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The effect of CSR on consumer behavioral responses after service failure and recovery

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Abstract

Purpose – This paper aims to examine the interconnection between the consumer perceived corporate social responsibility (CSR) and its effect on the post-recovery satisfaction and loyalty after service failures.

Design/methodology/approach – An intercept survey has been conducted during June to August, 2015, in the Delhi NCR area of India. The respondent to the survey includes the hotel customers who have experienced the service failure in the previous one year. The convenience sampling method has been used with the structured questionnaire. To test the proposed model, structural equation modeling is applied.

Findings – The finding of the present study provides the empirical evidence of the existence of a relationship between perceived CSR and customer post-recovery satisfaction and loyalty influenced by trust.

Research limitations/implications – The present study has suffered from the recall biases in the survey data. Although the responses were gathered from respondents on the basis of their actual service recovery experience in the preceding year, recall bias may have influenced the responses. The present study highlights a salient role of CSR initiatives, wherein managers can understand the influence of perceived in CSR and analyze the service recover encounters and ensure that recovery process improves the customer perception of CSR.

Originality/value – This study reinforces the significance of consumer perceived CSR and its effect on post-recovery satisfaction and loyalty after service failures.

Keywords CSR, Customer satisfaction, Service failure, Service recovery

Paper type Research paper

Introduction

Service failure and recovery are important issues for both academics and service practitioners (McCollough *et al.*, 2000). Understanding service recovery is important for hotel managers because service failure is a "pushing determinate" that motivates the customer to switch to the other service provider (Ross, 1999); a successful service recovery strategy can be the difference between customer defection and retention. Considering the importance of effective service recovery strategies in shaping consumer behavioral response, both service recovery and consumer behavioral response have received relatively less research attention (Lee *et al.*, 2011; Bolton and Mattila, 2015).



European Business Review Vol. 28 No. 5, 2016 pp. 583-599 © Emerald Group Publishing Limited 0955-534X DOI 10.1108/EBR-11-2015-0134 Customer revisit intention is critical to the profitability of a hotel (Berezan *et al.*, 2013). It is well known that retaining existing customers is less costly than acquiring new ones (Reichheld and Sasser, 1990; Hess *et al.*, 2003). In a relationship marketing context, strategies aimed at retaining existing customers seek to:

- minimize the impact of service failure; and
- in the event of service failure, provide suitable recovery remedies (Lee et al., 2011).

Given the nature of services, it may not be entirely possible to eliminate chances of service failure during the service delivery process (McCollough *et al.*, 2000). When a customer encounters a service failure, which results in dissatisfaction, an effective service recovery strategy by the service provider can restore customer satisfaction which in turn may lead to customer retention (Ok *et al.*, 2006). This may also, at times, please the customer such that the customer feels greater satisfaction and develops stronger commitment toward the service provider (Spreng *et al.*, 1995).

Some authors have reported findings consistent with the service recovery effect (Bitner *et al.*, 1990; Smith and Bolton, 1998). For instance, Hart *et al.* (1990, p. 148) stated "A good recovery can turn angry, frustrated customers into loyal ones. It can, in fact, create more goodwill than if things had gone smoothly in the first place". On the other hand, some studies have reported contradictory results of the service recovery effects (Bolton and Drew, 1991; Zeithaml *et al.*, 1996). It has been empirically demonstrated in previous studies that error-free service delivery is preferable to good service recovery (McCollough *et al.*, 2000). It has been suggested that consumer perception of companies socially responsible practices can result in a change of attitude of service recovery performance (Choi and La, 2013). If a company does not respond appropriately to service failure, it may negatively affect customer perception of the company's corporate social responsibility (CSR) activities which might further result in negative consumer behavior such as complaints and negative word of mouth (Bolton and Mattila, 2015).

Recent studies have suggested that hospitality companies implement CSR activities as a business strategy to achieve competitive advantage and build long-term relationships with customers (Martinez and Bosque, 2013). Studies have also shown that CSR activities serve as "insurance protection" for the company (Godfrey *et al.*, 2009) and have a"halo effect" that influences customer perception even in non-routine situations (Siu *et al.*, 2013). Although little attention has been paid to examining the effect of perceived CSR in the context of post-recovery satisfaction and loyalty after a service failure (Siu *et al.*, 2013). The present study seeks to examine whether consumer perception of a company's socially responsible practices may lead to a change in consumer attitude toward service recovery measures of the company in the event of a service failure. In other words, this paper observes how perceived CSR affects post-recovery satisfaction and loyalty of customers.

The present study proposes a comprehensive model that includes CSR and other key constructs such as recovery satisfaction, trust and loyalty to gain a deeper understanding of how consumer perception of a company's socially responsible practices is connected with consumer behavior outcomes during service recovery. The role of customer trust, perceived CSR and their interaction effect on recovery satisfaction and loyalty is of interest to both academics and practitioners (Choi and La, 2013). While examining the mediating effect of trust in the relationship between perceived CSR and

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post-recovery satisfaction after a service failure, the present study seeks to answer the following research questions:

- *RQ1*. How consumer perception of CSR of hotels is related to customer post recovery satisfaction and loyalty after a service failure.
- *RQ2.* Does consumer trust with hotels serve as an intermediating variable in the proposed relationship between perceived CSR activities of a company and customer satisfaction with service recovery measures in the event of service failure?

The investigation of these research question contributes to the literature in many ways. First, prior studies on CSR has mainly focused on its influence on various consumer behavioral outcomes but have largely ignored the context of service failure. Particularly, we assess whether the consumer perception of CSR initiatives will mitigate the negativing effect of service failure, thereby addressing the substantial gap in the literature. Addressing this gap also, this study contributes to literature by exploring the significant role of perceived CSR in establishing the customer satisfaction and loyalty after service failures. Second, identified findings provide the boundary conditions on CSR including theoretical and managerial that increases its effectiveness. Third, our study extends the prior research on consumer responses to CSR in the context of the hotel industry with regard to service failure followed by a service recovery.

The remainder of the study is structured as follows: First, a theoretical background of the study variables is given and hypotheses proposed, followed by a description of the research method used in the study, results and analysis. Next, discussion, theoretical contribution and managerial implications are presented. The article concludes limitations and suggestions for future research.

Theoretical background and hypothesis development

Service failure

Service failure is a very common phenomenon in service organizations due to the intangible and inseparable nature of the characteristics of services which hinder the flawless service delivery (La and Choi, 2012). Service failure refers to a situation where a customer feels dissatisfied with the service provided because service performance does not meet customer expectations. Smith *et al.* (1999) identified two types of service failures – process and outcome. Process failure refers to an error in the manner the service is delivered, while outcome failure implies the dissatisfaction of a customer as a result of services received (Gronroos, 1988). For instance, in the hotel industry, when a customer books a hotel room, but does not get the booked room due to neglect, it is an outcome failure. In the same example, the receptionist or the agent speaking rudely or in differently to the customer would be a process failure.

Service recovery

Service recovery refers to an action that a service provider takes in response to a situation when failure occurs (Gronroos, 1988). Several recovery options are available to the service provider in the event of service failure, such as compensation, discount, providing additional service, offering a gift of perceived greater value by the customer and a sincere apology. Such gestures with politeness in communication may also affect customers' post-recovery satisfaction (Goodwin and Ross, 1992). Previous studies have

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shown that service recovery plays an important role after a service failure in achieving customer satisfaction and retention (Smith *et al.*, 1999; Bitner *et al.*, 1990). Literature supports that two dimensions are critical to service recovery – process and outcome. Outcome service recovery refers to the tangible output given to dissatisfied customers (Weun *et al.*, 2004). Process recovery includes the manners in which a service provider handles the problem during service recovery (Weun *et al.*, 2004).

Corporate social responsibility

Building a socially responsible reputation has become an important practice in the hotel industry (Lee and Park, 2009; Bolton and Mattila, 2015). CSR refers to the company's activities with respect to its perceived societal obligations (Sen and Bhattacharya, 2001). A considerable amount of literature has considered the impact of CSR activities on various outcomes (Fatma and Rahman, 2015) such as financial performance (Cochran and Wood, 1984) and consumer perception and behavioral outcomes (Tian *et al.*, 2011; Sen and Bhattacharya, 2001; Fatma and Rahman, 2016). A company's socially responsible activities tends to result in positive consumer attitude and trust toward the company (Berens *et al.*, 2005; Fatma *et al.*, 2015) which enhance customer satisfaction (Luo and Bhattacharya, 2006) and loyalty (Salmones *et al.*, 2005). In addition, consumers resist negative information about the company when they perceive the company as socially responsible (Klein and Dawar, 2004). CSR activities build goodwill and reputation and generate the moral capital that safeguards the firm from the impact of unfavorable events (Godfrey *et al.*, 2009).

Corporate social responsibility and customer trust

Chaudhuri and Holbrook (2001, p. 37) defined trust as "a willingness of the average consumer to rely on the ability of the brand to perform its related function based on the belief of the brand reliability, safety and honesty". CSR activities of a firm to provide information regarding the company's ethics and values that help in building consumer trust (Brown and Dacin, 1997). Pivato *et al.* (2008, p. 5) stated "the creation of trust is one of the most immediate consequences of a company's social performance". Socially responsible activities are known as pro social corporate endeavors that safeguard the society as well as company interest, and result in increased trust among consumers (Sen and Bhattacharya, 2001). Thus, the following hypothesis is proposed:

H1. There will be a positive relationship between customer perceived CSR and trust.

Corporate social responsibility and customer satisfaction

Customer satisfaction is an important aspect of building and maintaining long term relationships with customers which are essential for the survival of the firm (Siu *et al.*, 2013). Nam and Lee (2011, p. 987) describe customer satisfaction as "[...] an important starting point for establishing and maintaining long term customer retention and competitiveness". According to the expectation disconfirmation theory, a customer is satisfied when the product or service fulfills or exceeds the expected performance (Oliver, 1980). Customers feel dissatisfied with the firm when a product or service does not perform as expected. Dissatisfied customers tend to spread negative word of mouth and switch to another service provider (Hennig-Thurau *et al.*, 2002). Good service recovery is an important step toward restoring customer satisfaction (Fornell and

Wernerfelt, 1987) and is considered a critical "moment of truth" that determines the relationship with customers (Smith and Bolton, 1998).

Service recovery encounters give a chance to customers to reevaluate the service provided. Customer satisfaction is directly related to customer loyalty (Fornell *et al.*, 1996), which in turn results in profitability of the firm (Bitner *et al.*, 1990). Luo and Bhattacharya (2006) found a direct and positive relationship between a company's CSR activities and customer satisfaction showing that CSR activities could enhance customer satisfaction. Previous studies in the hospitality context support the existence of a positive relationship between CSR and customer satisfaction (Martinez and del Bosque, 2013). Thus, we propose:

H2. There will be a positive relationship between customers' perceived CSR and post recovery satisfaction after service failure.

Corporate social responsibility and customer loyalty

When a company is perceived as unethical, the consumer reacts negatively to that company by boycotting, complaining or spreading negative word of mouth (Alexander, 2002). Gundlach and Murphy (1993) stated that companies following ethical practices were able to build long term relationships with customers, and customers became loyal to such service providers (Roman, 2003). Furthermore, consumer perception of socially responsible activities positively affects consumer attitude toward the company and its products, and positively affects loyalty toward the company (Maignan and Ferrell, 2004). Consumers become more cautious about the firm's ethics after a service failure and recovery. Thus, we anticipate that perceived CSR will have a positive influence on customer loyalty after service failure and recovery. Hence, the following is proposed:

H3. There will be a positive relationship between perceived CSR and customer loyalty after service failure and recovery.

Trust and satisfaction

Trust has been considered an important construct in customer relationship and marketing literature since its significance was emphasized by Dwyer *et al.* (1987). Previous studies have cited trust as the foundation of relationship marketing (Morgan and Hunt, 1994; Crosby *et al.*, 1990). Trust is understood as consumer willingness to depend on a service provider in which they have confidence (Moorman *et al.*, 1993). Morgan and Hunt (1994, p. 131) stated that "trust are key mediating variables that contribute to relationship marketing success". Coulter and Coulter (2002) conceptualized trust as consumer perception of the service provider's honesty, confidentiality, integrity and ethical standards. Prior research on service recovery has supported the existence of the relationship between trust and satisfaction (Tax *et al.*, 1998). According to Kau and Wan-Yiun Loh (2006), satisfaction with service recovery leads to the building of trust. On the basis of the facts mentioned above, we expect that customer trust would positively be related to customer satisfaction. Hence we hypothesize:

H4. There will be a positive relationship between trust and post-recovery satisfaction after a service failure.

EBR Satisfaction and loyalty

There is considerable debate in literature regarding the definition of the conceptual domain of customer loyalty in the hospitality sector (So *et al.*, 2013). Oliver *et al.* (1997, p. 392) defined the concept as:

[...] a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior.

Customer loyalty refers to the repurchase of the product or service from the same service provider over a period and recommending them to others while maintaining a relationship with the service provider (Kandampully and Suhartanto, 2000). Existing literature identifies two dimensions of loyalty – attitudinal and behavioral (Julander *et al.*, 1997). The attitudinal dimension refers to the customer's intentions to re-buy the products or services, and recommend them to others, which is a good indicator of loyalty (Getty and Thompson, 1994). The behavioral dimension of loyalty represents a repeat purchase behavior of the customer, showing a preference toward the service provider over a period (Bowen and Shoemaker, 1998).

Previous studies have extensively examined the relationship between customer satisfaction and loyalty, and findings suggest that satisfaction has a positive influence on customer loyalty (Dabholkar *et al.*, 2000; Cronin *et al.*, 2000). Studies have empirically demonstrated that post recovery satisfaction is strongly associated with customer loyalty (Karatepe, 2006; De Ruyter and Wetzels, 2000). Extant research also reveals that effective handling of customer complaints leads to customer satisfaction and revisit intentions. Therefore, when the customer feels satisfied with the services provided, he or she is more likely to be loyal to the service provider. Thus, we posit:

H5. There will be a positive relationship between post recovery satisfaction and customer loyalty after service failures.

Hypothesized model

The proposed hypothesized model is shown in Figure 1.

Method

Sample and data collection

The data were collected through a field survey. Respondents included hotel customers who had experienced service failure in the previous one year. Convenience sampling method was employed with the help of a structured questionnaire. An intercept survey was conducted during June 2015 to August 2015 in select 3 and 4 star hotels located in

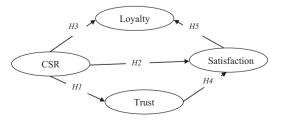


Figure 1. Hypothesized model

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Delhi and NCR, India. Delhi is the capital of India and a prime center of business activity. Affluent businessmen and travelers (domestic and foreign) frequent Delhi and stay at luxurious hotels providing a wide range of services and facilities such as swimming pool, squash courts, gym, exotic food, etc. A study on a sample comprising affluent people visiting 3 and 4 star hotels in Delhi would help in generalizing findings of the study to other major cities of India.

The hotel industry has been chosen for the study as service failure and post-purchase behavior is relatively common in hotel services (Weun *et al.*, 2004). It is important for hotel managers to understand consumer complaint behavior and avoid negative publicity to enhance their brand image. A filter question was added to the questionnaire which asked respondents to recall any service failure experience they had with a hotel in the past one year. Qualified respondents were those who had experienced a service failure and were recipients of recovery efforts in response to such failure. They were asked to write the hotel name and describe the service failure and the service failure recovery experience.

Of the 336 survey questionnaires distributed, 312 were found valid for further analysis. Of the 312 respondents, 189 (60.57 per cent) were male and 123 (39.42 per cent) were female. In all, 123(39.42 per cent) of the 312 respondents fell in the age range of 41-50 years. A total of 111 (35.57 per cent) of the 312 respondents were post graduates, and 136 (43.58 per cent) of 312 respondents had a monthly income of more than Rs 50,000.

Measures

Recovery satisfaction. Recovery satisfaction has been understood as a fulfillment of cognitive and affective responses to the recovery performance (Yi and La, 2003). In the present study, this construct has been measured with the four items taken from the study of Brady and Cronin (2001) and Oliver *et al.* (1997). These items include:

- (1) Overall, I am satisfied with the recovery;
- (2) I am satisfied with the employee(s)' attitudes and behaviors handling my complaint;
- (3) I am satisfied with the outcome of the Recovery; and
- (4) I am satisfied with the firm's recovery system.

All the items were measured on a seven-point Likert scale ranging from (1) strongly disagree and (7) strongly agree.

Trust. According to Sirdeshmukh *et al.* (2002, p. 17), trust is a "expectations held by the consumer that the service provider is dependable and can be relied to deliver on its promise". In this study, customer trust has been measured with the three items taken from the study of La and Choi (2012). The three items are as follows:

- (1) I trust this hotel;
- (2) This hotel is safe to patronize; and
- (3) I rely on this hotel good intention to care for customers.

All the items were measured on a seven-point Likert scale ranging from (1) strongly disagree and (7) strongly agree.

Loyalty. Loyalty is measured with four-item scale adapted from the study of Zeithaml *et al.* (1996) and Sirdeshmukh *et al.* (2002). These items measuring both the behavioral and attitudinal components of loyalty. These items include:

- (1) I prefer to stay in this hotel company as my first choice as compared to other hotel brands;
- I shall be continuing considering this one as my main hotel brand in the next few years;
- (3) I would recommend this hotel brand if someone asked my advice; and
- (4) It would be costly in terms of time, money and effort to end the relationship with this hotel brand.

All the items were measured on a seven-point Likert scale ranging from (1) strongly disagree and (7) strongly agree.

Corporate social responsibility. The three-item scale has been taken from the work of Wagner *et al.* (2009) to measure the consumer perceived CSR performance. The item includes:

- (1) this hotel is a socially responsible;
- (2) this hotel is concerned to improve the well being of the society; and
- (3) this hotel company follows high ethical standards.

All the items were measured on a seven-point Likert scale ranging from (1) strongly disagree and (7) strongly agree.

Analysis and results

Two step approach was followed to analyze the proposed model. First, the measurement model was examined, followed by testing of the structural model (Anderson and Gerbing, 1988). The measurement model was analyzed through confirmatory factor analysis using AMOS 22.0, and the structural model was examined through structural equation modeling (SEM) using maximum likelihood estimation.

Measurement model

Validation of the measurement model is essential to test the structural model. In the present study, validity of the measurement model is examined through convergent and discriminate validity. Factor loadings of each observed variable were above 0.5, confirming the convergent validity of the model (Anderson and Gerbing, 1988). The composite reliabilities of each variable exceeded the cutoff value of 0.7 (Hair *et al.*, 1998). Finally, the discriminate validity of each construct was assessed on the basis of the dimensions evaluated through factor correlation (Kling, 2001). Discriminate validity was confirmed as the average variance extracted (AVE) was greater than the squared correlation between the five dimensions (Fornell and Larcker, 1981). The squared correlation among the pairs of the constructs was less than AVE, confirming discriminate validity of the scale. Goodness of fit of the measurement model was examined using other fit indices. The chi-square value of the measurement model is significant ($\chi^2 = 296.32$, df = 123, p < 0.001). As the chi square is sensitive to a large sample size (Bagozzi and Yi, 1988), other fit indices such as goodness of fit index (GFI) = 0.923, normed fit index (NFI) = 0.911, comparative fit index (CFI) = 0.981, root mean

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square error of approximation (RMSEA) = 0.7 were also considered. These indices demonstrated that the measurement model fits the data reasonably well. Tables I and II show the results of the measurement model.

Structural model

After testing the validity and reliability of the model, SEM was conducted to examine the hypothesized relationships among the study variables. All the model fit indices were within the acceptable range (CFI = 0.921, GFI = 0.889, NFI = 0.912; RMSEA = 0.06). Chi-square value of the structural model was found to have significant value (χ^2 = 183.25, df = 78 (p = 0.000), $\chi^2/df = 2.349$ (183.25/78). The path coefficients are shown in Figure 2.

Table III illustrates the results of hypotheses testing. H1 and H2 proposed that CSR has a positive and significant influence on customer trust (H1: $\beta = 0.26$, p < 0.01) and post-recovery satisfaction (H2: $\beta = 0.31, p < 0.05$). Both hypotheses were supported. H3 posited that CSR is positively and directly related to customer loyalty, and results supported the hypothesis (H3: $\beta = 0.19, p < 0.05$). H4 proposed that customer trust has a direct and positive effect on post recovery satisfaction. This hypothesis was also

Construct		Measurement item	st St	andardized loading	CR	AVE	
CSR		CSR1		0.91	0.94	0.86	
		CSR2		0.92			
		CSR3		0.96			
Trust		TRU1		0.88	0.91	0.72	
		TRU2		0.85			
		TRU3		0.82			
Satisfaction		SATS1		0.97	0.96	0.89	
		SATS2		0.93			
		SATS3		0.94			
Loyalty		LOY1		0.78	0.92	0.56	
		LOY2		0.79			
		LOY3		0.90			
		LOY4		0.76			
		GFI		NFI	CFI	RMSEA	
Goodness-of-j $\chi^2 = 296.32$ (Notes: AVE	df 123)	0.923 e variance extracted; C	CR = comp	0.911 posite reliability	0.981	0.7	Table I. Measurement model results
Construct	CSR	TRU	SATS	LOY	Mean	SD	
CSR	1				4.62	1.64	Table II.
TRUS	0.31	1			4.87	1.65	Correlation matrix,
SATS	0.20	0.11	1		3.65	1.32	mean and standard
LOY	0.26	0.23	0.37	1	5.23	1.63	deviation

CSR on consumer behavioral responses

EBR supported by statistical analysis (H4: $\beta = 0.36$, p < 0.05). This finding is in line with 28.5 those of Ok et al. (2006) which suggested that customer trust has a significant influence on customers' overall satisfaction during the service recovery process. H5 expected that post-recovery satisfaction will be positively related to customer loyalty and was found statistically significant (*H5*: $\beta = 0.56$, p < 0.01). Hence, *H5* is accepted.

592 Mediating effects of trust

Further analysis was carried out to examine the mediating effect of trust. To test the mediation of trust between perceived CSR and post recovery satisfaction, the direct effect of trust was constrained so that it did not affect post recovery satisfaction (set to 0). Our structural model satisfies the first three of the four conditions of mediation as suggested by Baron and Kenny (1986):

- (1)CSR significantly influences customer trust;
- (2)trust significantly influences post recovery satisfaction; and
- (3)CSR significantly influences post recovery satisfaction.

The fourth condition is met if the parameter estimates between CSR and post-recovery satisfaction become insignificant (in case of full mediation) or less significant (in case of partial mediation) as compared to parameter estimates in the constrained model. A partial mediating effect of trust on post recovery satisfaction was observed ($\beta = 0.12$, p < 0.05).

Discussion

The present study examines the influence of perceived CSR and its effect on customers' post-recovery satisfaction and loyalty after a service failure. The mediating role of trust has also been examined in the proposed relationship.

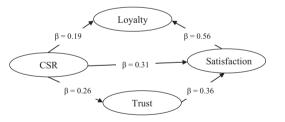


Figure 2. Path coefficients

The effect of corporate social responsibility on post-recovery satisfaction and loyalty after service failure

A company's social or ethical behavior has a positive influence on the customer–company relationship (Lagace *et al.*, 1991), while unethical practices result in negative consumer responses (Whalen *et al.*, 1991). Previous studies have explored the effect of perceived CSR on the various consumer behavioral outcomes, but the role of perceived CSR on consumer behavioral outcomes in the context of service failure and service failure recovery has received little research attention (Bolton and Mattila, 2015). This study observes the effect of perceived CSR on consumers' behavioral responses such as satisfaction and loyalty in relation with service failure followed by service recovery.

Findings reveal that consumer perception of CSR has a positive impact on customers' post-recovery satisfaction. Results further demonstrate that when a hotel's service fails, consumers' favorable perception of the hotel's socially responsible activities can mitigate the negative effects of service failure on post-recovery satisfaction. One of the key unique contributions of this study is the establishment of the fact that a "socially responsible" image can build "moral capital" for a hotel, which may minimize the negative effect of service failure and generate customer trust, leading to customer satisfaction. Thus, this study complements existing research on CSR by highlighting that satisfaction of a customer can be restored even after a service failure through a socially responsible image of the company, which may also result in long term commitment of the customer toward the service provider.

The study also provides empirical evidence for the existence of the relationship between CSR and customer loyalty, which is influenced by post-recovery satisfaction in the event of service failure. It was further revealed that if a customer is satisfied with the service recovery provided by the service provider, then he or she would be willing to do revisit the hotel. These findings support the results of previous studies carried out to examine the link between CSR associations or business ethics and loyalty (Marin *et al.*, 2009; Salmones *et al.*, 2005).

The mediating role of trust in service recovery

Results of this study support studies that have suggested a link between perceived CSR and trust (Choi and La, 2013; Paine, 2000). Service failure may lead to customer dissatisfaction and breach of trust. Thus, restoration of customer trust is essential through service failure recovery so that customer satisfaction and loyalty are retained. Service recovery may not guarantee customer satisfaction and loyalty unless customer trust is regained. In the event of service failure, customers are likely to become more skeptical about their relationship with the company. This makes the restoration of customer trust more challenging for the company. Findings of this study suggest that a company's engagement in socially responsible activities facilitates restoration of customer trust in the event of service failure. This paper further reveals that restored trust mediates the relationship between perceived CSR and customer recovery satisfaction. In other words, lost customer trust can be restored through service recovery if the customer perceives the hotel as socially responsible and engaged in CSR activities; through this trust, customer satisfaction can be achieved (post-recovery satisfaction) and customer loyalty re-established.

EBR Managerial implications

Previous studies have shown that customer complaints offer service providers a chance to develop effective recovery plans, resolve existing problems and regain customer trust and satisfaction at levels greater than those before the failure (Smith and Bolton, 1998; Tax et al., 1998). Restoring customer satisfaction is a desirable outcome of an undesirable situation. Although managers should strive toward providing error free services so that customer dissatisfaction does not occur in the first place, however, if a service failure situation does arise, excellent service recovery can increase the likelihood of customer satisfaction and loyalty. Post-recovery satisfaction results in various consumer behavioral outcomes such as loyalty, positive word of mouth, etc. Our findings suggest that perceived CSR has a direct and positive influence on post recovery satisfaction which in turn influences customer loyalty. Practitioners can use the findings of this study to better understand the importance and role of CSR initiatives in the service recovery process, thereby devising effective strategies to re-establish customer trust and loyalty. An effective and successful recovery process will, in turn, improve customer perception of CSR. Establishing customer trust may lead to repeat purchase behavior. CSR activities can mitigate the effect of customer dissatisfaction when a service failure occurs and serve as an added service recovery techniques (Bolton and Mattila, 2015).

CSR activities should be perceived by the consumer as motivated by a sense of service toward society, instead of a self-serving strategy used by the hotel. If the consumer views CSR activities of a hotel clearly as part of its business strategy and not social obligation, it could tarnish the image of the hotel in the mind of the consumer, and result in loss of customers for the hotel. Similarly, CSR strategies closely aligning with service recovery strategies could build suspicion and lead consumers to construe that the service provider is acting out of self-interest.

It can be said that customer trust is a key mediating variable that influences customer satisfaction and loyalty, specifically when a service failure occurs. Regaining lost customer trust has always been a key priority for the service provider, as it is likely that a service failure would make consumers more conscious about their decision to stay with the service provider in the future.

Limitations and future research directions

The present study may suffer from recall bias in the survey data. Although responses were gathered from respondents on the basis of their actual service recovery experience in the preceding year, recall bias may have influenced responses (Tax *et al.*, 1998). This is one of the most common problems in studies using survey questionnaire designs. Therefore, further replication of the study using experimental research design may be considered, although this research design has also some limitations (situation manipulation does not match exactly with real life situations) (Schoefer and Ennew, 2005). Nevertheless, such approach may be considered complementary to the present study. Another alternative method that may enhance the validity of the findings of the present study is the use of longitudinal design; if the data are collected two times – before and after the service failure – the recall bias may not occur.

Cultural factors also influence customer perception, expectations and responses to service failure and recovery (Kanousi, 2005). It would be insightful to study the effect of service failure and recovery in a cross-cultural context. Mattila and Ro (2008, p. 312)

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stated that "there is a dire need for more cross-cultural research in both satisfaction and service recovery". Understanding how consumers belonging to different cultural backgrounds respond to service failure will help service providers devise effective recovery strategies.

CSR on consumer behavioral responses

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