

Service Failure, its Recovery and Client Loyalty

The Case of Restaurants in Durres

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Abstract

A customer facing service failure can respond by becoming our competitor's customer, complaining, or staying with the service provider and not reacting (Levesque & McDougall, 2000). Customers can react by spreading negative impressions and in this way affect the reduction of a restaurant's reputation. According to Bell and Luddington (2006), the opinion expressed by the customer during his complaint has a great value for the service provider.

This paper is based on a study in culinary industry considering restaurants in Durres area, Albania. The study is quantitative and the sample has been carefully analyzed to include and represent restaurants in the area. The purpose of this study is to analyze the perception of service failure and what the factors influencing perception are. We aim to understand what would push a customer to return to a restaurant, even after facing service failure. In this study we will identify

the factors that affect service failure and recovery.

The findings include the statistical significant relationship that customer satisfaction has in perception of service failure, and in its subsequent recovery efforts. In the same logic, variables such as demographic indicators play a role in the perception of customers in service failure and recovery.

Keywords: Customer Satisfaction, Marketing Research, Albania, Services, Service Failure

Jel: D23, M31, L83, L21

1. Introduction

As the market faces more and more economic changes and innovations, customer commitment has become a challenge in itself and customer loyalty poses a competitive advantage for restaurants (Eccless et al., 1998). Regardless of whether a product or service is offered, it is important that the offered service meets clientele expectations (Levesque et al., 2000).

Quality of service, which is perceived by the customer at the moment of contact between

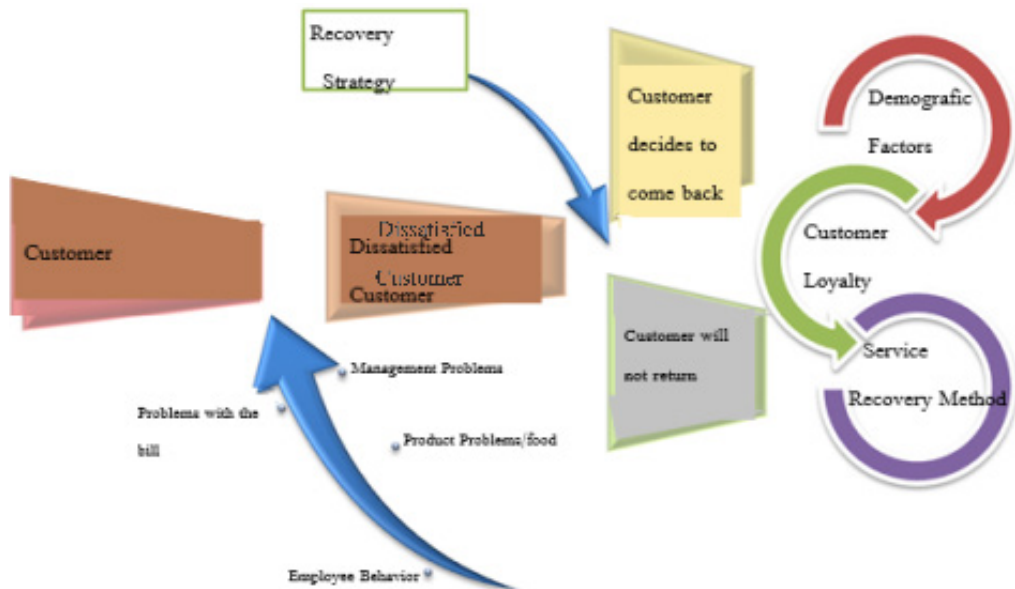
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the customer and the service provider, is the main factor of customer satisfaction (Bateson, et al., 1999). One of the basic characteristics of services is the fact that the service is produced and consumed in the presence of the customer. This increases the chances of having more incidents or errors, which are the most critical components of services (Hart, 1990). Whenever an incident occurs, and the client perceives it, we face customer dissatisfaction. When dealing with an incident, customers react in different ways. In many cases this can be accompanied by a complaint from the customer, which if resolved in the right form can give a positive

result to the customer and make him remain a loyal customer of the restaurant.

But in other cases, the opposite can happen. The client does not show his complaint and the manager or staff of the restaurant do not have the opportunity to recover from the incident caused, or even to understand the existence of an incident. In these cases, it is very difficult to keep the client or understand his/her dissatisfaction, which is why we focus on solving incidents where we can understand the problem and find a way to solve it in the best way possible. For this reason, the area of interaction between the customer and the service provider is considered a delicate area for service providers (Hart et al., 1990).



Source: Authors

This model is used in cases where an incident occurs in the area of interaction between the customer and the restaurant staff. According to this model, the factors that influence dissatisfaction can be different, starting with the behavior of the manager and employees of the restaurant, such as the

moment the customer enters the restaurant he is not greeted by employees or is not paid any attention by them to be accommodated. Another factor may be a problem with the product, so the food offered is not according to the standards perceived by the customer. "Body language" is another factor that can

affect the dissatisfaction, the facial expression of the employee, or the gestures he/she makes. But, there may be other cases where an error in the invoice brings dissatisfaction to the customer and this may negatively affect the performance of the restaurant in the eyes of the clientele. And last but not least, the fact that we have a clientele emotional state, a tiring day, a bad emotional state which can cause a very small mistake to possibly be perceived negatively by the client and take on much larger dimensions compared to what it actually should.

2. Variables Measured and Used in the Study

2.1. Customer Satisfaction

Westbrook and Reilly (1983) refer to satisfaction as an “emotional response”, while Howard and Sheth (1986) consider satisfaction as “a current state of the buyer”. Most definitions of clientele satisfaction include emotions. Giese and Cote (2000) in their definition underline that pleasure is a combination of cognitive and affective dimensions (Oliver, 1997). Recent research includes the relative importance of the impact of cognition on judgment of satisfaction as well as the time factor (Cote et al., 1989). For example, Homburg (2006) points out that the impact of satisfaction increases over time, even though satisfaction is conceived as a single exchange (a judgmental assessment that relates to the moment of purchase) or successive exchanges of service at different time periods. Anderson & Fornell (1994) note that all satisfaction-related studies have adapted the single transaction view. In these conditions, many researchers criticize the field of marketing for treating clientele satisfaction

as a statistical assessment based on a single moment (“single trial event”).

2.2. Service Failures

Service failures (SF) occur when customers experience dissatisfaction caused due to service, which was not provided in the planned or expected manner. But we must keep in mind that service failure is determined by the customer and not by the service provider (Ennew & Schoefer, 2003). Classifying service failure according to them is the first important step in understanding customer response to service incidents. The literature related to the field of services distinguishes two types of failures in service; result failure and process failure (Bitner et al., 1990). Failure in the result reflects what the customer receives from the service, while the dimension of the process includes the form of how the service is provided, i.e. the way of service (Parasurama et al., 1985). Bitner analysis included 700 failures in various areas, such as air travel, hotels and restaurants, and as a conclusion three major categories of service failure were created. Category 1: How employees respond to service failure, Category 2: Employee response to customer requests and needs and Category 3: Employee actions that affect customer satisfaction.

In the theoretical part we examined the analysis of researchers in relation to the factors influencing service failure. Having presented an outline of the basic concepts of failure and its experience by customers, we will now try to understand what the factors that influence failure are. We noticed that there are many factors that influence failure:

- Behavior of staff
- Problems with the product
- Invoice problems
- Staff behavior and product problems

Articles

- Staff behavior and billing problems
- Problems with the product and problems with the invoice

2.3. Service Recovery (SR)

The purpose of service recovery is to “seek out and address service failures” (Johnson, 1995). It is the “seeking out” part that determines the difference between service recovery and complaints treatment. Most customers do not even bother to complain and this makes them choose another service provider. Clients always claim that their complaint is resolved as quickly and as simply as possible (Kamran and Attiq, 2011). According to these two authors, delayed responses can result in clientele dissatisfaction. Accountability is the biggest dimension of service quality and customer satisfaction, especially during the recovery process.

Restaurants that retain a special staff to handle customer complaints can provide more customer satisfaction through the recovery process. Procedures tailored to satisfy a clientele who is facing a failure are important elements that provide satisfaction to the clientele even in cases where the latter experiences a dissatisfaction. In cases where the clientele’s complaint is handled by the service provider, the clientele receives the message that the restaurant is really interested in its clientele. (Kamran and Attiq, 2011).

Given the fact that we are studying recovery in restaurants we assume that the resolution of the situation by the service provider is done:

- By way of apology
- Financial reward
- Financial forgiveness and reward

- Apology, financial reward and clarification of the situation.

3. Data Analysis

The way of measuring these variables is done through a questionnaire which is distributed in the Durres area using a non-systematic or non-probabilistic statistical sampling based on the intentional judgment of researchers. This method is taken from the literature and other similar studies to give the most reliable results for studies of this type and measurement of services in the tertiary services industry. Great care has also been taken that the quotas of gender respectively and of the age groups taken in the study and studied to be preserved and to be representative of the strata of the population. So, there is an element from the stratified probability sample which is very important for studies of this kind.

The margin of error is the permissible limit error and is predetermined at the rate of 1.5 or 10% by researchers. On this basis, based on the pilot sample variance and a confidence level (usually 0.95), the required number of data that is thought to respect the predefined error margin is calculated. To determine the margin of error, we relied on the data obtained during the pilot testing for age and satisfaction experienced by the clientele.

Based on pilot data for age:

For $n = 20$ the margin of error for age is about 3 years, or about 10%.

To reduce the margin of error to 5%, or 1.5 years, would take about 84 data. Given that in our study we completed 880 surveys then we can say that the data collected are sufficient to meet the validity of this study.

Based on pilot satisfaction data:

For $n = 20$ the margin of error for satisfaction is about 0.66, or about 29%.

To reduce the margin of error to 5%, or 0.11 units, about 730 data would be needed. Even in this case we can say that the paper is valid as the data we have collected are 880 which is way more than 730. So, the number of data we have is more than enough to provide an error margin of 5% around the average age and average satisfaction, a variable which in data testing is coded as KENA, short for Kenagesia or Satisfaction.

While the second method we used to determine the sample size is the method called Sloven's (1960) used by Yamane (1973), Swim and Stangor (1998), Bell and Bryman (2003) and Myftaraj (2014), etc.

$$n = N / (1 + Ne^2)$$

Where; n - sample size

N - Population size

e^2 - margin of error

Durrës is a city with 200000 inhabitants which is visited every year by a considerable number of tourists. We assume, based on the numbers of tourists from the authorities, that the restaurants of this city in the first half of the year receive service 200000 customers coming from other countries, inside and outside Albania. So under these conditions the mass of population N is 400000. Based on the literature and the interest of the veracity of this study we will get an error margin of = 5%.

Given these data we calculate the appropriate sample size to generalize the results of this study.

$$\begin{aligned} n &= 400,000 / (1 + 400,000 * (0.05)^2) \\ &= 400,000 / 1001 = 399.6 \approx 400 \\ &\text{individuals} \end{aligned}$$

Based on the results and logic explained above, the appropriate sample size to derive reliable results for this study is 400 persons. To make these results even more credible we have selected to distribute 1000 questionnaires, of which only 880 are valid for consideration. Through them we have managed to analyze the causes which affect the dissatisfaction of the clientele in restaurants, and the perception of the clientele of the recovery of service in restaurants.

4. Data Reliability

Reliability analysis tests whether consistency reflects the elements it measures (Churchill, 1979; Dunn et al., 1994; Nunnally and Bernstein, 1994). The first meaning of consistency is that a respondent should answer a questionnaire in the same form every time he/she undertakes to complete it. Second, two respondents can respond in the same way regarding service failure and recovery. Under these conditions it is necessary for a study to undergo a validity test (Carmines and Zeller, 1979; Lam and Woo, 1997). One of the methods of measuring data validity is the Kaiser-Meyer-Olkin (KMO) technique, proposed by Kaiser (1970). KMO values range from 0 to 1. Kaiser (1974) recommends that if $KMO = 0.5$ it can be considered a good value for the study, when $0.5 < KMO < 0.7$ the value of KMO can be considered average, when $0.7 < KMO < 0.8$ can be considered good, and where $KMO > 0.8$ we can say that its value is very good (Hutcheson and Sofroniou, 1999). The KMO for our study is 0.811, which belongs to the very good rating.

Table 1. KMO and Bartlett test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.811
Bartlett's Test of Sphericity	Approx. Chi-Square df Significance	5702,739 210 .000

Source: Authors

The Bartlett test of sphericity as well as the anti-image correlation & covariance matrix provide similar information (Field, 2005). The KMO values for each of the elements are displayed diagonally in the correlation matrix. The rest of the anti-image correlation matrix which is below the diagonal shows a partial correlation between the variables. Most of these correlations are very small. For this study the Barlett test makes a lot of sense ($p = 0.000$).

4.1. Demographic Factors

Before testing the log model we developed the test for compatibility between variables (Andrews & Hosmer-Lemeshow Goodness-of-fit-test). Through this test, we will see if the data obtained in the study conflict with our

dependent variable. The compliance test (TP) helps us decide whether the model we have selected is the right model or not. With this test we analyze the value of p which if it is low (less than 0.05) tells us that the selected model is not the right model. If the p value is high then the selected model is suitable to test our hypothesis.

Table 2. Andrews Compatibility Test

	Testi Chi	Degrees of freedom <i>Df</i>	probability <i>p</i>
HL Statistics	5.0485	8	0.7524
Statistics Andrews	8.0073	10	0.6281

Source: Authors

Based on the above statistics and the Andrews and Hosmer-Lemeshow Tests we say that the binomial logistic model selected for testing this hypothesis is valid. Under these conditions through the EViews program we developed binomial logistic regression. In this regression the dependent variable is satisfaction while the independent variables are demographic indicators.

Table 3. Logit model

Model	ML-Binary Logit		
Number of observations	880		
availability			
<i>Statistics LR (5df) Standard Error SE</i>	18.55424		
<i>McFadden R²</i>	0.370127		
	0.23366		
Variables and Hanging	Pleasure		
<i>Regression constant</i>	0.916		
Independent variables	coefficient	probability	
<i>Mosha (AGE)</i>		0.023	0.0005
<i>Income (ARDH)</i>		- 0.0094	0.0095
<i>Education (EDUK)</i>		0.265	0.0527

Source: Authors

In order for binomial regression to be valid we must refer to three statistical elements. First we have the LR statistic, otherwise known as the Likelihood Ratio. According to this coefficient at least one of the variables included in the model is significant. We see from the table that the LR statistic has a value greater than 0.5, and based on Gujarati (2004) the higher the LR value, the more meaning the selected model has.

The second element used to indicate the validity of the model is the standard SE error. The standard error is the standard deviation from the predicted error. The smaller the standard error the more reliable the logarithmic model. The larger the number of population taken in the study, the smaller the standard error. Based on the two newly discussed characteristics on standard error, given that the population taken in the study is relatively large we see that the standard error in our model is 0.37.

Since the coefficient of determination R^2 is a coefficient which does not make much sense in the case of logarithmic models (Aldrich and Nelson, 1981) we need to take into account alternative values of the coefficient of determination R^2 . According to McFadden (1974), in order for the model to be statistically significant the pseudo-coefficient R^2 must be in the range 0.2– 0.4. Based on the summary table of the logit model we see that the McFadden R^2 has a value equal to 0.23, a value which matches the appropriate characteristics to show the validity of our model.

Based on the data of Table 3 the independent variables (which represent the demographic characteristics) which affect the clientele satisfaction are: age, income and education. We notice from this table that

all three of these variables are statistically significant based on the probabilities of each of them, we must say that Education is marginally significant since the value of p is between 0.05 and 0.1. The first independent variable that affects clientele satisfaction is age. Age is positively related to satisfaction, so the older an individual is, the more he neglects service failure. We see that the probability for age is $p = 0.0005$; thus, we are dealing with a statistically significant value. Precisely for this reason we say that age is related to clientele satisfaction; so, furthermore in defining the model and its variables the variable "Age" is very important to the formula of customer satisfaction in case of a service failure.

The second variable which is statistically significant, based on the value of $p = 0.0095$, is education. We note that education has a positive coefficient of 0.265, which indicates that education is positively related to clientele satisfaction; thus, the more educated an individual is, the more he experiences pleasure. The more educated an individual is, the more tolerant he is in evaluating satisfaction and experiencing failure.

The third variable that appears (marginally) statistically significant compared to the 6 demographic variables included in this study is income ($p = 0.0527$). Income coefficient is a negative coefficient, which indicates that the more income an individual has, the more selective he appears to us in experiencing satisfaction and service failure, as opposed to satisfaction. So as income increases, satisfaction decreases and the tendency to experience a failure increases.

Based on the statistical analysis of the logit model, under these conditions we can write that:

$$\text{KENAQ} = 1 - \text{@ LOGIT} (- (0.916 + 0.023 * \text{AGE} - 0.0094 * \text{ARDH} + 0.265 * \text{EDUK})) + e$$

Where: Variable and dependent
 KENAQ Satisfaction Independent variables
 AGE Age
 ARDH Earnings
 EDUK EDUCATION

Satisfaction is likely to increase with age and education, and decrease with increasing income. Failure, on the other hand, has the potential to decrease with age and education, and increase with increasing income.

Based on the above analysis we can say that the basic hypothesis does not hold and should be rejected as demographic factors such as age, income and education affect service failure and customer satisfaction. The connection that emerges from the theory that these variables are statistically significant is confirmed, and they also apply to the population of Durrës taken into study.

4.2. The Impact of Loyalty on Perception of Failure

Being a loyal customer is an element that can positively or negatively affect a customer's perception of a service failure

situation. Each of the failure scenarios in this study is accompanied by a recovery scenario, ranging from when there is no recovery to when recovery involves every possible element, such as apologizing, financial reward, and clarifying the situation. Loyal customer dissatisfaction was measured with 7 Likert scales in the questionnaire of this study.

Table 4. Incident Bypass Rate

Scenarios	The impact of loyalty on circumvention of incident (max 7)
R0	3.27
R1	3.56
R2	4.14
R3	3.92
R4	4.29
TOTAL	3.86

Source: Authors

The table shows us that in general the rate of incident bypassing by loyal customers is not relatively high $((3.86 / 7) * 100)$; 55% of customers ignore the incident due to the fact that they consider themselves loyal customers. We notice that the bypass rate is higher in the 5th scenario with 61%. This can be justified by the fact that the fifth recovery scenario includes all possible types of recovery.

Table 5. Incident and Scenario Bypass Anova

Source	Sum of Squares	Df	Mean Square	F-Ratio	P-Value
Main effects					
scenario	122,561	4	30.6403	9.61	0.0000
Residual	2790.35	875	3.18897		
TOTAL (CORRECTED)	2912.91	879			

Source: Authors

The analysis of ANOVA variation in table 5 reflects that the type of scenario has a statistically significant impact on

the perception of the incident by the loyal customer ($p = 0.0000$).

The zero or main hypothesis, according to which being a loyal customer does not affect the perception of service, is rejected and the alternative hypothesis stands according to which being a loyal customer affects the perception of service

Based on the above statistical analysis we can say that bypassing the loyal customer to the service failure he has experienced depends on the type of scenario that the customer is facing; looking at the averages,

we see how much the latter scenario creates more customer loyalty.

4.3. Loyalty and Recovery

Loyal customers of a restaurant are those who frequent the restaurant because of a connection they have with it. The connection can be the satisfaction they receive from the service, the politeness, the product/food, or other elements that create a connection between the customer-restaurant parties. In Table 6 we can look at the customer satisfaction assessment in case the service failure and its recovery would occur between the loyal customer and the restaurant.

Table 6. Loyal Customer Descriptives

<i>Would the recovery assessment affect if you were a loyal customer</i>	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>average</i>	<i>Deviation</i>
	880	0	7	5.12	1,698
	<i>Frequency</i>	<i>%</i>	<i>% valid</i>	<i>% summary</i>	
I do not agree at all	42	4.8	4.8	4.9	
I do not agree	35	4.0	4.0	8.8	
I do not know	70	8.0	8.0	16.7	
I just agree	145	16.5	16.5	33.2	
I agree	156	17.7	17.7	50.9	
I very much agree	201	22.8	22.8	73.8	
I completely agree	231	26.3	26.3	100.0	
Total	880	100.0	100.0		

Source: Authors

As we can see in the first part of the table, the average recovery rating in the case of a loyal clientele is 5.12, out of a maximum rating equal to 7; thus, it belongs to a high rating average. From this we can say that when the client is loyal he evaluates the recovery more positively. Only 70 out of 880 respondents do not give an accurate answer regarding their attitude towards service recovery in

case they would be a loyal customer, but the rest is clearly positioned towards a positive perception of recovery.

To see if there are statistically significant differences between the satisfaction rating after experiencing recovery for loyal clients and other (random) clients, we used the t-test and found that the level of satisfaction assessment after experiencing recovery for

loyal clients is higher ($M = 5.12$, $SD = 1.70$) than the level of satisfaction rating for other customers ($M = 4.06$, $SD = 1.942$) and the difference is statistically significant ($p = 0.0000$).

We continued our analysis using variance analysis and noticed that the recovery estimate in the case of the loyal customer is

statistically significant even according to a number of other factors, such as age ($p = 0.0000$); gender ($p = 0.0773$ - meaning marginally significant); marital status ($p = 0.0001$); as well as the scenario ($p = 0.0714$ - marginally significant), but not according to income ($p = 0.4417$) and education ($p = 0.1400$).

Table 7. Anova for Loyal Customer Satisfaction

<i>Source COVARIATES</i>	<i>Sum of Squares</i>	<i>Df</i>	<i>Mean Square</i>	<i>F-Ratio</i>	<i>P-Value</i>
Age	190,486	1	190,486	73.32	0.0000
incomes	1.53775	1	1.53775	0.59	0.4417
MAIN EFFECTS					
EDUCATION	14.2654	3	4.75514	1.83	0.1400
gender	8.10884	1	8.10884	3.12	0.0773
Marital Status	46.8468	2	23.4234	9.02	0.0001
scenario	22.4773	4	5.61934	2.16	0.0714
RESIDUAL	2249.91	866	2.59805		
TOTAL (CORRECTED)	2507.48	878			

Source: Authors

Based on statistical analysis we can say that the basic hypothesis is rejected and hypothesis H1 is confirmed, in this case not only the impact of the scenarios is confirmed but also the fact that demographic factors have an impact on the loyal customer;

Being a loyal customer affects the perception of service recovery

5. Conclusions

This study was conducted in order to create a measurement and a relationship of variables that matter and affect satisfaction, perception of service failure and the relationship that customer loyalty has with its failure and recovery. So, after an incident or an event occurs which causes customer dissatisfaction, all actions that management

does or does not do affect the recovery of satisfaction, loyalty, etc.

In this study we look in detail if and how demographic factors affect customer satisfaction in cases of failure or incidents in facilities. Also using the logit model or Logistic Regression via the EViews program. Other tests have also been used which clearly express the relationship between variables such as LSD, Anova, etc.

It can be seen from the analysis of the data that the formula for satisfaction depending on age, income and education is such that satisfaction depends directly on income and education, so the relationship is positive which shows that with age a client tends to be more satisfied even in situations of incidents or in case of service failure. Also, the higher

the education, the higher it tends to be in every case. The relationship that is inverse and statistically significant between income and satisfaction changes. So, the higher the income, the lower the satisfaction, especially in cases of service failure or service incidents.

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