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Pre-recovery emotions and satisfaction: A moderated mediation model of service recovery and reputation in the banking sector

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ABSTRACT

This study examines the mediating role of service recovery judgments between pre-recovery emotions and post-recovery satisfaction, and investigates the role of firm reputation in this mediation context. Using a moderated mediation framework, the authors test the model with data from 366 customers who experienced a banking service failure and complained to a third party. The results show that distributive, procedural, and interactional justice dimensions mediate the relationship between pre-recovery emotions and satisfaction. Firm reputation moderates the relationship between emotions and satisfaction via distributive and interactional justice, but not via procedural justice. This study provides evidence for the notion that pre-recovery emotion is an antecedent of service recovery process and firm reputation plays an essential role in this process.

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1. Introduction

Emotions of customers influence their decisions to remain with an existing service provider or switch to a different service provider (Ferguson, Paulin & Bergeron, 2010). The cognitive–emotive model states that the process of reacting to a negative event starts with an appraisal of the harmful event and the emotions it has generated (Lazarus, 1966). In the service recovery context, when customers experience a service failure (i.e., a negative event), they will experience an emotional reaction before the service firm can possibly recover from the service failure. The nature of this pre-recovery emotional reaction may affect the entire recovery process evaluation. That is, service recovery evaluations, which can lead to post-recovery dissatisfaction, negative word of mouth, and even switching to another service provider, are significantly shaped by these initial emotional reactions (Chebat & Slusarczyk, 2005; Mattila, 2001; Schoefer & Ennew, 2005).

Although emotions of customers are widely studied in the service recovery literature (e.g., Hess 2008; Mattila, 2001; Ozgen & Kurt, 2012), our knowledge of the direct and indirect impact of emotions on the service recovery process, as well as how the service provider firm's characteristics differentiate and shape

emotional reactions of customers and recovery evaluations, is still limited. This study aims at filling these gaps by jointly examining the mediating effect of the perceived justice and the moderation effect of the firm's reputation on this relationship.

In the service recovery literature, results of studies examining the relationship between pre-recovery emotions and post-recovery satisfaction are mixed (Varela-Neira, Vázquez-Casielles, & Iglesias-Argüelles, 2008). These conflicting findings suggest that simply reducing negative pre-recovery emotions may not be a sufficient way to enhance customer satisfaction (Del Rio-Lanza, Vázquez-Casielles, & Diaz-Martin, 2009). It seems possible that other factors, such as perceived justice, may work in concert with pre-recovery emotions to influence post-recovery satisfaction. For example, positive justice perceptions may reduce the negative emotions felt by customers following a service failure and in turn may generate satisfaction (Maxham & Netemeyer, 2002). In other words, we suggest that perceived justice may mediate the relationship between emotional reactions and post-recovery satisfaction. Moreover, some researchers suggest that customer responses to service failures can be situation-specific in that moderating factors such as brand image and firm reputation may influence service recovery perceptions (Del Rio-Lanza et al., 2009). These firm perceptions may alter the influence of pre-recovery emotions on both perceived justice and post-recovery satisfaction. For example, customers may be more inclined to forgive a service failure when a firm has an excellent reputation (Ghalandari, 2013; Hess, 2008).

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1.1. Theoretical background

1.1.1. Consumer emotions in services marketing

In the service context, the magnitude of a service failure creates a pre-recovery emotional reaction associated with the size of the consumer's loss (Hoffman et al., 1995; Smith, Bolton, & Wagner, 1999). Post-recovery emotions refer to the consumer's judgment of the firm's recovery attempts (Kim, Wang, & Mattila, 2010), and such post-recovery emotions may influence various outcomes such as post-recovery satisfaction (Weun, Beatty, & Jones, 2004) and loyalty (Chebat & Slusarczyk, 2005; Weun et al., 2004). Besides post-recovery emotions, pre-recovery emotions influence the service recovery evaluations of consumers (Mattila, 2001; Smith & Bolton, 2002; Smith et al., 1999).

1.1.2. Perceived justice and service recovery satisfaction

Justice theory is a commonly used framework in service recovery literature (Smith et al., 1999; Tax, Brown, & Chandrashekar, 1998). According to justice theory, consumers assess fairness across three dimensions (Clemmer, 1993; Huang, 2011; Oliver & Swan, 1989). *Distributional justice* denotes customer perceptions about the fairness of tangible outcomes (e.g., discounts or refunds offered after a service failure) (Palmer, Beggs, & Keown-McMullan, 2000). *Procedural justice* relates to perceptions of customers of the fairness of the firm's service recovery policies and procedures (i.e., speed of action) (Lind & Tyler, 1988). *Interactional justice* emphasizes the interpersonal interactions, such as an appropriate apology, between service providers and customers (Goodwin & Ross, 1992; Tax et al., 1998).

The Mediating Role of Perceived Justice on the Relationship between Pre-Recovery Emotions and Post-Recovery Satisfaction in the service recovery literature, customer emotional reactions are conceptualized in two ways. While some researchers (e.g., Chebat & Slusarczyk, 2005; Schoefer & Diamantopoulos, 2008) propose post-recovery emotions as a mediator between service recovery and behavioral consequences, others (Kim et al., 2010; Mattila, 2001; Smith & Bolton 2002; Smith et al., 1999) view pre-recovery emotion as an outside variable that affects the service recovery process and consider it as a moderator or an antecedent of the service recovery process. Consistent with the second view, this study considers pre-recovery emotions as an antecedent of perceived justice and service recovery satisfaction and evaluates perceived justice as a mediator between pre-recovery emotion and post-recovery satisfaction. Specifically, we propose that consumers' satisfaction evaluations are affected by pre-recovery emotions through the justice perceptions experienced during the recovery process.

The reason behind that emotion–justice–satisfaction link is the primitive role of emotions. Emotional reaction of consumers is one of the basic components in their change in attitude. The cognitive–emotive model (Lazarus, 1966) states that the process of reacting to a negative event starts with an appraisal of a harmful event and the emotions it generates (Kim et al., 2010). Moreover, affect control theory indicates that individuals maintain affective meanings through their interpretations of events and act in such a way that the impressions generated by events confirm their feelings (Liljander & Strandvik, 1997). Emotions are sudden and automatic responses that start to be shaped right after the service failure (Ozgen & Kurt, 2012). Thus, emotional reactions are evoked as a consequence of service failure and have critical effects on service recovery evaluations as well as post-recovery satisfaction of customers (Mattila, 2001; Chebat & Slusarczyk, 2005; Schoefer & Ennew, 2005). The emotion's seriousness may lead to the whole recovery process. If the level of negative emotion is high, for instance, post-recovery satisfaction evaluations may be negative.

Yet, pre-recovery emotions themselves do not necessarily generate customer dissatisfaction (Del Rio-Lanza et al., 2009). Instead, the level of emotional reactions together with the firm's response is the most likely cause of satisfaction or dissatisfaction after recovery. A positive perceived justice may eliminate the emotional inequality and conflict felt by customers after service failure and in turn may generate satisfaction. Hence:

H1. Distributive justice (H1a), procedural justice (H1b), and interactional justice (H1c) mediate the relationship between pre-recovery emotions and post-recovery satisfaction.

1.1.3. The moderating role of firm reputation

Firm reputation is defined as “the degree of trust in a firm's ability to meet customer's expectations about a given attribute” (Nguyen & Leblanc, 2001:228). Reputation perceptions are a reflection of a firm's past actions and create expectations about the firm's future actions (Bennett & Gabriel, 2001). A firm's reputation may influence perceptions of its ability to create valuable outcomes for its customers (Bennett & Gabriel, 2001). These impressions are important because customers take such external clues into consideration when evaluating the performance of a service firm. According to the expectancy violation theory (Burgoon, 1978), expectancy violations may lead to negative consequences (Bailey & Bonifield, 2010). According to Sengupta, Balaji, and Krishnan (2015), when a firm's reputation is high, consumers will have high expectations of how the services will be performed. When these high expectations are not met, negative pre-recovery emotions and dissatisfaction will be higher and consumers' reactions will be more negative than reactions to a firm with a lower reputation. In order to build high reputation, firms have made considerable investment in employee training, control mechanisms, and service delivery systems to minimize failures (Hess, 2008). Research on branding theory indicates that these strategies lead to customers attributing positive associations to high reputable firms (Keller, 2013). These positive associations derived from high reputation may balance the negative impacts of service failure and enhance the effects of justice perceptions (Huang, 2011). Therefore, customers are expected to be more forgiving of firms with good reputation. In this way, failures can be more destructive for firms with undesirable reputation (Ghalandari, 2013).

In the service recovery literature, Hess (2008) was the first to investigate the impact of firm reputation on the relationship between service failure and service recovery satisfaction. He concluded that an excellent reputation reduces the negative impact of the severity of service failure on post-recovery satisfaction. Other researchers have investigated the joint impact of reputation and justice perceptions on consumer reactions. For example, the results of Nikbin, Armesh, Heydari, and Jalalkamali (2011) suggest that high firm reputation strengthens the effects of distributive and interactional justice on repurchase intentions. Ghalandari (2013) concludes that high firm reputation strengthens the effects of distributive and procedural justice on post-recovery satisfaction. Despite these results, firm reputation has not, to our knowledge, been examined within a pre-recovery emotion, perceived justice, and satisfaction context.

Thus, we propose that an excellent reputation will increase the post-recovery satisfaction by reducing the effect of negative emotions and increasing the positive effect of the perceived justice:

H2. Firm reputation will moderate the strength of the mediated relationships between pre-recovery emotions with post-recovery satisfaction via distributive justice (H2a), procedural justice (H2b), and interactional justice (H2c), such that the mediated relationship will be stronger under high firm reputation than low

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