hence, the model is considered reliable to be used for further research.

**Multiple Regression**  
**Table 2: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.785	0.617	0.6	0.34582

Multiple regression is carried out to find out effects of RECOVSAT dimensions on satisfaction towards service recovery. Adjusted R square is found to be 0.6 which means 60% of the satisfaction can be defined using 6 RECOVSAT dimensions. ANOVA table 3 indicates that the model is significant. Results of the

regression analysis are shown in the table 4 which reports that all other dimensions except Explanation exert significant influence on satisfaction. P value of Explanation dimension was found to be more than the level of significance ( $\alpha = 0.05$ ). Hence, Explanation was not considered while building the final model.

**Table 3: ANOVA ( $\alpha = 0.05$ )**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.924	6	4.487	37.521	.000
	Residual	16.743	140	0.12		
	Total	43.667	146			

**Table 4: Regression Coefficients ( $\alpha = 0.05$ )**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.(p)
		B	Std. Error	Beta		
1	(Constant)	.239	.176		1.355	.178
	mean_com	.155	.037	.237	4.176	.000
	mean_emp	.171	.037	.271	4.617	.000
	mean_feed	.079	.033	.131	2.398	.018
	mean_aton	.227	.036	.347	6.228	.000
	mean_expl	.026	.054	.032	.488	.626
	mean_tan	.230	.036	.373	6.463	.000

The final model can be built as:

$$\begin{aligned} \text{Service recovery satisfaction} = & \\ & 0.239 + 0.237(\text{Communication}) + 0.271(\text{Empowerment}) \\ & + 0.131(\text{Feedback}) + 0.347(\text{Atonement}) \\ & + 0.373(\text{Tangibles}) \end{aligned}$$

Hence, satisfaction is highly dependent on Tangibles dimension. Thus, if employees are well dressed and they seem to work in tidy and professional environment, customers feel that their complaint is in responsible hands and their satisfaction of service recovery is

positive affected. Atonement is another factor that affects customer's recovery satisfaction. Hence, when employees apologize for the financial loss occurred and they deal with politeness, customers appreciate and they feel more satisfied. Dimensions that have less impact on satisfaction are explanation and feedback. Thus, customers care little about knowing the cause of failure and do not expect written apology and progress about the failure. The explanation and written apology make very little difference to their satisfaction score.

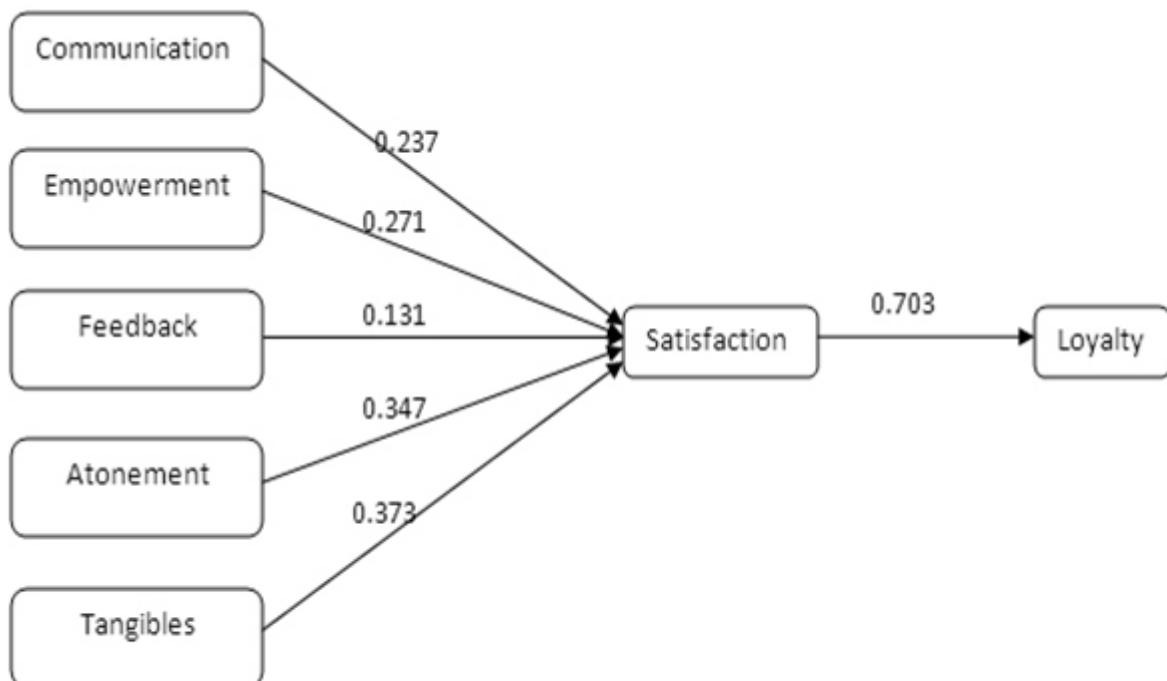


Fig. 1 Model depicting effects of RECOVSAT dimensions on satisfaction and loyalty

While analyzing the impact of satisfaction on loyalty, adjusted R square is found to be 0.491. This shows that around 49.1% of loyalty is caused by customer's satisfaction towards service recovery satisfaction. The equation showing relationship between satisfaction and loyalty can be written as:

$$\text{Loyalty} = 0.868 + 0.703 (\text{Satisfaction})$$

This shows that loyalty score is highly dependent on customer's perceived satisfaction towards service recovery.

**Table 5: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.703 <sup>a</sup>	.494	.491	.41823

**Table 6: ANOVA ( $\alpha = 0.05$ )**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.76759	1	24.76759	141.5979	.000
	Residual	25.36266	145	0.174915		
	Total	50.13025	146			

**Table 6: ANOVA ( $\alpha = 0.05$ )**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	24.76759	1	24.76759	141.5979	.000
	Residual	25.36266	145	0.174915		
	Total	50.13025	146			

**Table 7: Regression Coefficients ( $\alpha = 0.05$ )**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.868	.176		4.941	.000
	mean_sat	.744	.063	.703	11.899	.000

**Comparative Study of Private and Public Banks**

To test the normality of the data, Kolmogorov-Smirnov (K-S) test is conducted. The Z scores and significance values are shown in the table 8. Since, the p values for

both private and public banks are found to be less than the degree of significance ( $\alpha = 0.05$ ), it can be concluded that the data is not normal.

**Table 8: Normality test  
(Kolmogorov-Smirnov test)  
( $\alpha = 0.05$ )**

	Z score	Significance value(p)
Public bank	1.861	.002
Private bank	3.475	.000

Hence, to test the satisfaction, instead of independent samples t-test, we can use Mann Whitney U test. Table 9 dictates the results of Mann Whitney U test. Significance value in this test shows that there is no significant difference between service recovery satisfaction levels of customers in private and public banks.

**Table 9: Mann-Whitney U test  
( $\alpha = 0.05$ )**

	Z score	Significance value
Satisfaction	-1.590	.112

To check normality of all individual dimensions, again one sample K-S test is performed. Results of K-S test are shown in table 10. All those dimensions whose p value is more than the degree of significance ( $\alpha=0.05$ ) in both private and public banks are taken as normal. In the given set of data, two dimensions, namely Empathy and Tangibles, are found to be normally distributed.

**Table 10: One-Sample Kolmogorov-Smirnov Test ( $\alpha = 0.05$ )**

		Z score	Significance value (p)
Public bank	Communication	0.871	.435
	Empowerment	1.236	.094
	Feedback	1.053	.218
	Atonement	1.530	.019
	Explanation	1.155	.139
	Tangibles	0.714	.687
Private bank	Communication	1.550	.016
	Empowerment	1.329	.058
	Feedback	1.687	.007
	Atonement	1.921	.001
	Explanation	1.554	.016
	Tangibles	1.044	.226



To analyze difference between private and public banks on empathy and tangibles, independent samples t-test is conducted. The results of the test are shown in table 11. Results prove that there is no significant difference between private and public banks on empathy dimension (p value is more than the degree of significance). While on tangibles, public and private banks differ in their recovery attempts (p value is less than the degree of significance). Mean value of tangibles of private banks is 3.14 while that of public sector bank is 2.44 which establishes that customers have greater satisfaction towards tangibles of private banks than those of public banks in service recovery.

**Table 11: Independent samples t-test ( $\alpha = 0.05$ )**

	t score	Significance value
Empowerment	1.454	.148
Tangibles	-4.255	.000

To test differences in all other dimensions (communication, feedback, atonement and explanation) between private and public banks non parametric Mann-Whitney U test is conducted. Significance values show that there is no difference between public and private banks on all these dimensions.

**Table 12: Mann-Whitney U test ( $\alpha = 0.05$ )**

	t score	Significance value
Communication	-1.929	.054
Feedback	-.317	.751
Atonement	-.197	.844
Explanation	-.047	.963

Thus, customers do not differ on satisfaction between private and public banks in their attempts to recover

from the service failures. However, while analyzing the individual dimensions, the banks are different in tangibles dimension.

**Managerial Implications**

Services are variable in nature and are, hence, very vulnerable to failure. It's almost impossible to build a service that is "error-free". Every organizations and managers face the problem of service failure quite often. Thus, a relation between a customer and a firm which is strongly built over the years may stand a chance of failing due to small mistakes that may, in turn, cause a considerable loss to the organization.

This research has found out that loyalty or re-patronizing of the customers after a service failure is highly related to the way they are made satisfied after the failure in banks. It may also happen that because of some organization's extraordinary recovery efforts, customers become delighted and might increase transactions with the firm seeing the dedication and sincerity of the firm towards its customers. Analysis with the RECOVSAT model takes this to further in examining the causes of post- recovery satisfaction.

Banks need to have suitable mechanism to offer satisfactory performance after the service failure. Tangibles and Atonement are found to be important factors. Hence, the way by which customer is facing the service's tangible environment and tone of the employees in treating the customers instill trust and confidence in them about the solution of their problem. They are not concerned about the reason for failure, as evident in the this research that Explanation is not a significant factor. Also, there is significant difference found between private and public bank on tangibility dimension. This is of important contribution towards managers of public banks that they are lagging on a front which is perceived most important by the customers in satisfying them. Hence, public banks

should improve the servicescapes to better serve the customers.

### **Conclusion**

The study can be summarized as loyalty of customers is very much linked with their satisfaction with the efforts done by the bank. In dwelling further into satisfaction it can be concluded that out of the 6 important factors that are considered in the RECOVSAT model, Tangibles and Atonement are the found to be most important factors followed by Communication and Empowerment, while Explanation is not at all significant and Feedback is the least important one. Well-dressed employees and tidy environment matter much to the customers in recovery. Employees apology for customer's loss and politeness also carry considerable weight on satisfaction. Customers are not at all concerned about the explanation provided by the banks about the occurrence of the problem, they only want their problem to be fixed in comfortable manner.

It is also concluded from the study that customers of public and private banks perceive similar level of satisfaction after the recovery. Also, there is no considerable difference between public and private banks on Communication, Empowerment, Feedback, Atonement and Explanation dimensions while they differ considerably on Tangibles, which is an important dimension in post-recovery satisfaction.

### **Limitations and Scope for Further Research**

This is first of its kind study done in India where authors have sincerely made efforts to measure recovery efforts in banks and customers perception towards these efforts. However, this research is limited to the area of Ahmedabad and the findings may not be generalized to include whole of India. Thus, another extensive research in entire India can be carried out to further contribute in this regard. Also, other errors

prevalent in empirical research may apply to this study as well.

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