



THE EFFECT OF RESTORED TRUST ON POST-RECOVERY REPURCHASE INTENTION

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ABSTRACT- Trust is considered a central construct in the relationship marketing and despite appreciating the role of service recovery efforts in restoring trust, service recovery literature has not explored the phenomenon much. Moreover, the position of trust in the service recovery context is still ambiguous. This led to the examination of the antecedents that explain the role of trust in the service recovery model and its consequential effect on the repurchase intention. A 3 (compensation level: 20%, 50% or 100%) x 2 (compensation type: refund or coupon) between subjects experimental study, based on a clothing scenario was conducted. The antecedents assessed to evaluate the role of trust were compensation level and type and satisfaction with service recovery. The model integrated restored trust as a serial mediator in the relationship between compensation level, satisfaction and repurchase intention. The results revealed that the inclusion of trust, as restored trust, generates a higher post-recovery repurchase intention. Our key finding of the role of trust as a serial mediator in the service recovery context implies that the companies should compensate for the failure as per customers' expectation to generate a higher repurchase intention.

Keywords: Service recovery, Compensation, Trust, Trust restoration, Repurchase intention

I. INTRODUCTION

The organizations strive to deliver high quality and consistent services in order to gain and maintain competitive advantage but despite their best efforts, the inherent nature of services leads to failures in the delivery process (Kelley & Davis 1994). Service failures should be addressed with effective recovery, which is an essential element of the firm's overall quality (Smith et al. 1999). Importantly, satisfactory recovery actions positively influence customers' evaluations, strengthen customer relationships and enhance customer trust (DeWitt et al. 2008).

On the other hand, poorly executed service recovery actions may lead to the defection of dissatisfied customers which not only results in financial but also reputation loss (Nguyen et al. 2012). Moreover, retaining the complaining customers is cost effective compared to investing in acquiring new customers (Maxham & Netemeyer 2002).

Distributive justice is considered a key driver of satisfaction with service recovery because customers expect their tangible loss to be refunded (Orsingher et al. 2010). Gelbrich and Roschk's (2011) meta-analysis reveals that compensation is the most powerful determinant of distributive justice and its effect is greater than the interactional and procedural justice. It is important that the value of the compensation equates the value of the loss experienced to generate satisfaction with service recovery (Mattila 2010).

Failure of the organization to meet customers' expectations also results in violation of their trust (Weun et al. 2004). If the trust is not restored, the changes in trusting beliefs will negatively influence customers' intentions and behaviors (Wang & Huff 2007). Service recovery efforts are regarded as mechanisms by which trust can be rebuilt after violations caused by service failures (DeWitt et al. 2008; Smith et al. 1999; Tax et al. 1998).

Firm's trustworthiness and post-failure customer trust depends on the evaluation of the service recovery efforts (La & Choi 2012). Customers expect their complaints to be resolved in a way that validates their decision to have opted for the service provider in the first place. Trust is strengthened when the firms' recovery efforts reflect concern for the needs and benefits of the customers (DeWitt et al. 2008). Kim (2014) considers trust to be a non-static construct that evolves with new experiences. Provision of appropriate service recovery is one such experience that reflects firm's ability and willingness to correct the problem (DeMatos et al. 2007).

Despite being considered the foundation of relationship marketing (Morgan and Hunt 1994), trust has not been a focus of service recovery studies and its position in the nomological network remains unclear (Gelbrich & Roschk 2011). Orsingher et al.'s (2010) meta-analysis, which examined the antecedents and consequences of satisfaction with complaint handling, found trust to be an infrequently studied consequence.

The vague position of trust in the service recovery context is because it has been studied as an attitudinal outcome of the customers' evaluations of the firm's recovery (Kau & Loh 2006; Tax et al. 1998; Weun et al. 2004) and also as a mediating variable (Choi & La 2013; DeWitt et al. 2008). Even though trust recovery has not been examined at large, two studies (Wang & Huff 2007; Pizzutti 2016) attempt to suggest recovery measures that restore customers' trust. Wang and Huff (2007) provide an understanding of the customer's response to the trust violation and the factors that lead to it. Basso and Pizzutti (2016) examined trust restoration after a double deviation through apology and promise.

Trust acts as a control mechanism that helps deal with the uncertainty concerning the firm's behavior (Kim 2014). In case of a service failure, it is crucial that the trust prior to failure be restored through appropriate recovery actions in order to regress customer switching behavior, and generate positive attitude and behavioral intentions. Keeping in view the equivocal position of trust in the service recovery context, the overall aim of our research is:

To understand the antecedents that explain the role of customer's trust in the service recovery context and the subsequent effect of trust on behavioral intentions.

The research will examine two research questions, grouped under the following key theme:

Does the relationship between 'satisfaction with recovery' and 'trust' define the latter's role in the service recovery context?

- 1) How does the satisfaction with recovery affect the restored trust?
- 2) How does the relationship between satisfaction and trust affect the repurchase intention?

II. BACKGROUND AND HYPOTHESES DEVELOPMENT

Firms should respond to service failures with effective recovery efforts in order to generate customer satisfaction, improve customer relationships and prevent defection (Orsingher et al. 2010; Bambauer-Sachse & Rabeson 2015). Employing service recovery process is even more crucial because customers are often more dissatisfied by a firm's failure to recover than by the service failure itself (Smith et al. 1999).

Compensation

The service recovery expectations of the customers act as a reference point that determines whether customers equate a specific recovery to a gain or a loss. The recovery effort of the organization must make customers believe that it has equitably made up for the loss bore by them (Grewal et al. 2008). Dissatisfied customers mostly want a replacement or compensation when they complain which is evident from most studies of post-complaint satisfaction (Goodwin & Ross 1992; Kau & Loh 2006; Smith et al. 1999; Tax et al. 1998).

The results of Orsingher et al.'s (2010) study further strengthen the premise that among the three dimensions of perceived justice, distributive justice has the strongest average correlation with satisfaction with complaint handling because customers expect the company to restore the service promise through a fair compensation.

Moreover, Gelbrich and Roschk's (2011) relative effect size analysis revealed that compensation is the most powerful determinant of distributive justice. In order to ensure satisfaction with the service recovery, the value of the compensation offered should match the value of the loss experienced (Mattila 2010).

Most of the service recovery studies have considered one or two levels of compensation to assess the causal relationships amongst their variables. For example, 20% discount (Mattila & Patterson 2004), \$10 voucher, 50% coupon, 20% discount (Grewal et al. 2008), 100% refund, 100% voucher (Roschk & Gelbrich 2014). We, therefore, propose to test 3 levels: 20% as minimum or basic, 50% as moderate and 100% as full compensation to deduce the relative effect of compensation on satisfaction. Since overcompensation has low incremental effect (Gelbrich & Roschk 2011), we do not wish to test its effect.

Hence we propose the following hypothesis:

H1: Compensation level will have a positive effect on satisfaction with service recovery.

Trust

In the context of service recovery, a customer's trust depicts his or her willingness to accept vulnerability on the basis of a positive expectation of the service failure resolution. Therefore, when the organizations respond to the customers' complaints in ways that demonstrate their consideration for the needs and benefits of the customers, trust is strengthened (DeWitt et al. 2008).

Customers' evaluation of the firm's recovery efforts are vital in re-evaluating the firm's trustworthiness and rebuilding post failure customer trust (La & Choi 2012).

An effective service recovery can make customers feel that the firm is able and willing to address the problem. Subsequently, a fair service failure resolution can have a positive impact on customer trust (DeMatos et al. 2007). However, Orsingher et al. (2010) reported trust to be an infrequent consequence of satisfaction with complaint handling and Gelbrich & Roschk (2011) excluded trust from their conceptual framework because it was only addressed in a few studies.

As mentioned before, trust has either been studied as a mediating variable or a consequence of service recovery satisfaction. However, there are two articles (Wang & Huff 2007; Basso & Pizzutti 2016) devoted to determining what actions firms can take to restore consumer trust. Wang and Huff's (2007) study focused on the first step toward trust restoration by understanding the nature of the customer's response to a trust violation.

Basso and Pizzutti (2016) showed that trust can be restored after a double deviation through apology and promise of the non-recurrence of failures, though it is not restored to its initial levels. Financial compensation and third-party endorsement were not found as effective for trust recovery, however, it should be noted that the participants of their study were only exposed to the double deviation scenario.

Hence the role of financial compensation as a trust recovery tactic is still to be studied for single deviations. Along with, the inclusion of trust in a few service recovery studies and its unclear position in the nomological network prompts us to propose the following hypothesis:

H2: Compensation level will be more effective in restoring the trust in the company.

The researchers have positioned trust as a mediating variable or as an attitudinal outcome of the customers' evaluations of the firm's recovery (Choi & La 2013; DeWitt et al. 2008; Kau & Loh 2006; Weun et al. 2004; Tax et al. 1998). Irrespective of the position of trust assigned by the previous researchers, they only focused on trust at one point in time i.e. after recovery. We on the other hand wish to assess the causes and effects of restored trust as a variable in our conceptual model. Along with assessing the direct effect of compensation on trust restoration, we also want to test the effect of satisfaction with service recovery on trust restoration. We therefore propose the following hypothesis:

H3: Satisfaction with the service recovery will positively restore the trust in the company.

Repurchase Intention

Repurchase intention is the likelihood of making future purchases from the service provider involved in the failure/recovery scenario (Holloway et al. 2005). Given that the cost of retaining an existing customer is less than prospecting for a new customer, repurchase intention is a very important consideration for marketers. Complainants who feel satisfied with the way the company has handled their problem are likely to repurchase (Maxham 2001).

The positive relationship between satisfaction with complaint handling and return intent is consistent across studies (Orsingher et al. 2010). In view of the equity theory, firms can positively restore low purchase intentions following a service failure by effectively resolving a perceived inequity, thereby preserving a customer's intent to repurchase from the firm in the future (Goodwin & Ross 1992).

In line with the previous service recovery studies (Grewal et al. 2008; Wirtz & Mattila 2004), we wish to examine the indirect effect of compensation on repurchase intention through satisfaction. Along with, we want to examine the direct effect of compensation on repurchase intention so as to establish which effect is stronger, if both the effects are possible. Therefore we propose the following hypotheses:

H4: Compensation level will have a positive effect on repurchase intention.

H5: Satisfaction with the service recovery will have a positive effect on repurchase intention.

The studies that incorporated trust as a mediator in their studies had loyalty as their dependent variable (DeWitt et al. 2008; Choi & La 2013). However, we wish to inspect the mediating role of trust in the relationship between compensation and repurchase intention. Moreover, the previous studies have not tested the mediating effect of the restored trust. Therefore, we put forth the following hypothesis:

H6: Restored trust in the company will have a positive effect on repurchase intention.

III. METHODOLOGY

In order to test the hypotheses, a between subjects experimental study, based on a clothing scenario was undertaken. The experimental design was 3 (compensation level: 20%, 50% or 100%) x 2 (compensation type: refund or coupon). Scenario based experimental research design allowed us to more easily manipulate the otherwise expensive or difficult manipulations. Since our study was based on the activities associated with service failure and recovery, which might unfold over days or weeks, experimental research design enabled the compression of time (Hess et al. 2003). The service context selected for our study was the buying of clothes, as it provided a familiar context to our respondents. The service failure described drew inspiration from the scenario of Gelbrich et al. (2014) and outlined a post-purchase failure involving a jacket, which is viewed as a service device (Vargo & Lusch 2004, cited in Gelbrich et al. 2014).

The respondents were first asked to think about a clothing brand from where they will consider to buy a jacket for themselves. This allowed us to establish that the respondents are familiar with the brand and have a certain level of trust in it. The respondents then answered questions that measured their trust (T1) and repurchase intention (RI1) before buying. The respondents then read the service failure and answered questions that measured their trust (T2) and repurchase intention (RI2) after failure. They also answered 1 question each for failure severity and failure responsibility. Each respondent then randomly received 1 of the 6 compensation manipulations i.e. 20%, 50% or 100% refund or coupon and answered questions that measured their satisfaction with service recovery, trust (T3) and repurchase intention (RI3) after recovery.

Sample

The questionnaire was distributed through surveymonkey and a total of 1573 complete responses were received. A rigorous screening process, based on responses to the attention check questions, identification of mahalanobis distance based multivariate outliers and response pattern checks, led to a usable sample of 714. The respondents had a mean age of 23.81 years (S.D. = 5.859) and 49.4% were female. 36% respondents

were French and 56% belonged to Pakistan. 45% respondents had a Bachelor's degree and 40% had a Master's degree.

Measures and Manipulation Check

Realism (The scenario presented to you is realistic) and believability (It is easy for me to imagine myself in this situation) of the scenario were recorded on a 7 point likert type scale (1 = strongly disagree, 7 = strongly agree). The results of one-sample t-tests show that the respondents considered the scenario to be realistic ($M = 5.17$, $S.D. = 1.43$, $t = 96.85$, $p < 0.001$) and were able to imagine themselves in the situation described in the scenario ($M = 5.41$, $S.D. = 1.33$, $t = 109.00$, $p < 0.001$). A one-way analysis of variance revealed that the satisfaction was significantly different across the 20% ($M = 3.68$, $N = 222$), 50% ($M = 4.38$, $N = 239$), and 100% ($M = 5.71$, $N = 253$) conditions, $F(2, 711) = 120.13$, $p < 0.001$ (Figure 1).

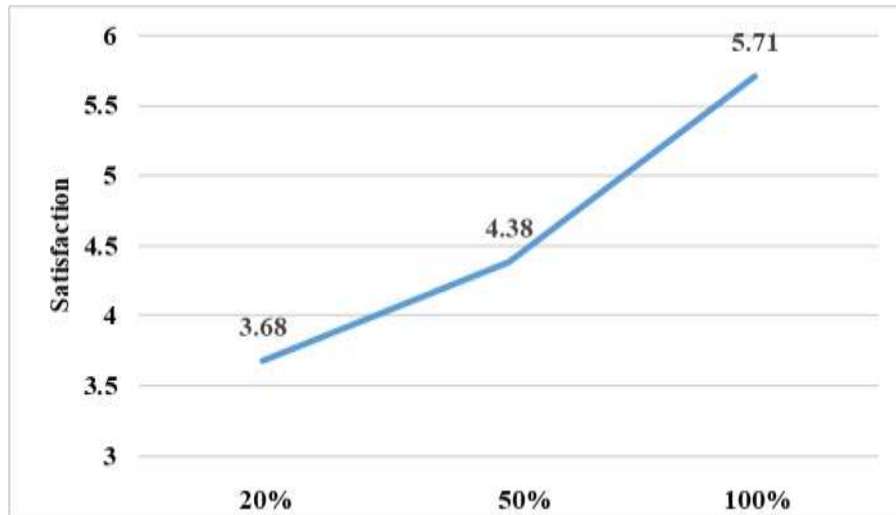


Figure 1: Satisfaction per compensation level

Trust was operationalized through 6 items adapted from Garbarino and Johnson (1999), Chaudhuri and Holbrook (2001) and Sirdeshmukh et al. (2002) and the responses were recorded on a 7 point likert type scale (1 = strongly disagree, 7 = strongly agree). KMO and Bartlett's test confirm the adequacy of sample. The developed scales for trust before buying (T1) ($\alpha = 0.827$), trust after failure (T2) ($\alpha = 0.944$) and trust after recovery (T3) ($\alpha = 0.959$) are reliable.

Repurchase intention was measured through the scale, adapted from Maxham and Netemeyer (2002). The responses were recorded on a 7 point likert type scale (1 = strongly disagree, 7 = strongly agree; 1 = very unlikely, 7 = very likely). KMO and Bartlett's test confirm the adequacy of sample. The developed scales for repurchase intention before buying (RI1) ($\alpha = 0.837$), repurchase intention after failure (RI2) ($\alpha = 0.911$) and repurchase intention after recovery (RI3) ($\alpha = 0.948$) are reliable.

In order to assess the satisfaction with service recovery of the respondents, the scale of Maxham and Netemeyer (2002) was adapted. The responses were recorded on a 7 point likert type scale (1 = strongly disagree, 7 = strongly agree; 1 = very unsatisfied, 7 = very satisfied). KMO and Bartlett's test confirm the adequacy of sample and the developed scale is reliable ($\alpha = 0.970$).

We controlled for the compensation type, failure severity, failure responsibility and RI1. Failure severity and failure responsibility were each measured by a single item (I consider this failure to be very severe; I feel responsible for this failure), both on a 7 point likert-type scale (1 = strongly disagree, 7 = strongly agree). One sample t-test showed that the failure severity mean = 4.63 ($S.D. = 1.44$, $t = 86.08$) is significantly above the midpoint ($p < 0.001$). The failure responsibility mean = 2.88 ($S.D. = 1.61$, $t = 47.73$) is significantly below the midpoint ($p < 0.001$) and implies that the respondents feel that the brand is responsible for the failure.

IV. ANALYSIS AND DISCUSSION

In order to test the hypotheses, we estimated the mediation model template 6 of Hayes' (2013) PROCESS macro with 5,000 bootstrapped samples, where compensation level is the independent variable X, repurchase intention after recovery (RI3) is the dependent variable Y, satisfaction with the service recovery is the mediator M1 and the restored trust (T3 - T1) is the mediator M2.

The effects of the independent, mediating and the control variables on 'satisfaction with service recovery', 'restored trust' and 'repurchase intention after recovery' are detailed in the following tables:

Table 1: Effects on satisfaction with service recovery; $R^2 = 0.30$

	Effect	Standardized effect	s.e.	t (708)	p
Compensation level	1.01	0.49	0.07	15.45	<0.001
Compensation type	-0.09	-0.03	0.11	-0.86	0.39 ns
Failure severity	-0.19	-0.16	0.04	-5.04	<0.001
Failure responsibility	0.16	0.15	0.03	4.76	<0.001
RI1	0.18	0.09	0.07	2.72	0.01

The significant positive effect of compensation level on satisfaction with service recovery, shown in Table 1 lends support to hypothesis 1.

Table 2: Effects on restored trust (T3 - T1); $R^2 = 0.52$

	Effect	Standardized effect	s.e.	t (707)	p
Compensation level	-0.07	-0.04	0.05	-1.29	0.20 ns
Satisfaction	0.58	0.71	0.03	22.80	<0.001
Compensation type	0.04	0.02	0.07	0.57	0.57 ns
Failure severity	-0.10	-0.10	0.03	-3.84	<0.001
Failure responsibility	0.02	0.02	0.02	0.76	0.45 ns
RI1	-0.13	-0.08	0.04	-2.89	0.004

Table 2 reports the non-significant effect of compensation level on restored trust, thereby leading to the rejection of hypothesis 2. However, the strong positive effect of satisfaction (standardized effect = 0.71) on restored trust lends support to hypothesis 3.

Table 3: Effects on repurchase intention after recovery (RI3); $R^2 = 0.69$

	Effect	Standardized effect	s.e.	t (706)	p
Compensation level	-0.06	-0.04	0.04	-1.46	0.14 ns
Satisfaction	0.18	0.21	0.03	6.53	<0.001
Restored trust (T3 - T1)	0.60	0.57	0.03	19.11	<0.001
Compensation type	0.10	0.04	0.06	1.77	0.08 ns
Failure severity	-0.07	-0.07	0.02	-3.46	<0.001
Failure responsibility	0.04	0.04	0.02	2.07	0.04
RI1	0.58	0.33	0.04	15.44	<0.001

Compensation level has a non-significant effect on repurchase intention after recovery, hence not supporting hypothesis 4. However, satisfaction with service recovery has a significant effect on repurchase intention, thereby lending support to hypothesis 5. This finding is also in line with the previous studies (Grewal et al. 2008; Wirtz and Mattila 2004) that demonstrated a positive effect of satisfaction with service recovery on repurchase intention. Having said that, the significant effect of restored trust (standardized effect = 0.57) on repurchase intention is greater than that of satisfaction with service recovery (standardized effect = 0.21). Hence hypothesis 6 is supported.

The following table depicts all possible indirect effects of 'compensation level' on 'repurchase intention' through 'satisfaction with service recovery', through 'restored trust' and through both 'satisfaction with service recovery and restored trust':

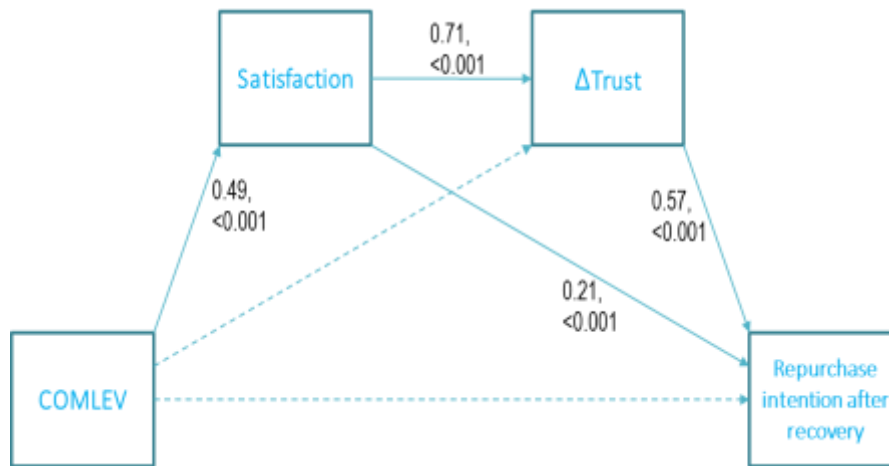
Table 4: Indirect effect of compensation on repurchase intention after recovery

COMLEV→SAT→RI3	COMLEV→ΔTrust→RI3	COMLEV→SAT→ΔTrust→RI3
0.11	-0.02 ns	0.20

Where COMLEV = Compensation level, SAT = Satisfaction with service recovery, ΔTrust = Restored trust and RI3 = Repurchase intention after recovery

The non-significant direct effect of compensation level on repurchase intention after recovery (RI3) and the significant indirect effect of compensation level on RI3 through both the satisfaction and restored trust (COMLEV → SAT → ΔTrust → RI3) support full mediation. The inclusion of restored trust as a serial mediator improves the indirect effect of compensation level on RI3 (0.20) compared to 0.11 achieved through only satisfaction. We can conclude that restored trust as a serial mediator with satisfaction generates higher repurchase intention after recovery (RI3), hence signifying the role of trust as a serial mediator.

The significant standardized effects of the hypothesized model are shown below:



Where COMLEV = Compensation level, Satisfaction = Satisfaction with service recovery, ΔTrust = Restored trust

Figure 2: Standardized effects of the hypothesized model

V. IMPLICATIONS FOR THEORY AND PRACTICE

Theoretical Implications

The main aim of this research was to establish the role of trust in the service recovery model, which has remained ambiguous as the researchers have positioned trust as an attitudinal outcome of the customers' evaluations of the firm's recovery (Kau & Loh 2006; Weun et al. 2004; Tax et al. 1998) and also as a mediating variable (Choi and La 2013; DeWitt et al. 2008). Contrary to the previous researches, where trust after recovery was included in the service recovery models, we integrated restored trust in our conceptual model. The results show that when satisfaction and restored trust act as serial mediators, a higher repurchase intention after recovery is generated (Table 4). Thereby, signifying the role of trust as a serial mediator in the service recovery context.

Firms can positively restore low purchase intentions by fulfilling customers' service recovery expectations, which as per DeWitt et al. (2008) is trust. However, the studies that incorporated trust as a mediator in their studies (DeWitt et al. 2008; Choi & La 2013) had loyalty as their dependent variable. We on the other hand

examined the mediating role of trust in the relationship between compensation and repurchase intention. The mediating effect of trust on repurchase intention, as restored trust, has not been assessed before and hence adds to the existing literature. A strong positive effect of 'restored trust' on 'repurchase intention after recovery' was observed (Table 3). This effect (0.57) is quite high compared to that of satisfaction with service recovery (0.24), leading to the inference that the fulfillment of recovery expectation generates a higher repurchase intention.

The monetary compensation is perceived differently by the complainants because of its immediate or delayed nature (Bambauer & Rabeson 2015) which is why we manipulated refund (immediate) and coupon (delayed) in our experiment. However, the non-significant effect of compensation type shows that the satisfaction with the tangible compensation depends only on its value, irrespective of the type (Table 1).

The positive significant effect of repurchase intention before buying (RI1) on repurchase intention after recovery (RI3) suggests that more the RI1, more will be the RI3 (Table 3). This effect, which has not been studied before, appears to keep the repurchase intention intact, despite failure.

Managerial implications

Trust in the service recovery context is the expectation of the failure resolution, which when fulfilled, validates the relationship in the eyes of the customer (DeWitt et al. 2008). Companies strive to correct their mistakes so as to keep customers' repurchase intentions intact. Our results show that the restored trust has a greater effect on the repurchase intention compared to satisfaction with service recovery's effect. This finding reiterates our notion that the fulfillment of the recovery expectation leads to a higher post-failure repurchase intention.

Since the customers' recovery expectations depend on their perception of loss, the firms should have procedures in place to assess the perception of customers' loss in various situations so that they can act accordingly in real time. Depending on the type of the service, firms can hold interviews or focus groups with their customers to understand how they feel about certain failures and what do they expect in return.

A higher initial repurchase intention signals customers intention to continue the relationship with a firm. It is important for the firms to manage their reputation so that the customer enters early transactions with as high a level of repurchase intention as possible and in case of a service failure, higher initial repurchase intention will safeguard post-failure intentions.

The non-significant effect of compensation type in our measured model implies that the managers can provide coupons to the customers to address service failures as they have been shown to have a positive effect on repurchase intention (Sparks & Kennedy 2001) whereas refund is risky because those who are refunded may never return (Gelbrich et al. 2014). Provision of coupon also allows the firms to provide better services to the customers the next time they visit to utilize the coupon, which may lead to the impression that the failure was a one-off incident.

VI. LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The first limitation of our research is the cross-sectional nature of data collection. The respondents answered the survey questions based on the brand of their choice and there is a possibility that they never experienced failure with the brand they stated or the failure portrayed in the scenario was never faced. The real intentions and attitudes might differ from the ones stated in the questionnaire. Therefore, the replication of the study with a longitudinal data is encouraged to assess if the attitudes and intentions revealed over time generate the same results as obtained in our study.

The second limitation of our study is the measurement of only repurchase intention as a behavioral intention after the recovery. The future research can benefit from the inclusion of word of mouth intention, especially when the customers nowadays can take to social media and appraise the services even before they actually repurchase.

The third limitation is the use of only three compensation levels (20%, 50% and 100%). Since the compensation level used in our scenario did not restore the trust to the pre-failure levels, the future research can benefit from the use of overcompensation to see if it can restore the trust to the pre-failure levels.

The fourth limitation is the use of only one service context in our scenario based study i.e. the buying of clothes. The findings cannot necessarily be generalized to other service context. The customers usually have industry or product specific knowledge that influences their failure and recovery expectations (Hess et al. 2003). The future research should examine the causes and effects studied in this research to see if they hold true for other service contexts.

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