Relationship Recovery: An Integrated Conceptual Framework

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Abstract
Customer relationship management not only focuses on acquiring new customers and maintaining relationship with them but also emphasizes on winning back the defected customers. Understanding why the customers get defected and how to restore their trust and re-acquire relationship with them are of immense importance for the managers as well as academicians. Based on literature survey, this paper focuses on how to restore customer trust and relationship after the occurrence of a relationship failure event. It provides insights into the nature of relational problems, focuses on causes of relationship failure, and antecedents of customers’ exit decision from current relationship with the company after a transgression. It suggests a conceptual framework incorporating three key aspects of relationship recovery efforts – affective, functional and informational, that may lead the company to prove its trustworthiness to the customers after a transgression, which directs the company to win back relationships with them. Subsequently, propositions regarding different components of the model are presented in the paper, which are aiming towards reacquiring relationship with the defected customers.

Keywords: CRM, Integrated, Conceptual framework and Relationship

INTRODUCTION

The growth and development of any organization in the current mature market condition is contingent upon the extent to which it is able to create, maintain and enhance sound relationship with its customers. Customer relationship management helps the company to deliver higher customer value (Palmatier, R. W. 2008), obtain customer loyalty intention (Vogel, Evanschitzky, and Ramaseshan 2008), and achieve profitability (Kalwani and Narayandas 1995). Relationship provides a customer with security, a feeling of control, a sense of trust, and a minimized purchasing risk, which ultimately reduce costs to the customer (Gronroos 2004). Thus establishing buyer-seller relationships is not only a matter of huge concern for both companies and customers but also has been an issue of immense interest among the academicians. Plutus of research works have already been done in the area of relationship marketing, most of which are focusing on different relational constructs like satisfaction, trust and commitment (e.g. Henning-Thurau and Klee 1997), relationship marketing tactics (e.g. De Wulf et al. 2001), different relational drivers (e.g. Palmatier, R. W. 2008), mechanism of establishing long term relationship between buyer and seller (e.g. Ganesan 1994), and consequences of long term relationships (e.g. Kalwani and Narayandas 1995). Despite having plenty of research works in the field of relationship marketing, very little research have focused on the issue of relationship recovery; i.e. what if the buyer-seller relationship breaks down and how to recover the broken relationship.

Business relationships are often susceptible to vulnerability due to trust violation because trust between the partners is contingent to the duration of the relationship i.e. stages of relationship development (Dwyer et al. 1987) and is often considered partial, tentative and fragile (Lewicki & Bunker 1995). We define relationship failure as the occurrence of a transgression by the marketer that violates customers’ trust on it (the marketer) and leads the customer to exit from the relationship and / or intend to leave the company. Transgression is defined as a violation of relationship-relevant norms, and refers to the breaches of the implicit or explicit rules guiding relationship performance and evaluations (Aaker et al. 2004). On the contrary, relationship recovery efforts enable the marketer to win back the defected customers and restore their trust and confidence on the company, which was at stake due to its transgression. Relationship recovery is of immense interest for the organizations because the companies can double their profit by reducing customer defections by as little as five points (say from 20% to 15%) per year (Reichheld 1996). Research has also shown that a firm has a 60%-70% chance of successfully repeat selling to an active customer, a 20%-40% chance of successfully repeat selling to a lost customer and only 5%-20% chance of successfully closing a sale to a new customer (Griffin and Lowenstein 2001). In addition, Stauss and Friege (1999) found that net return on investment from a new customer obtained from an external list is 23% compared with a 214% return on investment from the reinstatement of a customer who has defected.

Despite the immense importance of reacquiring the defected customers, research on repairing customer trust after a harmful corporate event is still limited (Xie, Yi 2009). Homburg et al. (2007) provided a theoretical discussions and empirical analysis of factors driving successful relationship revival activities with emphasis on revival performance to get the lost customers back. They considered the revival performances as a binary variable and showed that customers’ perceived justice regarding the
revival activities positively related with revival specific satisfaction and which in turn affect the revival performances. Thomas et al. (2004) focused on the optimum pricing strategy after winning back a lost customer. Stauss and Friege (1999) provided a conceptual basis for “regain management” to win back lost customers, which includes regain analysis, regain actions, and regain controlling. Extant literature does not provide any integrated model covering the issue of restoring customers’ trust, relationship and their consequences. This paper is an effort to bridge this research gap and based on literature survey, it put forwards a conceptual framework for restoring trust and relationship with the defected customers and its consequences. The model shows that the relationship recovery efforts of the company encompass three different dimensions - affective, functional and informational recovery. Through these recovery efforts, the marketer proves its trustworthiness to the customers that was at stake due to its transgression and thus wins back its defected customers. The paper also shows that as a result of regaining the defected customers, the marketer reacquires their trust and loyalty. In addition, it posits that restoring relationship with the defected customers, the marketer will be able to attain higher perceived relationship equity of the customers.

NATURE OF THE RELATIONSHIP FAILURE EVENT
Problems leading to relationship failure are usually more intense, severe than the problems leading to service failure as relational problems occur due to violation of an explicit commitment between the parties. Relationship failure may result in the loss of economic (time and money) and social (status) resources for customers and as result they express negative emotions. Due to such negative emotions customers’ trust on the company becomes fragile and they feel betrayed.

Loyal customers feel close ties with the company and feel betrayed once they experience with the trust violating activities of the company. Customers’ perceived betrayal is the belief that a firm has intentionally violated what is normative in the context of their relationship (Elangovan and Shapiro 1998). Customers believe that firms have lied to them, taken advantage of them, tried to exploit them, violated their trust, cheated, broke promises or disclosed confidential information (Evangovan and Shapiro 1998). Unlike typical dissatisfied customers, betrayed customers are inclined to invest energy to restore fairness through retaliation and demand reparation (Gregoire and Fisher 2008). In addition, negative emotions like feeling of betrayal may also generate negative outcome for the company in terms of losing existing customer base and complaining to third party (Hart et al. 1990). Even customers who feel betrayed due to trust violating activities of the marketer may pursue different strategies to do harm to the offender company including engaging in negative word-of-mouth, creating web blogs, complaining to mass media, etc.(Ward and Ostrom 2006).

CAUSES OF RELATIONSHIP FAILURE
Business relationships between or among the buyer-seller or partners within the dyad, triad or even within the network may be interrupted due to a number of reasons. In case of personal relationship, an individual does not always behave in a manner that conforms to relational rules regarding appropriate conduct (Argyle, Henderson and Furnham 1985). Relational problem occurs due to partner’s transgression, a behavior perceived by the individual as inconsistent with relational rule (Boon and Holmes 1999). Similarly shifts in moral values often create conflicts of interest, deteriorating or changing of value of the business relationships (Gundlach and Murphy 1993). When moral values conflict with self-interest, parties often adopt self-centered strategies and/or deceptive actions (Oliver and Swan 1989). Though most of the business relationships are developed based on dissimilar resource need that are met through mutual exchange between the partners, such need based relationships create additional opportunistic possibilities as the parties may selfishly reduce their costs by shrinking responsibilities (Gassenheimer 1998) or may end up with finding better alternatives.

Due to fast moving volatile market condition, business objectives might change overtime so does the strength of trust and commitment between the business partners and consequently the relationship may come to an end. For example, a bank may consider some industrial sector as too risky and refuse to give additional loans to its customers (Perrien et al. 1994). In addition, business organizations may experience failure of the norms or conditions of relationship and/or transgressions from the counterpart of the dyad during their ongoing relational transactions which may also lead to the termination of relationship. For example, the supplier might delay in shipping the raw materials or the buyer may downsize the existing agreed upon contract; in both these cases the offended party may incur loss and may choose to terminate the relationship. In addition, trust violation by any of the partners in a professional relationship is also common (Robinson & Rousseau 1994), though the partners enjoy significant benefits based on the mutual trust of the relationships. In fact many business transactions occur within the context of arms-length relationships (Lewicki and Bunker 1995) and are conducted on the basis of promises made and again break the promise and seal the deal (Shapiro et al. 1992). Relationship termination can be initiated by the customer (Perrien et al 1995; Heide and Weiss 1995) as well as by the supplier (Pressey and Mathews 2003). Previous literature focused on a number of factors that lead the customers to terminate the relationship. These are delivery failures (Keaveney 1995); lack of commitment (Hocutt 1998); lack of perceived relationship value (Gassenheimer et al. 1998), perceived dissatisfaction (Mittal & Lassar 1998), turnover of the key contact employee of the vendor firm (Benapudi and Leone 2002), cultural dimension and power distance (Oudenhoven, Mechelse and Dreu 1998), relative differences among the business organizations in uncertainty avoidance (Barkema and Vermeulen 1997) and last but not the least Pricing (Perrien et al. 1994).

On the other hand supplier initiated dissolution is also common phenomenon in most industrial sectors (Pressey Mathews 2003). The principal factors causing relationship termination are profitability (Pressey Mathews 2003; Helm,
Examples of failed relationship or dissolved relationship are common in the current business environment. For example – Wal-Mart exited from a long standing relationship with Gitano due to contrasting ethical values and stressful relations that have been arisen during frequent exchanges (Agins 1994). Kmart ended its 25 year relationship with Ross Roy Communications due to its persistent operating problems and change in management strategy (Goldman 1995). In addition there is evidence that some companies ended long lasting relationship with Manville, R.J. Reynolds Tobacco, Harley Davidson and Lowes to avoid potential liability and public scrutiny associated with sale of harmful products (Hwang and Ono 1995).

ANTECEDENTS OF RELATIONSHIP EXIT
If the firms are to promote long term relationship with customers to retain existing customer base and to reduce customer exit, more attention should be given to understand the phenomenon of customer exit (Stewart, Kate 1998). Customer exit can be as simple as stop buying from an organization altogether or diminish patronage (Roos 1996). Customer may frequently switch between different FMCG brands but remain loyal to a broad set of brands (Uncles et al. 1994). But in case of business to business relationship, pattern of exit may vary based on exit cost involved (Jackson 1985), dependency of the firm on its partner (Anderson and Narus 1990; Tahtinen and Vaaland 2006), and degree of uncertainty and technological specificity (Heide and Weiss 1995). Again in case of monopoly situation, if alternatives are not available to the consumers, they are locked into the supplier (Stewart, Kate 1998) no matter whether they are business consumers or ultimate consumers. In addition, Ping (1993) studied the antecedents of responses to problematic channel relationships and reported that satisfaction and alternative unattractiveness are negatively associated with exit intention. Anderson and Weitz (1989) found evidence that the greater the level of investment made by a manufacturer in a relationship the greater the increase in that manufacturer’s commitment to its relationship with the distributor. Moreover, high switching cost is negatively related with exit intention (Jackson 1985). Switching costs from customer point of view include search, transaction and learning costs as well as financial, social and psychological risks that the customer may incur while buying from another provider and these costs are perceived as barriers to exit (Stewart, Kate 1998).

RELATIONSHIP RECOVERY – PROCESS AND STRATEGIES
Relationship recovery process may be initiated either by the offended party or by the offender or even by third party but to be successful, both the parties should agree and feel the need to reconcile and restore the relationship. In addition relationship recovery requires proper understanding of relationship failure and its attributions. Tracking the perceived sources of failures leads to identifying whether the perceived source is an accurate assessment to rectify the problem (Gonzalez et al. 2005). The failure event may be caused due to either external reasons or internal reasons. Some authors opined that external causal account reduces the anger of the offended party (Crant and Bateman 1993) where as others mentioned that internal causal attribution better facilitates relationship repair (Tomlinson, Dineen and Lewicki 2004).

However, research on the issue of restoration of relationship yield dissimilar findings as different authors proposed different types of restoration process and mechanisms. Goffman (1967) proposes that the restoration process involves four stages namely challenge, offering, acceptance, and thanks. He mentioned that the actors should perform socially prescribed interaction rituals at each stage of the restoration process. Lewicki and Bunker (1996) proposed four stage restoration process: a) acknowledge the violation, b) determining the causes of violation and admit culpability, c) admitting that the act was destructive, and d) accepting exit from the relationship if the level of satisfaction with the relationship is higher, quality of alternatives is perceived to be poor and investment size is large. High level of commitment to a relationship often leads people to tolerate undesirable matters (Rosenblatt 1977) and yet don’t break up the relationship. Cost of establishing a new relationship leads dissatisfied customers not to exit from current relationship (Gronhaug and Gilly 1991). In addition often personal relationship with the service provider reinforces the professional relationship leading the customers to continue with the less satisfactory professional relationship and ignore the better alternatives. For example despite having quality alternative elsewhere, a customer may continue to visit his/her previous hairdresser due to close personal ties that has been developed over the previous years (Hocut 1998). This is also supported by Wilson and Mummalaneni (1986) who found that buyers and sellers having strong personal relationship are more committed to maintain the relationship. Such personal relationship is termed as social bond. Wilson (1995) defined social bonding as “the degree of mutual personal friendship and liking shared by the buyer and seller”. Like social bond there are legal, economic technological, geographical and time bonds that can prevent the customers from switching service provider even though the customers are not happy with the delivered service quality (Liljander and Strandvik 1995). Customers view these bonds negatively as these are controlled by the service provider. There are five more bonds mentioned by Liljander and Strandvik (1995) namely knowledge, social, cultural, ideological, and psychological bonds, which are viewed positively by the customers and act as barriers to customer exit from the relationship.
the responsibility for the consequences. Gonzalez et al. (2005) discussed failure analysis and recovery efforts together and the steps involved here are failure identification, failure attribution, recovery strategy selection, recovery implementations and tracking, monitoring and evaluating effectiveness.

Recovery strategies involve the actions that salespersons or sales organizations take in response to failure situations (Gonzalez et al. 2005). Johnston and Hewa (1997) defined recovery efforts as actions taken to mitigate and/or repair the damage to a customer that results from the failure to deliver the sales process as designed. Ren and Gray (2009) mentioned four dominant tactics that the offender can use in restoring damaged relationships: accounts (explanations), apologies, demonstration of concern and penance. On the contrary, Schlenker (1980) preferred denials to apology and mentioned that believable denials are more effective than apologies since they extend the benefit of doubt to the offender. Kim, Ferrin, Cooper and Dirks (2004) have categorized the nature of violation and specified that apologies are more effective for competence based violation and denials are more effective for violations of integrity. Gonzalez et al. (2005) mentioned that recovery tactics fall into five recovery categories which are – Compensatory strategies (gratis, discount, coupon, free update, free ancillary products), Restoration strategies (total replacement, correction, substitution), Apologetic strategies (frontline apology, upper-management apology), Reimbursement strategies (refund, store credit) and Unresponsive strategies (no response).

THEORETICAL PERSPECTIVE

Relationship recovery can also be viewed as an exchange process based on the notion of social exchange theory (Homans 1961) and Equity Theory (Walster et al. 1973), in which the customers experiences an economic and/or social loss due to a failure event and the companies are willing to provide a gain to the customers in terms of relationship recovery efforts and in return the companies retain the existing customers. Equity theory explains that if the customer has perceived significant inequity in the relationship, he/she will be likely to terminate relationship with that company. Adams (1965) defined equity as the feeling of well being, distributive justice, fair dealings, and as a feeling of receiving what a customer deserves. Therefore, relationship recovery efforts of the marketer will re-establish equity in the mind of the customers which was at stake due to the marketer’s transgression.

Customers usually judge whether the marketer is making sufficient attempts in terms of recovery efforts to repair the damage/loss incurred to them due to the transgression. This is guided by the theory of perceived justice (Blodgett et al. 1997). Because justice involves the property of decisions (Tax et al. 1998) and it includes three different dimensions namely distributive justice, procedural justice and interactional justice (Austin 1979). These three dimensions of justice serve as a motivational force and engender customer cognitive and affective responses which guide future customer behavior i.e. customer satisfaction and loyalty will be determined by whether they feel that they have been treated fairly after the marketer’s transgression (Liao 2007).

The marketer adopts the recovery efforts to weaken the negative emotion that yield in consumers mind due to the loss they have experienced and/or the damage in their trust on the company due the relationship failure event. Customers usually feel inconsistencies in their mental states once they encounter the relational problem and they go through an appraisal process of the event. Festinger’s (Festinger 1957) cognitive dissonance theory discusses an individual’s reaction to inconsistencies of his/her mental state and hypothesizes that if an individual felt psychologically uncomfortable then he or she would be motivated to reduce the feelings of discomfort to restore the mental balance. With a view to restore their psychological balance, customers go through an appraisal process of the relational problem, which can be explained by cognitive appraisal theory (Lazarus 1966). Cognitive appraisal approach has been used to study consumption emotions and their impact on post-purchase behaviors (Nyer 1997) and is a useful approach for understanding the emotional responses of consumers in the marketplace (Johnson and Stewart 2005). Therefore, though customers’ cognitive appraisal of the relationship failure event may end up with eliciting negative emotions in the consumer’s mind but customers’ perceived justice regarding the equitable ratio between loss incurred due the relational problem and gain from the recovery initiatives of the company will restore customer’s mental state and will influence him/her to continue the relationship with company.

CONCEPTUAL FRAMEWORK

Once the customers feel betrayed due to the relational problem, they are nurtured by the company through recovery efforts. In line with the equity theory, the key considering factors for the customers when they experience a relational problem are the extent of loss incurred while experiencing failure event and magnitude of gain obtained by the customers from the recovery strategies. Recovery activities constitute an approach for re-establishing equity in the mind of the customer (Homburg et al. 2007). Effective recovery strategies may lead to the paradoxical situation whereby the customers will rate the encounter more favorably after a problem has been corrected than if the transaction had been correctly performed the first time (Etzel and Silverman 1981). Summarizing the extant literature on trust repair, Xie and Peng (2009) identified three key elements of apologetic responses available for companies to repair the customer trust – affective repair efforts, functional repair efforts and informational repair efforts and we used these three repair strategies in our model (see figure 1 in Appendix).

Affective Recovery

Affective recovery efforts include a corporate apology toward the consumers as well as expression of remorse and compassion (Xie and Peng 2009). Apology refers to “confessions and responsibility for negative events which include some expressions of remorse” (Tedeschi & Norman 1985, p. 299). It is generally considered as a pre-requisite for reconciling a relationship following a violation of trust.
Communicating organizational concern for customers’ interest rather than inclined to conceal the reality or to escape taking responsibility (Xie and Peng 2009).

Functional Recovery
The primary form of functional recovery is financial compensation (Xie and Peng 2009). Compensation is a strategy for restoring equity to an exchange relationship when one party has been harmed by the other (Walster et al. 1973). It may be in the form of refunds for a product recall, free repair after product harm, coupons or discounts after a service failure, and/or treatment funding after environmental pollution (Xie and Peng 2009). In fact it is usual that marketers require providing monetary or any other form of compensation to the customers to ensure remedy to the loss or suffering of the customers due to the relationship failure event. Another key form of functional recovery is to take necessary actions to avoid repetition of similar event such as investigating critical causes and modifying the problematic production or managerial procedures (Xie and Peng 2009) and these precautionary measures will assure the customers that the transgression will not happen in future. This type of recovery effort is of immense importance for the company to reinforce customers’ get back decision because based on the notion of ‘stability’ dimension of Weiner’s (1986) theory of attribution, if the customers find that the cause of the failure event will be persist with the marketer in future as well then they will less likely be willing to reconcile and consider the recovery efforts of the marketer. Though the company needs to accept some financial expenditure or even requires abandoning some profit to compensate the defected customer, it (compensation) communicates organizational concern for customers’ interest rather than self-interest.

Informational Recovery
“Typical Informational recovery efforts include appropriate communication, such as demonstrating evidence, clarifying facts, and disclosing updated news during crisis handling process” (Xie and Peng 2009). Timely communication is an effective approach to get rid of mutual suspicion and unify expectation and therefore, facilitate trust (Moorman et al. 1992). Therefore, communication and its timing as well as explanation are the two key tactics under informational recovery strategy. Timely communication and restorative actions signal the victim that the offender is cognizant of the violation, savvy in detecting verbal and nonverbal cues from the victim expressing distress at violation and concerned enough about relationship to quickly make amends (Lewicki and Bunker 1996). In fact after the relationship failure event, customers usually look for either some information or actions from the company and the incapability of the company to convey required persuasive information signals companies insincerity towards the customers and customers will most likely to engage in negative word-of-mouth. Because customers usually tend to make sense of the failure event and if they are neither communicated and nor given any explanations, they often rely on contextual cues or prior information for their cognitive sense making (Griffin and Roos 1991) and they start to look for better alternatives, which is most likely to prevail in this competitive business world.

Customers’ Perceived Justice
Each of the relationship recovery strategy may conflict or fulfill customers’ perceived justice needs and is subject to customers’ fairness evaluations (Smith et al. 1999). Customers’ perceived justice acts a ground principle to judge the recovery strategies. Customers care about justice and expect to be treated fairly in service encounters (Clemmer and Schneider 1993). Because justice serves some important, fundamental psychological needs of a human being to control the environment, to obtain long-term economic benefits, to maintain a positive self-regard and achieve status and esteem from others (Cropanzano et al. 2001).

Austin (1979) clarified different dimensions of justice and mentioned that the concept of justice evolved over time to include distributive justice, procedural justice and interactional justice. Distributive justice involves resource allocation and the perceived outcome of an exchange (Adams 1965). It checks whether customers receive a fair economic or social outcome after the failure event. Reis (1986) mentioned that there are as many as 17 standards and/or rules of distributive justice in the literature and Tax et al. (1998) chose three rules – principles of equity, equality and need out of those seventeen and mentioned them as the most notable. Procedural justice involves the means by which decisions are made and conflicts are resolved (Thibaut and Walker 1975). Lind and Taylor (1988) defined procedural justice as the perceived fairness of the means by which the ends are accomplished. It aims to resolve conflicts in ways that encourage the continuation of the productive relationship between the disputants, even when outcomes are unsatisfactory to one or both parties (Greenberg 1990). In fact customers often care about the manner through which the outcomes are generated to determine the fairness of the recovery process. On the other hand interactional justice refers to fairness of the interpersonal treatment people receive during the enactment of the procedure (Bies and Shapiro 1987). It includes the manner through which the information is exchanged and the outcomes are communicated. It becomes significant when some people feel unfairly treated even though they would characterize the recovery outcome as fair (Bies and Shapiro 1987).

Based on the notion of social exchange theory and justice theory, an apology is viewed as a valuable reward that redistributes esteem in exchange relationships (Walster et al. a. 2004). In handling the relationship failure event, the company accepts the responsibility for the event and regrets for what has happened by making an apology to the customer. An apology from the marketer conveys politeness, courtesy, concern, effort, and empathy to customers who have experienced the failure event and simultaneously enhance their evaluations of the encounter (Kelley, Hoffman and Davis 1993). It also conveys a stated desire to reconcile and continue the relationship from the marketer point of view (Lewicki and Bunker 1996). Thus through an apology, the marketer can provide multiple signals to the consumers such as confession of its transgression, expression of regret for negative consequences, and assertion of its willingness to assume relevant responsibility, which may lead to favorable impression that the company is problem-solving oriented rather than inclined to conceal the reality or to escape taking responsibility (Xie and Peng 2009).
et al. 1973). It sets the things right (Cropanzano et al. 2001) and enhance customers’ perception of interactional justice after the service failure and thus improve post recovery satisfaction (Smith, Bolton and Wagner 1999). On the contrary, Tax et al. (1998) mentioned that apology enhance customers’ perceived distributive justice where as Liao (2007) found that apology positively influences customers’ perceived justice including all the three types discussed above. The above discussion leads us to the following proposition –

**Proposition 1:** Affective recovery efforts after the transgression will positively influence customers’ (i) perceived procedural justice, (ii) perceived distributive justice, and (iii) perceived interactional justice.

Customers make equity judgment based on the outcomes they receive and their sense of equality is related their evaluation of distributive justice (Tax et al. 1998). Functional recovery strategy (compensation) is related to customers’ perception of distributive justice (Smith et al. 1999) and based on the notion of social exchange theory (Adam 1965) and theories of distributive justice (Deutsch 1985) both compensation and distributive justice are related to allocation of costs and benefits in achieving equitable exchange relationship. Therefore, we posit that

**Proposition 2:** Functional recovery efforts after the transgression will have positive impact on customers’ perceived distributive justice.

Open communication may alleviate customers’ bad feelings about the failure event and an explanation may be viewed by customers as an important piece of information, a valuable outcome and a means to understand the service environment. To the customers encounter and thus enhance their perceived justice (Liao et al. 2007). Timely communication i.e. quick recovery response enhances customers evaluation of the failure event (Clark, Kaminski and Rink 1992) and has been identified as an important dimension of procedural justice (Blodgett, Hill and Tax 1997). Smith et al. (1999) found that speedy recovery efforts i.e. timely communication of the company have positive effect on customers’ perception of procedural justice. On the contrary, Tax et al. (1998) mentioned that customers’ perceived interactional justice is higher when provided with explanations about what might have gone wrong. These lead us to posit the following –

**Proposition 3:** Informational recovery efforts after the transgression will have positive impact on customers’ (i) perceived procedural justice, and (ii) perceived interactional justice.

**Customers’ Satisfaction with Recovery Efforts**

Customer satisfaction refers to an individual’s subjectively derived favorable evaluation of any outcome and/or experience associated with consuming a product (Westbrook 1980). Satisfaction with recovery can be defined as customer satisfaction with a particular transaction involving a failure and recovery (Smith and Bolton 1998). If customers evaluate the distributive, procedural and interactional justice aspects of the recovery strategies positively, they will be more likely to be satisfied with the recovery strategies and will consider continuing their relationship with the company (Homburg et al. 2007). But the three dimensions of justice are independent (Blodgett et al. 1997) and the specific effects of three justice dimensions on customer satisfaction (Rio-Lanza et al. 2009) as well as on customer loyalty (Chebat and Slusarczyk 2005) are quite different from each other. In line with this notion, we propose that the perceived justice dimensions of the customers regarding the recovery efforts of the company will have different impact on customers’ satisfaction with the recovery efforts.

Considerable empirical evidence exists to indicate that distributive justice is positively related with recovery satisfaction. For example Tax et al. (1998) and Smith et al. (1999) found that distributive justice affects satisfaction with complaint handling and satisfaction with service recovery encounter respectively. This leads us to posit that

**Proposition 4:** Customers’ perceived distributive justice regarding the recovery efforts will have positive impact on customers’ satisfaction with recovery efforts.

Procedural justice involves the process of dealing with the problem and offering recovery efforts to the customers. Customers may find the amount of the functional recovery efforts (i.e. compensation) of the company satisfactory but may not find the process of delivering the compensation. Previous studies also show that procedural justice has positive impact on customer satisfaction with complaint handling (Tax et al. 1998; Homburg and Furst 2005).

**Proposition 5:** Customers’ perceived procedural justice regarding the recovery strategies will have positive impact on customers’ satisfaction with recovery efforts.

Interational justice emphasizes on customers feeling whether they have been treated fairly regarding their personal interaction with the marketer and/or service agents throughout the recovery process (Maxham and Netemeyer 2002). Empirical studies show that fair interpersonal treatment contributes to satisfaction with complaint handling (Homburg and Furst 2005; Tax et al. 1998) and service recovery encounter (Smith et al. 1999). Therefore, we posit that

**Proposition 6:** Customers’ perceived interactional justice regarding the recovery efforts will have positive impact on customers’ satisfaction with recovery efforts.

**Moderating Factors**

We posit that the link between customers’ perceived justice regarding the company’s recovery efforts after a transgression and their satisfaction with recovery efforts will be influenced by a number of factors. For example, Tomlinson et al. (2004) mentioned that victim’s willingness to reconcile after the violation of trust is influenced by the magnitude of violation. Rusbult et al. (1982) observed that satisfaction and investment were negatively related with exit
(termination of relationship) of the partners where as Anderson and Weitz (1992) reported that investment is positively related with relationship commitment. Moreover, exit behavior of the partners are positively related with alternative attractiveness (Ping 1993) and negatively related with switching cost (Ping1999). Following is the detail discussion on the moderating variables that have impact on customers’ expectation of relationship continuity.

**Past Experience**

Literature related to customers’ prior experiences and its impact on customers’ responses towards a failure event and thereafter customers’ satisfaction with recovery efforts create a paradox as there are arguments both in favor and against of this proposition. Tax et al. (1998) found that positive prior experiences mitigate the negative effects of poor complaint handling on customer commitment and trust. Oliver (1980) posited that satisfaction with past consumption increases expectations of future satisfaction, which again enhances the intentions of future interactions. However, compare to less involved customers, highly involved customers become more dissatisfied with the company once they experience dissatisfaction with the service (Goodman et al. 1995). Our study considers that customer’s history with an organization influence their satisfaction with recovery efforts of the organizations. This is because the more times a customer interact with an organization, the more he/she will be familiar with the company (Solomon et al. 1985) and it has been empirically proved that past satisfaction increases the intentions for future interactions (Oliver 1980). Therefore customers with favorable prior experiences with the company will most likely to judge the recovery efforts positively and will be satisfied with the recovery efforts of the marketer.

**Proposition 7:** The quality of past experiences will have a positive moderating impact on the relationship between customers’ perceived justice regarding the recovery efforts and customers’ satisfaction with service recovery.

**Severity of Failure**

An aggrieved party’s response will vary depending on the perceived severity and destructiveness of the initiator’s action (Hibbard et al. 2001). Severity of failure can be defined as the magnitude of loss that customers experience due to that failure event (Hess et al. 2003). As the principles of resource exchange suggests, if the size of loss due to failure gets larger, the customer will view the exchange as more inequitable and will be dissatisfied (Smith et al. 1999) and this will more likely to activate the attitude-intention link of the customer (Bagozzi 1992). Magnitude of violation may shake the very foundation of the relationship and may create very serious consequences (Lewicki and Bunker 1996). Extensive reparative efforts must be undertaken for a severe violation (Ohbuchi et al. 1989). Even the effect of sincere and timely apologies and relationship with a good past history will be weaken d as the magnitude of violation increases (Tomlinson et al. 2004). Failure context determines customer’s normative standard for recovery performances and affect the nature of relationship between recovery attributes and perceived justice (Smith et al. 1999). Therefore, due to severe failure, the recovery efforts of the marketer are most likely to be judged negatively and the customers are less likely to be satisfied with the recovery efforts.

**Proposition 8:** Severity of the failure event will have negative moderating impact on the relationship between customers’ perceived justice and customers’ satisfaction with the recovery efforts.

**Relationship Investment**

Investment refers to the cost to build and maintain the current relationship in anticipation of future exchanges which includes economic (e.g. money), activity (e.g. effort) and opportunity cost (e.g. time) (Ping 1997, 1999). Rusbult et al. (1986) gave a more detail definition and stated that “Investments’ are the resources an individual has put directly into the relationship that are intrinsic to the involvement, e.g. time spent with partner, self disclosures, emotional investments, and resources that are extrinsic but have become indirectly connected to the relationship, e.g. shared material possessions, mutual friends, and shared recreational activities”. Therefore, investing time, effort and other irrevocable resources in a relationship creates psychological bonds that encourage customers to stay in that relationship and sets an expectation of reciprocation (Smith and Barclay 1997). Partners who have great investment in their relationships have much to lose by abandoning them and are more likely to set lower normative standard regarding the recovery efforts of the company and will look for a minimum recovery effort from the marketer due to the relationship failure event than those who have low relationship investment and have little to lose if the relationship gets abandoned.

**Proposition 9:** Relationship investments will have positive moderating impact on the relationship between customers’ perceived justice and customers’ recovery satisfaction.

**Switching Cost**

Switching costs are defined as the cost of changing the services in terms of time, monetary and psychological costs (Dick and Basu 1994). Ping (1999) described the conceptual domain of switching cost and mentioned that it includes economic, activity and opportunity cost to end the current relationship and secure an alternative relationships and the psychic cost to achieve this end. It may come in the form of termination of costs from the current service provider to joining costs with the alternative service provider (Colgate and Lang 2001). It creates dependence of the consumer on the provider (Morgan and Hunt 1994) and even the dissatisfied customer may remain loyal because of high switching cost (Gronhaug and gilly 1991). Therefore, high switching cost will most likely to make the customers defensive, judge the recovery initiatives of the companies in a considerable manner, will set low normative standard regarding the recovery efforts of the marketer which will enhance the possibility of customers’ recovery satisfaction.
Proposition 10: Switching costs will have positive moderating impact on the relationship between customers’ perceived justice and customers’ satisfaction with the recovery efforts.

Alternative Attractiveness

Alternative attractiveness is an overall evaluation of the most salient and available alternative relationship and generalized perceptions of the rewards available in that relationship (Ping 1999). Benapudi and Berry (1997) mentioned that consumers might remain in relationship because they perceive no alternative. Good alternatives provide the motivation to respond in an active manner (exit or voice) and serve as a source of power for effecting change where as absence of good alternative make the individual to passively wait for conditions to improve (i.e. remain loyal) or passively allow conditions to worsen (i.e. engage in neglect) (Rasbult et al. 1986). Alternative attractiveness will also have impact on customers’ perceived judgment of company’s recovery initiatives, as availability of quality alternatives will make customers’ perceived normative standard regarding the recovery efforts of the company as high and will have negative impact on customers satisfaction with recovery efforts.

Proposition 11: Alternative attractiveness will negatively affect the relationship between customers’ perceived justice and customers’ recovery satisfaction.

Customers’ Perceived Trustworthiness

Recovery efforts should be viewed by sales organizations as an opportunity (not a cost) to reestablish and confirm relationships with customers (Gonzalez et al. 2005). It is an opportunity provided by the customers to recover the marketer’s trustworthiness when any relational problem occurs (Heskett et al. 1994). This is an acid test for the company as it facilitates an avenue to restore trust and confidence of the customers. The marketer should utilize this opportunity because repetitive failures may reduce the duration of buyer-seller relationship even though customers may perceive satisfactory recovery in each failure episode (Roos, Inger 1999). That’s why we argue that though purchase intention and word-of-mouth intent are the salient consequences of satisfaction/dissatisfaction paradigm (Oliver 1996) and empirical evidence shows that there is positive relationship between satisfaction with recovery efforts and purchase intent (Kelley et al. 1993), yet customers will not continue their relationship and/or trust the same marketer once they experience a relationship failure event. We assume that consumers hold grudges against marketer and customers’ perceptions of the brand and future repurchase intentions will be lower following a transgression (Andreassen 2001). Because as discussed before, relationship failure event and/or transgression of the marketer includes various breaches of expressed and implied relationship norms (Chung and Beverland 2006) and it generates more strong negative emotions in the consumers mind than typical service failure events. In this backdrop, we argue that after a transgression, customers’ will show repurchase intention or will become loyal to the same marketer again once they can trust the company again by forgiving it (the marketer) for the failure event. Because rebuilding a trustworthy image and earning consumer forgiveness are crucial steps in repairing consumer trust (Xie and Peng 2009). Moreover, Chung and Beverland (2006) mentioned that following a transgression of the marketer, consumers adopt various coping strategies in re-evaluating the brand relationship, which are evaluating service recovery, re-evaluation of brand’s trustworthiness, apportioning blame, and re-interpretations of the brand into stereotypes. They also mentioned that re-evaluation of corporate trustworthiness is a critical process driving the development of consumer forgiveness following a transgression of the marketer. Therefore, customers will intend to be re-confirmed about the trustworthiness of the company as a precaution for future interactions.

There are three core elements of perceived trustworthiness that determine interpersonal trust within organizations – ability, benevolence and integrity (Mayer, Davis and Schoorman 1995).

Xie and Peng (2009) termed ‘ability’ as ‘competence’ and defined it as a capability of the organization to realize promises, which develops when the organization holds adequate knowledge, expertise, skills, leadership and other characteristics in related domains. Credibility of the organization about its expertise and skills evolve over the past satisfying experiences of the customers about the company performance and it also meets customers’ reliability and dependability expectations on the company (Bove 2005). Benevolence is a positive orientation that includes behaviors as taking risk or making sacrifices for the benefit of the trustor (Tomlinson and Mayer 2009) and such behaviors are purely beyond profit motive (Rempel et al. 1985). Ganesan (1994) mentioned that benevolence focuses on motives and intentions of the focal partner who demonstrates a genuine concern and care for the exchange partner. Therefore, benevolence is a quality of the trustee that involves him/her (trustee) to be engaged in behaviors helpful to the trustor consciously. On the other hand integrity is the adherence of the trustee to set principles that the trustor finds acceptable (Tomlinson and Mayer 2009). Based on the notion of Weiner’s (1986) attribution model of motivation and emotion, Mayer et al. (1995) described that the extent to which an individual would be considered to have integrity would be determined by its personal characteristics like laziness and industriousness and these characteristics are generally perceived as controllable by the trustee. Once customers experience a negative outcome then they become suspicious about the integrity of the company and their repurchase intention and/or willingness to continue relationship with the company become contingent on being re-assured about the integrity of the company. As a result the company requires reassuring the customers about their integrity towards meeting relationship commitment; otherwise there is a possibility that the customers will self-explain the relationship failure event as being happened due to low integrity of the company.

Therefore, to be re-assured about the trustworthiness of the marketer, the customers will test the
Proposition 12: Following a transgression of the marketer, customers’ perceived justice regarding the company’s recovery efforts will have positive effect on customers’ perceived trustworthiness through the mediation of customer satisfaction with recovery efforts.

Restoration of Trust and Relationship

Relationship restoration is a process that not only involves righting the wrong associated with a specific violation but also re-establishing the social order (Ren and Gray 2009). It reassures the functioning of an expressive order which incorporates a set of shared rules specifying the responsibilities of interactants and regulating the flow of events in interaction and was violated by the offender (Goffman 1967). When the company acts in a way that builds consumer trust, the perceived risk with the specific service provider is likely to be reduced, enabling the consumer to make confident predictions about the company’s future behavior (Mayer, Davis and Schoorman 1995). Once the company’s behavior and practices reduce relational risk, it is quite likely that customers will also act cooperatively toward the company by demonstrating behavioral evidence of their loyalty (Gassenheimer et al. 1998). In fact, trust binds two parties together, moderates their risk, and implicitly guarantees future benefits (Chow and Holden 1997). Therefore, we propose that the positive outcome of the customer’s re-evaluation of the company’s trustworthiness leads the customers to trust the company, feel safe and not risky in their future dealings with the company and thus their loyalty can be regained i.e. the company can be able to restore both customer trust and relationship together.

Notably, consumer loyalty may be indicated as an intention to perform a diverse set of behaviors that signal motivation to maintain relationship with the company, including allocating a higher share or the category wallet to that company, engaging in a positive word-of-mouth and repeat purchasing (Zeithaml, Berry and Parasuraman 1996). In addition, we posit that restoration of relationship will enhance customers’ perceived relationship equity. This is because, if the perceived relationship equity is high, customers believe that they are well treated and are handled with particular care (Vogel, Evanschitzky and Ramaseshan 2008). The more equitable the relationship is, the more satisfied the customers are (Low and Johnston 2006). On the contrary, an inequitable relationship causes distress and dissatisfaction and often leads to opportunistic behavior (Hatfield et al. 1979). Higher relationship equity enables the consumers who compare their expectations with their experiences, to believe that they are treated better than others and are likely to be satisfied with the offering, brand or store and therefore, will become more loyal (Vogel, Evanschitzky and Ramaseshan 2008).

Proposition 13: Customers’ perceived trustworthiness will have positive impact on (a) customer trust, (b) customer loyalty, and (c) customers’ perception of higher relationship equity.

CONCLUSION

Though customer relationship management deals with acquiring new, retaining existing and regaining lost customers (Reinartz et al. 2004), yet reviving relationship to reacquire the lost customers is a neglected area of research (Tokman et al. 2007). Winning back the defected customers are attracting significant attention of the managers. Instead of calculating their losses, some companies now-a-days chase their lost clients to win them back (Griffin 2001). Firms realize that 100 percent retention is a myth and regardless of the initiatives taken for customer retention, customers leave (Dodson 2000). Thus winning back lost customers becomes a major challenge of the firms’ customer relationship management (Homburg et al. 2007) because in many industries, customer defection rates are as high as 25% approximately (Griffin and Lowenstein 2001). In addition, business to business relationships are required to be restored especially if the business is dependent on a limited number of partners (Tahtinen and Vaaland 2006), if the industry is characterized by high degree of uncertainty and technological specificity (Heide and Weiss 1995). Restoration of B2C relationship is also significant from the company point of view because the consequences of marketers’ transgression affect the consumer-brand relationship in terms of satisfaction, intimacy, and commitment (Aaker et al. 2004).

This paper contributes to the extant literature by proposing a conceptual model of restoring trust and relationship with the defected customers. Unlike Xie and Peng (2009), who empirically showed the link between recovery strategies of the company and customers’ perceived trustworthiness dimensions (competence, benevolence and integrity) for regaining customers’ trust, we propose that customers will judge the recovery efforts of the company to check whether the recovery efforts are sufficient enough to restore their mental inconsistencies and/or feeling about inequitable exchange relationship due to the transgression. We propose that reinforced by the positive outcome of the perceived justice regarding the marketer’s recovery efforts, customers will be satisfied with the recovery efforts and this will lead them to be re-assured about the company’s trustworthiness, which again will facilitate to re-attain customers’ trust as well as customer relationship (in terms of customers’ loyalty and higher relationship equity). We further posit that the link between customers’ perceived justice regarding the recovery efforts and their perceived trustworthiness about the company’s ability, benevolence and integrity is mediated by their (customers’) satisfaction with the recovery efforts. Thus this paper plays a pioneering role proposing a model aiming at restoring customer relationship as well as customer trust together. Because current literature says that relationship repair does not necessarily mean that trust is also restored, as conflicting parties may restore relationship
ignoring the negative feelings but may not trust the offender (Ren and Gray 2009). No study has been done so far addressing the issue of restoring trust as well as relationship.

Managerial implications of the paper are manifold. Relational modifications and shifts in its significance contribute to the existing complexity of the business world. Our paper put forwards a detail understanding about relational problems that a company may experience with their customers and how to address those relational problems. It provides a framework, which the organizations can use to understand how the customers usually evaluate their recovery strategies. An empirical study based on the proposed model will help the marketers to find out which recovery strategy is the most effective to restore relationship with the customers as well repair their trust. In addition, our model provides a basis for the managers to segment their current customers on the basis of emotion and response pattern i.e. based on the similarities and differences of the response pattern of the customers and their perception of justice towards different recovery strategies, the companies can segment the their customers. Empirical investigation of the model will also help the managers to find out which type of recovery strategies would be useful to a specific type of relational problem. Thus the managers can categorize the relational problems according to their significance and severity which will help them in designing their work priorities regarding which relational issues need to be handled with particular care.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The paper suffers from few limitations which also provide directions for future research. First, ours is a conceptual paper; therefore, empirical investigation of our model will definitely be an avenue for further research on this issue. Secondly, Stephen and Gwinner (1998) mentioned that different personal (commitment, belief and education) and situational factors (Novelty, Predictability, Imminence, Duration, and Ambiguity) influence the cognitive appraisal of the customers. This paper did not consider any personal or situational factors, which may have influence on customers’ the cognitive assessment of the relational problem, though it did consider five moderating variables that might have influence on customers perceived justice and their satisfaction with the recovery efforts. Future research can be pursued in this regard to explore the impact of personal and situational factors on customers’ assessment of recovery strategies of the company. Third, emotional responses like anger, frustration, etc. may be elicited in the consumers mind due to the relationship failure event (Stephen and Gwinner 1998). Our model did not consider the respective impact of such type of extreme emotions on the recovery strategies of the company. It would be worthwhile to investigate into the issue of different emotions that might be generated due to relationship failure event and how they affect on the effectiveness of different recovery strategies. Fourth, customers may also adopt different coping strategies (see Stephen and Gwinner 1998) once they experience the relational problem which is overlooked in this study. In addition, no literature is available yet to determine the efficacy of different recovery strategies and this study also fail to address this issue. Therefore, further study can be pursued to identify the efficacy of different recovery strategy and their respective application context.

REFERENCES


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APPENDIX
Figure 1: Model of Relationship Recovery

Moderated by:
- Past Experience
- Severity of failure
- Relationship Investment
- Switching Cost
- Alternative Attractiveness

- Procedural Justice
- Distributive Justice
- Interactional Justice

- Affective Recovery
- Functional Recovery
- Informational Recovery

- Perceived Justice
- Recovery Efforts
- Restoring Relationship & Restoring Trust

Perceived Trustworthiness

Restoring Satisfaction

Restoring Trust