

**INFLUENCE OF ENTREPRENEURIAL SERVICE
RECOVERY ON CUSTOMER LOYALTY IN THE
HOSPITALITY INDUSTRY IN KENYA**

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**Influence of Entrepreneurial Service Recovery on Customer
Loyalty in the Hospitality Industry in Kenya**

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Philosophy in Entrepreneurship in the Jomo Kenyatta University of
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DECLARATION

This thesis is my original work and has not been presented for a degree in any other university.

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DEDICATION

To Dorcas, Ryan and Bianca, thanks for the support and the sacrifices that you have gone through.

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ACRONYMS & ABBREVIATIONS

ADR	Average room rate
AMOS	Analyses of moment structures
AVE	Average Variance Extracted
CFA	Confirmatory Factor Analysis
IBM	International Business Machines
KES	Kenya shilling
KFC	Kentucky Fried Chicken
KNBS	Kenya National Bureau of Statistics
MLE	Maximum Likelihood Estimation
PWOM	Positive word-of-mouth
RevPAR	Revenue per Available Room
RoK	Republic of Kenya
SEM	Structural Equation Model
SPSS	Statistical Package for Social Sciences
UK	United Kingdom
USA	United States of America
WOM	Word of mouth
WTTC	World Travel and Tourism Council

DEFINITION OF TERMS

Customer Loyalty: The degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using this provider when a need for this service arises (Auka, 2012). Loyalty is when the customer feels so strongly that you can best meet his or her relevant needs that your competition is virtually excluded from the consideration set; these customers buy almost exclusively from the preferred service organization- referring to the organization as their hotel or their restaurant (Shoemaker & Lewis, 1999). This study adopted Shoemaker and Lewis (1999) definition of customer loyalty.

Customer Satisfaction: A judgement that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, and includes levels of under or over fulfillment (Tronvoll, 2010). It is a business philosophy which tends to the creation of value for customers, anticipating and managing their expectations, and demonstrating ability and responsibility to satisfy their needs (Dominici & Guzzo, 2010). This study adopted Tronvoll (2010) definition of customer satisfaction.

Distributive Justice: The assignment of tangible resources by the firm to rectify and compensate for a service failure (e.g., refunding money, changing the good or service, discounts for future purchase) (Del Río-Lanza, Vázquez-Casielles, & Díaz-Martín, 2009). It is also defined as the outcomes of the recovery attempt (solution) such as compensation, exchange or replacement compared to the input (purchase, consumer's time and effort during the recovery process), or the outcomes that one

consumer gets compared to other consumers (Nguyen, McColl-Kennedy, & Dagger, 2012). This study adopted Del Rio Lanza et. al (2009) definition of distributive justice.

Interpersonal Justice: The customers' perceptions about employees' empathy, courtesy, sensitivity, treatment and the effort they expend to solve the problem (Del Río-Lanza, Vázquez-Casielles, & Díaz-Martín, 2009). It is also defined as the interactions between the customer and the service provider and includes courtesy and politeness during the interaction (Nguyen, McColl-Kennedy, & Dagger, 2012). This study adopted Del Rio-Lanza et. al. (2009) definition of interpersonal justice.

Procedural Justice: The methods the firm uses to deal with the problems arising during service delivery in aspects such as accessibility, timing/speed, process control, delay and flexibility to adapt to the consumer's recovery needs (Del Río-Lanza, Vázquez-Casielles, & Díaz-Martín, 2009). It is also defined as resolving conflicts by use of a formal approach in order to be consistent and maintain the customer relationship-even if the outcome is unsatisfactory to one party (Wildes, 2005). This study adopted Del Rio-Lanza et. al (2009) definition of procedural justice.

Service Failure: An error, mistake or problem that occurs in the service delivery process (Hedrick, Beverland, & Minahan, 2007), leading to customers' expectations not being met (Chan & Wan, 2008). Service failures can be defined as the real or perceived breakdown of the service in terms of either outcome or process (Duffy, Miller, & Bexley, 2006). Service failure is also defined as the real or perceived breakdown of the service in terms of either outcome or process (Duffy,

Miller, & Bexley, 2006). This study adopted Hedrick, Beverland and Minahan (2007) definition of service failure.

Service Recovery: The responses and actions service provider adopted to make a remedy of the service incident so as to regain customer loyalty (Grönroos, 1988). Service recovery is also defined as the integrative actions a company takes to re-establish customer satisfaction and loyalty after a service failure (customer recovery), to ensure that failure incidents encourage learning and process improvement (process recovery) and to train and reward employees for this purpose (employee recovery)(Michel, Bowen, & Johnston, 2009). It is also defined as the process by which steps are taken as a result of negative customer perception of initial service delivery (Kau & Loh, 2006). This study adopted Gronroos (1988) definition of service recovery.

Strategic Entrepreneurship: Capitalizing on both opportunity-seeking activities, which inherently characterize entrepreneurship, as well as advantage-seeking activities demanded by strategy (Ketchen, Ireland, & Snow, 2007). It is also defined as the firm's "efforts to simultaneously exploit today's competitive advantages while exploring for the innovations that will be the foundation of tomorrow's competitive advantages (Ireland & Webb, 2007). This study adopted Ketchen, Ireland and Snow (2007) definition of strategic entrepreneurship.

ABSTRACT

The purpose of this study was to investigate the influence of entrepreneurial service recovery on customer loyalty in the hospitality industry in Kenya. The increased competition in the hospitality industry has forced proprietors to continuously search for competitive advantages, with service quality being the single most important differentiating factor in the hospitality industry. In Kenya the hospitality industry has been characterized by poor service quality which threatens their long-term survival. This study used a survey approach guided by cross-sectional research design. The study was guided by service recovery as the independent variable, perceived justice as the mediating variable, and customer loyalty as the dependent variable. The population of the study was 25, 585 customers who were patronizing the 17 five star hotels during the period of study. A sample size of 384 respondents was obtained using Fischer's (1988) formula. The sampled customers were selected randomly from all the five star hotels. Data was analyzed using Statistical Package of Social Sciences (SPSS) with AMOS version 21. The study found out that service recovery influences customer loyalty. Compensation was found to have a positive influence on customer loyalty and thus important in addressing service failure. Organizations should therefore assign tangible resources to correct service failure problems and restore the trust of an aggrieved customer. Employee empowerment was found to have a positive influence on customer loyalty. The power to make prompt decisions in an organization is important in the provision of high levels of service quality. Hotels should empower their employees with skills, knowledge and ability to deal with service recovery. The study also found out that employee behaviours have a positive influence on customer loyalty, thus a need for employees being able to address to the emotions of aggrieved customers through positive employee behaviours. Hospitality industry should provide their employees with training necessary to develop strategic thinking skills, thus able to create a positive customer experience. The study also found out that communication in service recovery had a positive influence on customer loyalty. Organizations in hospitality industry should use the communication process in collecting service failure information that will be used for organization learning. The study also found out that

the perceived justice dimensions partially mediated the relationship between service recovery and customer loyalty. This implies that service recovery and customer loyalty can be enhanced by increasing perceived justice. The results of this study are important for practitioners in the hospitality industry who will have an understanding of entrepreneurial strategies that organizations in hospitality industry can use to remedy for service failure.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This study explored the influence of entrepreneurial service recovery on customer loyalty in the hospitality industry in Kenya. Studies have shown that in today's global marketplace, competition among service providers is fierce and service firms constantly struggle to build and manage high-quality customer relationships, which have heightened the need for organizations to become more entrepreneurial in order to survive and prosper (Shapiro & Nieman-Gonder, 2006). This competitiveness demands that established firms adopt entrepreneurial strategies as a path to success (Morris, Kuratko, & Covin, 2008). Entrepreneurial strategies suggest ways to revitalize existing organizations and make them more innovative (Cooper, Markman, & Niss, 2010). They allow people to be innovative, creative, and responsible for decisions that they make. By pursuing entrepreneurial strategies, firms place themselves in positions to regularly and systematically recognize and exploit entrepreneurial opportunities (Cabrales, Medina, Lavado, & Cabrera, 2008).

Strategic entrepreneurship provides a viable strategy for firms to reconfigure their resources in novel ways and to identify and exploit opportunities (Ireland, Covin, & Kuratko, 2009). In this process, firms balance exploration and exploitation, through entrepreneurial opportunity-focused and measured strategic actions, drawn from their resource base, to exploit opportunities (Kyrgidou & Hughes, 2010). Exploitation is affirmed by Kirzner's theory which asserts that firms that engage in entrepreneurial behaviour through the process of opportunity discovery and exploitation use of different kinds of arbitrage opportunities opened up by fast paced environments where the preferences, technologies, and maneuvers of competitors are in flux to make profits (Sundqvist, Kylaheiko, & Kuivalainen, 2012). Exploration on the other hand is affirmed by Schumpeter's theory of innovation which emphasizes the firm's ability to create new combinations (launching new products, open up new markets, pioneer new methods of production), with

innovation being a key propensity to generate these new combinations resulting in new products, processes and business models(Augier & Teece, 2007).

Opportunity-seeking (exploration) involves identifying and sorting through future potentially attractive markets or needs, where the firm may have certain knowledge advantages, but where it may also need to absorb new knowledge and acquire or develop new competencies therefore, opportunity seeking requires organizational learning (Kyrgidou and Hughes, 2010). Building a diverse knowledge base enables a firm to expand its competitiveness, a requirement for success in today's rapidly changing marketplace (Ketchen, Ireland, & Snow, 2007). Advantage-seeking (exploitation) activities require firms to find a specific market niche, position themselves effectively and dominate that market position as efficiently as possible, outcompeting their rivals. It is not sufficient to create a breakthrough innovation; firms also need to protect those innovations by making it very difficult for competitors to imitate that position or offer customers a perceived similar product or service (Ireland, Covin, & Kuratko, 2009). Balancing of opportunity- and advantage-seeking activities, calls for dividing scarce resources between these two types of activities and maintaining a steady stream of innovations (Ketchen, Ireland, & Snow, 2007).

1.1.1 Service Recovery

As the tourism and hospitality industry becomes more competitive, it becomes more difficult to meet the expectations of customers due to marketing problems resulting mainly from the intangibility, inseparability, heterogeneity, and perishability characteristics of services (Karatepe, Avci, & Tekinkus, 2009). This increased competition and expansion of unique services and amenities in the hospitality industry has forced proprietors to continuously search for competitive advantages, with service quality being the single most important differentiating factor in almost every hospitality environment (Neill & Palmer, 2011). Service quality is an important determinant of customer satisfaction and the prices that customers are willing to pay, with managing service quality increasingly being viewed as critical by most commercial enterprises in achieving market differentiation and competitive

advantage (La & Kandampully, 2010). Creating loyal customers through delivery of superior service quality and customer satisfaction is of paramount importance to the success of service firms (Karatepe, Avci, & Tekinkus, 2009). Service quality is a core component of the service promise, which represents an important aspect of overall value, and is often a means used by consumers to judge a firm's performance (La & Kandampully, 2010). One of the factors of service quality is human element of service delivery and includes aspects such as reliability, responsiveness, assurance, empathy and service recovery (Sureshchandar, Rajendran, & Kamalanabhan, 2011).

Due to the increased competition and perceptual differences between the customers and the service providers leading to service failures, service recovery is an important strategy to reduce the dissonance in customers (Dutta, Venkatesh, & Parsa, 2012). Service recovery should not be viewed solely as a damage control mechanism that affects only the shop floor level of a firm, but also as part of the firm's long-term strategic planning that aims to ensure that its offerings are continuously innovated so that the firm continues to remain at the forefront of the marketplace (La & Kandampully, 2010). Firms must strive to design appropriate recovery strategies in order to remain competitive. Currently, service recovery is no longer conceived as a set of specific, one-off actions in response to an unsatisfied consumer, or as an operational mechanism of damage control, but as an integral part of the service company's long-term strategy which involves comprehensive management practices (Johnston & Michel, 2008). Effective service recovery minimizes the impact of service failures, and can potentially transform angry and frustrated customers into satisfied and loyal ones (Boshoff, 2008).

Adopting a strategic perspective on service failure management is potentially more beneficial for service providers in the long term, because it can contribute to a firm's learning at the organizational level and to the development of a customer value-based competitive advantage (La & Kandampully, 2010). Firms need to identify a well-balanced combination of exploitation and exploration strategies (Prange & Schlegelmilch, 2009). Excessive exploration at the expense of exploitation can be costly, as the tangible outcomes of exploration will only be realized in the distant

future and then only with considerable uncertainty. On the other hand, a concentration on exploitation without exploration discourages the organization from pursuing learning and development (Auh & Menguc, 2011).

The primary objectives of service recovery are to regain customer satisfaction with service encounters, and to identify and correct weaknesses in the relevant service processes, thus avoiding similar occurrences in the future. Attracting new customer's costs five times more than retaining existing customers and a customer who has had a conflict resolved by a company will tell about five people; if the conflict remains unresolved, dissatisfied customers will tell 10 to 20 people about their bad experience (Thwaites & Williams, 2012). A firm can also learn from its service failures and apply such learning, not only to amend its existing system but also to create a set of knowledge that can be used for continuous innovation and transformational change. The firm can thus be better equipped to provide its customers with better value through a more reliable and continuously updated service system as the market evolves over time. In this regard, learning from service failure should be considered as an integral part of an organization-wide learning strategy, with the ultimate objective being to create a sustainable competitive advantage based on superior customer value. This requires that the service provider adopt a strategic perspective on the management of service failures, in addition to the commitment to organizational learning (La & Kandampully, 2010).

Lewis & McCann (2012) identified service recovery strategies and classified them as: apology; correction; empathy; compensation; follow-up; acknowledgement; explanation; exceptional treatment; and managerial intervention. They explained how customers evaluate service recovery efforts using justice theory, which comprises of three dimensions, that is, distributive justice which is the perceived fairness of the outcome (compensation, repairs, replacement), interactional justice which is the perceived fairness of the manner in which the customer is treated (provision of an apology, demonstration of politeness, concern, honesty, an explanation, and the effort put into resolving the problem, and procedural justice which is the perceived fairness of the process used to rectify service failure (speed of

response, accessibility and flexibility of the procedure, company policies). Greenberg (1993) as cited in Nikbin, Ismail, Marimuthu, and Armesh (2012) introduced informational justice as a component of interactional justice relating to communication issues.

1.1.2 The Hospitality Industry

The hospitality industry is very important to all world economies. In 2014, the hospitality industry contributed 10 percent of global GDP with a total value of US\$ 7.6 trillion and accounted for 277 million jobs(WTTC, 2015). The word “hospitality” is often used to describe the broad field that incorporates lodging, food service, leisure, conventions, travel, and attraction(Ottenbacher, Harrington, & Parsa, 2009). In the age of globalization and structural change, tourism is a new innovation, as it has become a global phenomenon, not only in terms of drawing people closer to each other, but also in terms of relative impact on society and individual as well (Kulshrestha & Gautam, 2010).Hospitality is an integral part of tourism industry, which means making a tourist feel totally welcome not only as your guest, but also as the guest of the country (Kulshrestha & Gautam, 2010).The tourism industry is one of the world’s largest industries and also the fastest growing of the market(Cooper & Hall, 2012).Worldwide, tourism is ranked second highest revenue-generating industry next to the oil industry (Rathore, 2012).

The hospitality industry is very diverse and global. They may be physiological (satiated appetite, quenched thirst, comfortable bed and pleasant environment) economical (good value for money, speedy service, excellent location and credit facilities) social (enjoyable company, attentive staff and advice on selection of food and wine) and psychological (fulfillment of needs relating to self-esteem, status and security (Andrews, 2007). Hospitality products include accommodation, transportation, travel agents, guides, taxi drivers, vendors, entertainment, food and beverages, emporiums and shopping arcades (Andrews, 2007). Hospitality is an integral part of tourism Industry and involves making a tourist feel totally welcome not only as your guest, but also as the guest of the country (Kulshrestha & Gautam, 2010).

Despite the market challenges, the global hotels, resorts and cruises industry are performing well, with revenue growth accelerating to 8% in 2011, a trend expected to continue over the next couple of years, due to higher travel and expenditures from tourists in emerging markets. The hotel segment, which represents over 90% of the hospitality industry, is the most lucrative, with room rates and revenue continuing to recover from the 2009 lows. During the first half of 2012, revenue per available room (RevPAR) and occupancy rates have posted the strongest gains in the Middle East and Africa, but have improved in most regions. Southern Europe, Central and South America are the exception, with occupancies declining (Cain & Gomes, 2012). In the United States of America (USA), the hotel and motel profitability continue to improve, with revenue expected to rise by 4% in 2012, fully recovering from the low in 2009. While international travelers are leading the advance, domestic leisure and business travel are also bolstering hotel occupancy rates and RevPAR. By June 2012, the U.S.A hotel industry reported advancement in all three key performance metrics, with occupancy rates up 3.6% to 63.5%, RevPAR advancing 7.7%, and average daily room rates (ADR) increasing by 3.9% (Cain & Gomes, 2012).

The tourism and hospitality industries are among the fast expanding industries in the world and are important top foreign earners for Kenya, (RoK, 2010). Though tourist attractions existed in Kenya as early as the 6th century, it could not be commercialized due to lack of knowledge on commercialized hospitality and people were content with their traditional way of welcoming guests. It was not until late 1890's and early 1900's when the Kenyan Coast received a long trend of overseas visitors mainly business men from Asia and Europe. It is for this reason that catering and accommodation facilities were set up by foreigners, and local people were hired for menial jobs as they did not have training in hospitality. Tremendous growth was registered after the Second World War, with the peak in the late sixties and early seventies, the time saw the establishment of international chain hotels like the Hilton (Rotich, Sawe, & Akgul, 2012).

The Kenyan hospitality industry evolved at the coast due to Arab traders and the railway line construction workers. Their presence necessitated the building of the first catering establishment at the coast which was known as the Grand Hotel of Mombasa built at the present site of Manor Hotel. After the country fell under the British colonization, there was need to access Uganda and the railway was constructed leading to more catering units established along the railway line for the workers. By 1960, some hotels such as Norfolk had reached international five stars rating (Kamau & Waudu, 2012).

Despite the fact that tourism and hospitality industries are among the fast expanding industries in the world and are important top foreign earners for Kenya, it has been characterized with many challenges ranging from service quality and the number of accommodation facilities. Only 18 per cent of Kenyan hotels are in the 4-5 star categories, which is significantly lower than the average of 40 per cent in competing long-haul destinations such as South Africa (Kenya Vision 2030, 2010).

1.1.3 Customer Loyalty

Customer loyalty has become an important aspect in the hospitality industry due to increased competition. In realizing the ongoing competitiveness in the hospitality industry, many hotels have shifted their focus to relationship marketing, particularly through the concept of customer loyalty. With the increased bargaining power consumers are obtaining, hotels are realizing the key to their success will be to foster strategic relationship marketing efforts, particularly through the usage of loyalty measures (Liang, 2008).

Customer loyalty is seen as one of the major facilitators of service quality and happens when there is repeated purchasing by the same customers and their willingness to recommend the product to other customers without any outright benefits, and eventually the repeated usages would generate positive and quantifiable financial results (Bhandari, Tsarenko, & Polonsky, 2013). Among the economic benefits of customer loyalty are improvements in retention and increase in the share of a company. Customer loyalty means a customer would return or

continue to use the same product or other products of the same organization, make business referrals, and intentionally or even unintentionally providing strong word-of-mouth references and publicity (Cengiz, Er, & Kurtaran, 2012). Loyal customers are those who are not easily swayed by price inducement from competitors, and they usually purchase more than those loyal customers (Huang & Lin, 2011).

Customer loyalty has been classified into three categories which include: behavioral loyalty, attitudinal loyalty and emotional attachment (Khan, 2012). Behavioral loyalty means consumers' repurchase behavioral or intension of specific brand (Russell-Bennett, McColl-Kennedy, & Coote, 2007). It is expressed as repeated transactions (or percentage of total transactions in the category, or total expenditures in the category) and can be measured with observational techniques (Komunda & Osarenkhoe, 2012). Behavioural loyalty reflects the customer actions and involves the measurement of past purchases of the same brand or the same brand-set and/or the measurement of probabilities of future purchase given past purchase behavior (Bandyopadhyay & Martell, 2007). Behavioural loyalty is measured through purchases, repeat buying, satisfaction, and length of time spent with a firm. Most loyalty programs that award points for frequent purchasing fall under this category with customers being rewarded for the repeat purchase behavior (Liu, 2010).

The highest level of loyalty can only be developed if a firm can build emotional connections, in addition to positive attitudes and behaviors (Shoemaker & Bowen, 2013). Behavioural loyalty is highly prized, because it means sales; attitudinal loyalty is also highly prized because behavioural and attitudinal loyalty are highly intertwined: repeated purchases lead to positive effect, which lead to cognitive loyalty, that is, high levels of involvement and intention to continue repurchasing (Turner & Wilson, 2006). Turner and Wilson added that attitudinal loyal customers are much less susceptible to negative information about the brand than non-loyal customers. There must be a strong attitudinal commitment to a brand for true loyalty to exist, which is seen as taking the form of a consistently favourable set of stated beliefs towards the brand purchased. Such attitudes may be measured by asking people how much they like the brand, feel committed to it, will

recommend it to others, and have positive beliefs and feelings about it (Komunda & Osarenkhoe, 2012).

The inability to get service delivery right the first time is thought to lead significant losses to the organization in terms of lower loyalty, less repurchase intentions and significantly higher switch and external response intentions than those with resolved problems (Roodurmun & Juwaheer, 2010). Michel and Meuter (2008) argued that firms with the ability to react to service failures effectively and implement some form of service recovery will be in a much better position to retain profitable customers. The concept of customer satisfaction occupies a central position in the customer-centered firms. This is because customer satisfaction is a key to customer retention (Kotler, Keller, Ang, Leong, & Tan, 2006). In relating with service recovery, research has shown that satisfaction is a mediator that explains the relationship between service recovery and post purchase behavior: customer loyalty and favorable word-of-mouth (Wirtz & Mattila, 2012). In other words, service recovery influences post purchase behavior is mediated by satisfaction.

1.2 Statement of the Problem

The total contribution of travel & tourism was KES 561.8bn in 2014 (10.5% of GDP), KES 462.8bn in 2013 (12.1% of GDP) and KES 448.4bn in 2012 (12.5% of GDP), and this is forecast to rise by 4.2 % per annum in 2015 and to rise by 5.1% per annum over the next decade to KES 964.2bn by 2025(WTTC, 2015). Despite the fact that hospitality industry is among the fast expanding industries and an important top foreign earners for Kenya, it has been characterized with many challenges ranging from service quality, which includes service failure recovery, and the number of accommodation facilities. With the ever-increasing competitive business environment, customers choices have widened and more than ever customers are less likely of forgiving for service failures (Roodurmun & Juwaheer, 2010). However, mistakes are an unavoidable feature of all human endeavors and the unique characteristics of the service industry, especially the hotel industry, makes mistakes more distinct and zero defects not attainable (Wirtz & Mattila, 2012).

Service failure causes customer dissatisfaction with the service provider which may lead to loss of customers and a spread of negative word-of-mouth (Kim, Kim, & Kim, 2013). If allowed to continue, poor service delivery threatens the long-term survival of the firm (Michel & Meuter, 2011). This would lead to the closure of hotels, loss of jobs and hence low Gross Domestic Product (GDP), which will lead the country failure to service recurrent expenditure, capital expenditures and internal and external debts. This will lower the country competitiveness which will lower the rate of innovation as a result of lower entrepreneurial orientation.

There are some local studies that have been done in the area of service quality, service recovery and customer loyalty. Odera, Chepkwony, Korir, Lagat, and Mumbo (2012) conducted a study on the effects of distributive justice complaints resolution strategies on customer satisfaction in Kenya's banking industry. Komunda, (2012) investigated the effects of service recovery on customer satisfaction and loyalty in a commercial banking environment. Auka (2012) conducted a study on service quality, satisfaction, perceived value and loyalty among customers in commercial banking. Mage (2010) conducted a study on empirical estimation of customer loyalty in tourism industry and developed a model that can be used in estimating customer loyalty. This shows that there was an existing knowledge gap in understanding the strategies that entrepreneurial firms in the hospitality industry use in addressing service failure situations, hence a chance for organizational learning which is important for firms engaging in strategic entrepreneurship.

1.3 Objectives of the Study

1.3.1 General Objectives

The general objective of the study was to explore the influence of entrepreneurial service recovery on customer loyalty in the hospitality industry in Kenya.

1.3.2 Specific Objectives

1. To determine the influence of compensation on customer loyalty in the hospitality industry in Kenya.
2. To establish the influence of employee empowerment on customer loyalty in the hospitality industry in Kenya.
3. To assess the influence of employee behaviours on customer loyalty in the hospitality industry in Kenya.
4. To determine the influence of communication on customer loyalty in the hospitality industry in Kenya
5. To establish the mediation influence of perceived justice on the relationship between service recovery and customer loyalty in the hospitality industry in Kenya.

1.4 Research Hypothesis

This study was guided by the following hypothesis:

- H₀₁: Compensation has no significant influence on customer loyalty in the hospitality industry in Kenya.
- H₀₂: Employee empowerment has no significant influence on customer loyalty in the hospitality industry in Kenya.
- H₀₃: Employee behaviours have no significant influence on customer loyalty in the hospitality industry in Kenya.
- H₀₄: Communication has no significant influence on customer loyalty in the hospitality industry in Kenya.
- H₀₅: Perceived justice does not mediate the relationship between service recovery and customer loyalty in the hospitality industry in Kenya.

1.5 Justification of the Study

Kenya hospitality industry is a very important sector to the economy. Tourism earnings which are a key source of foreign exchange earnings rose by 32.8 per cent from KSh 73.7 billion in 2010 to KSh97.9 billion in 2011 (RoK, 2012). In Kenya's vision 2030, tourism industry is expected to contribute greatly towards its achievement. Tourism industry is expected to contribute an average economic growth rate of 10 percent per annum. This growth will only be achieved with creating a highly competitive market through differentiation and maintaining high quality services in order to attract and retain more customers. This study will therefore be of much importance and will provide a guideline for hotel managers on how well to cope with the concept of service recovery. It will also create a better understanding of the importance of service recovery strategies among the hotel managers.

The findings of this study will be useful to the hospitality industry practitioners in order to prevent failure in the future and in the case of failure know how to recover it more efficiently. Moreover, it will explain which recovery strategy or combination of recovery strategies is most effective in order to prevent customers from switching. The findings will also be of much importance to the government as it will act as a guide to the policy makers when formulating policies aimed at facilitating growth of the hospitality industry. Scholars in the hospitality industry and also in the service industry will make use of the findings in advancing scholarly work in the field of service recovery. Entrepreneurship scholars will also find the findings of this study important as it will contribute new knowledge in entrepreneurship and also aid in enhancing competitiveness of businesses in the service industry.

Finally, the findings of this study will help service providers to increase their profitability and sustainability increased profits and sustainability by improving on their service delivery. This is because switching intentions negatively affect profitability and reduces market share, as cost of acquiring a new customer is much higher than that of keeping an existing customer, thus, service firms are vitally interested in reducing customer defection.

1.6 Scope of the Study

The study conducted a survey of customers of five star hotels in Kenya. The population of this study was customers patronizing the five star hotels and lodges in Kenya. In Kenya, there are 17 five star hotels (RoK, 2003), based on the last rating of hotels that was done in the year 2003. Most of the hotels today ride on self rating of their establishments. The study targeted the customers of the five star hotels that were residing in these hotels from October 2013 to March 2014.

1.7 Limitations of the Study

In order to obscure manageability of the collected data, the study used a survey questionnaire that relied on self-report responses. It was assumed that participants responded to the questions in an honest and accurate manner. This is because participants often give answers that they believe to be desirable. This study mitigated this limitation by allowing the respondents to remain anonymous and assuring them that the study results will be used for purely academic purpose. Since the study adopted a cross-sectional design, firm conclusions about the directions of causality implied in the model cannot be drawn, thus, relationship among variables had to be interpreted with caution. Interpretation of models using structural equation modeling is also not proof of causality. True causal inferences can only be drawn by testing models using longitudinal data. This is especially important for a subject like customer loyalty that is not static but is developmental process that changes over time.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed literature that is relevant to the area of study. It reviewed secondary literature, theoretical literature and empirical literature on service recovery and customer loyalty. It reviewed literature on compensation, employee empowerment, employee behaviours and communication as the independent variables, perceived justice as the mediating variable and customer loyalty as the dependent variable.

2.2 Theoretical Review

A theory is a set of systematic interrelated concepts, definitions, and propositions that are advanced to explain and predict phenomena (facts) (Cooper & Schindler, 2011). The theoretical review explored theories about customer loyalty and service quality leading to the development of conceptual framework that guided this study. The study reviewed Kirzner theory of entrepreneurship, Schumpeter theory of innovation, Resource based view theory, Reciprocity theory, Herzberg Two-Factor theory, Resource exchange theory, Social exchange theory and Justice Theory.

The reviewed theories provided a good basis for the study of service recovery, customer loyalty and entrepreneurship. Kirzner theory of entrepreneurship explains the need for organizations to come up with superior ways of serving their customers through high quality services. Schumpeter theory of entrepreneurship emphasizes on the need for firms to come up with service innovations to keep competition at bay and address the needs of customers that are shifting rapidly. Resource based view demonstrates the need for firms to create competitive advantage through superior systems and ability to offer superior customer service which will be of value to the customer. Reciprocity theory explains why gift giving works in encouraging customers to patronize organizations and feel appreciated especially in service failure situations. Herzberg Two-Factor theory helps entrepreneurs understand the

factors that drive employee satisfaction which is important for frontline employees in the hospitality industry. Lastly the perceived justice theory is used to help analyze the way customers perceive the entire recovery process.

2.2.1 Entrepreneurship Theories

Kirzner's Theory of Entrepreneurship

Under the Kirznerian view, entrepreneurship is seen as a discovery process in which opportunities and incentives are spontaneously offered for the entrepreneur (Kirzner, 1985), who responds to the market by engaging in market-driven behaviors (Narver, Slater, & MacLachlan, 2004). For Kirzner, entrepreneur is at center stage in the market process, and, so the process of economic development. In hospitality industry entrepreneurs should offer high quality services that will be used as a differentiating factor for enhanced competitiveness.

Kirznerian firms engage in entrepreneurial behavior through the process of opportunity discovery and exploitation (Kirzner, 1997), use different kinds of arbitrage opportunities opened up by fast paced environments where the preferences, technologies, and maneuvers of competitors are in flux to make profits (March, 1991). In service recovery entrepreneurs learn from the customer complaints to come up with competitive service quality which enable the organization to take advantage of arbitrage opportunities. In this discovery process, entrepreneurial alertness and especially competitive-oriented activity is a critical element (Kirzner, 1997), to be able to grasp opportunities when dealing with market uncertainty (Sundqvist, Kylaheiko, & Kuivalainen, 2012).

The success which capitalist market economies display is the result of a powerful tendency for less efficient, less imaginative courses of action, to be replaced by newly discovered, superior ways of serving consumers by introducing better goods and services and/or taking advantage of hitherto unknown, but available sources of resource supply (Kirzner, 1997). Creating loyal customer through delivery of superior service quality and customer satisfaction is of paramount importance to the success of firms in the hospitality industry (Karatepe, Avci, & Tekinkus, 2009). In

service failure situations entrepreneurs should look for ways that will assure the customer that the organization is still the best in offering unmatched service quality.

Entrepreneurs in the market, Kirzner explains, notice and exploit opportunities to earn profits by replacing less efficient, less imaginative courses of action with superior ways of serving consumers. In Kirzner's view, it is the very imperfection of knowledge that allows for the entrepreneur to have a function and for market process to take place. Because knowledge is imperfect, Kirzner (1973) points out that there is the possibility of the same good selling for different prices in the market, and thus the possibility for arbitrage. Lewis & McCann (2012) identified service recovery strategies that would be used to demonstrate to the aggrieved customer that he is still the king despite the failure. Some of the recovery strategies identified include: apology; correction; empathy; compensation; follow-up; acknowledgement; explanation; exceptional treatment; and managerial intervention.

The positive effects of market knowledge in opportunity recognition are awareness of customer problems as sources of potential opportunities; the ease of determining the market value of new technological discoveries or other market changes; and increased communicability of tacit knowledge of new technology between user and end-consumer (McKelvie & Wiklund, 2004). Kirznerian entrepreneurial oriented behaviours are characterized by proactive market driven behaviour (Narver, Slater, & MacLachlan, 2004). Proactiveness refers to an ability to anticipate and sense weak signals and act on future needs in the markets ahead of the competition, by means of effective arbitrage, thus enabling a firm to gain competitive advantage (Teece, 2007). In the hospitality industry the increasing competition and expansion of unique services and amenities has forced the proprietors to continuously search for competitive advantages, with service quality being the single most important differentiating factor in almost every hospitality environment (Neill & Palmer, 2004). Firms must strive to design appropriate recovery strategies in order to remain competitive, as service recovery is an important strategy to reduce the dissonance in customers (Dutta, Venkatesh & Passa, 2007).

The role of Kirznerian entrepreneurs is to generate equilibrating tendencies within the global economy and discover those possibilities unforeseen by competitors (Sundqvist, Kylaheiko, & Kuivalainen, 2012). Thus the advantage seeking processes of these entrepreneurs takes place partly in new markets and partly within the boundaries of current markets, with new opportunities emerging from the firm's efforts to take advantage of the competitive landscape they operate within. In hospitality industry where service quality is the single most important differentiating factor, entrepreneurs need to come up with competitive advantages to enhance customer loyalty even in situations where there is service failure. Defining firm behaviour in such a market includes competing in existing market space, aggressively beating the competition, and exploiting the existing demand (Kim & Mauborgne, 2005), making competitive strategies a central element of Kirznerian entrepreneurially oriented behaviours.

However, the exploitation of profit opportunities also alerts rivals and draws in imitators (Shane & Venkataraman, 2000). Thus, after finding a new market opportunity via proactive behavior, the firms must also be able to rapidly and aggressively seize that opportunity (Sundqvist, Kylaheiko, & Kuivalainen, 2012). Firms must disrupt the routine pattern of rivalry by creating new ways of doing things. Fundamental to the Kirznerian entrepreneurial oriented behaviour is competition, which forces firms to be alert and find new opportunities in crowded markets, and aggressively seize the opportunities to outperform potential imitators (Sundqvist, Kylaheiko, & Kuivalainen, 2012).

Schumpeter's Theory of Innovation

The Schumpeterian view of entrepreneurship emphasizes on the firm's ability to create new combinations like launching new products, opening up new markets, and to pioneer new methods of production (Sundqvist, Kylaheiko, & Kuivalainen, 2012). Schumpeter recognized and felt that entrepreneurs seek profit through innovation, transforms the static equilibrium into a dynamic process of economic development which in turn revolutionize the patterns of production by exploiting an innovation or new pattern of production. Innovativeness of the firm is a key propensity to

generate new combinations resulting in new products, processes and business models (Augier & Teece, 2007).

Innovations do not appear independently of one another but in swarms or clusters. This clustering of innovations occurs because the appearance of one or a few entrepreneurs facilitates the appearance of others, and thus the appearance of more, in ever-increasing numbers (Schumpeter, 1934). Creating new market opportunities via innovations requires entrepreneurs to be able to take risks, as the payoffs from such innovations are unknown. Risk taking is essential in creating new combinations and destroying the equilibrium conditions in the market; with the greater the change from the status quo, the more essential risk encouragement and positive attitude towards risk taking becomes (Cabralés, Medina, Lavado, & Cabrera, 2008).

In today's dynamic market conditions, where customers' needs are unknown, or are shifting rapidly, Schumpeterian disequilibrating tendencies may be most necessary in order to succeed. In this case, innovations are required to keep competition at bay (Garcia, Calantone, & Levine, 2003). The more dynamic the market needs, the more creative firms should be as markets are way too complex to be reacted on and responded to, and thus firms need to set the course by market-driving behaviors and exploration (Sundqvist, Kylaheiko, & Kuivalainen, 2012).

As Drucker (1985) said, innovation should be looked at as an opportunity. The result of this opportunity is the creation of a new service or changing a previous one. Innovation cannot only be an idea, but can be thought about as a practice, a process or a product. Individuals are very important in innovation because they transform a new problem-solving idea into an application (Ottenbacher, Harrington, & Parsa, 2009). To run a formal well-planned process and to be successful in hospitality innovation, leadership style, and know-how need to be the focus. The successful process is created from a clean, well-communicated strategy and vision by managers who support service quality initiatives. To achieve this innovation it is essential to involve the employees, because they have the ability to repair the quality of the service and they always are aware of customer's needs. Employees need to be empowered to analyze the customers' demands, and come up with solutions to

address them. Furthermore, employee involvement in the process helps the organization to focus more strongly on the customer instead of focusing on process efficiencies.

2.2.2 Compensation Theories

Resource Based View

The Resource Based View theory of the firm was developed by Wernerfelt (1984) as an attempt to build a consistent foundation for the theory of business policy, and a means of explaining competitive advantage and, in turn, superior performance amongst firms (Clulow, Gerstman, & Barry, 2003). The theory was grounded in early economic models of monopolistic competition, and its focus on firm heterogeneity departs from neo-classical microeconomics and Bain/Mason industrial organization which characterize the behaviour of the representative firm (Jang, 2013). A firm is said to have a competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors (O'Shannassy, 2008). In hospitality industry firms should be able to provide high level of service quality as the most important differentiating factor in remaining ahead of competition.

The principal contribution of the resource-based view of the firm to date has been as a theory of competitive advantage. Resource based view (RBV) sees the firm as a collection of unique resource and capability tool that if utilized in a distinctive way can be employed to create and preserve competitive advantage (Osarenkhoe, 2008). The theory starts with the assumption that the desired outcome of managerial effort within the firm is a sustainable competitive advantage (SCA). Achieving a SCA allows the firm to earn economic rents or above average returns. This SCA only transpires when a firm implements a value creating strategy not currently being imitated by other businesses (O'Shannassy, 2008). Value refers to the ability of the firm to conceive or implement strategies that enhance organizational efficiency and effectiveness. To achieve SCA, resources must go through processes in order to become sources of SCA (Branco & Rodrigues, 2006).

An SCA can be obtained if the firm effectively deploys these resources in its product-markets. Therefore, the RBV emphasizes strategic choice, charging the firm's management with the important tasks of identifying, developing and deploying key resources to maximize returns(Jang, 2013).The essential elements of the resource-based view are sustainable competitive advantage and superior performance; the characteristics and types of advantage-generating resources; and strategic choices by management(Jang, 2013). Any given firm may have many advantages over another firm, such as a superior production system, a lower level of wages and salaries or an ability to deliver superior customer service, but the important advantages are those in which customers place some level of value (Coyne, 1986). In service failure firms have to come up with innovative recovery strategies that will not only enhance the organization competitiveness but also customer loyalty.

If resources are to deliver their SCA-enhancing potential, organizations must develop and use their capabilities. Capabilities comprise of skills, tacit knowledge and social relationship rooted in the routines, managerial processes, communication practices and culture (O'Shannassy, 2008). Capabilities symbolize the capacity of a set of firm resources to be able to consistently carry out specific tasks or activities(Smith, 2008).Capabilities encompass the skills of individuals or groups as well as the organizational routines and interactions through which all the firm's resources are coordinated. Value to customers is an essential element of competitive advantage. Therefore, for a resource to be a potential source of competitive advantage, it must be valuable or enable the creation of value (Jang, 2013). In service recovery capabilities will play a great role in employee empowerment, employee behaviour and communication.

Superior managerial capabilities are an important source to generate above normal rent for the organization. Management capabilities in an organization are usually required for communication and implementing strategy, maintaining beneficial relationships with employees and customers and participating in organizational resource allocation and deployment such as organizational culture, learning system,

innovation and entrepreneurial systems, and incentives system(Lo, 2012). If organizations in the hospitality industry can strategically practice innovation, their limited resources will be utilized to maximum capacity and profitability, and competitiveness should increase as a result (Sundbo, Orfila-Sintes, & Sorensen, 2007).

The resource-based view has been criticized for exhibiting circular reasoning in that one of its fundamental elements, namely, value, can only be assessed in terms of a particular context (Kay, 1993). Resources may lead to competitive advantage but this in turn defines relevant competitive structures, which in turn defines a valuable resource (Jang, 2013).

Reciprocity Theory.

The theory of reciprocity is used by scholars to explain why gift-giving works. The theory was developed by Gouldner A. W. (1960), which stated that people will tend to reciprocate the communication behaviours in which their interaction partner engages (McCroskey & Richmond, 2000). Reciprocity theory states that when customers perceive that they have been helped, they tend to feel indebted and may feel compelled to provide retribution in the form of praise, devotion, personal information and repeat purchases (Crofts, 2011). Marketers and retailers have used many types of promotions and inducements to influence the purchasing decisions of their customers (Friedman & Rahman, 2011). The principle of reciprocity is based on the idea that people who receive a gift or benefit from someone have the need to give something back in return; there is actually a feeling of indebtedness on the part of the recipient (Friedman & Rahman, 2011). When customers perceive that the company is making an investment in them, they in turn make a similar investment in the company, which leads to loyalty (Morais, Dorsch, & Backman, 2004). Periodic gift-giving has been shown to improve customer loyalty and especially the surprise gifts to the customer (Barnes, 2001).

A gift need not be a physical gift, but a verbal appreciatory comment may improve consumer spending and satisfaction as well. After all, even a “thank you” will result

in a “you’re welcome” or the equivalent in almost every society (Friedman & Rahman, 2011). There is value in greeting customers who enter a store; and that customers who are not greeted will spend considerably less, will rate the store lower on performance, and will also be less likely to recommend the establishment. They also added that there were no differences between gifts; a gift of a small cup of yogurt had the same impact as the gift of a key chain. The value of a satisfied customer to a business is immense. Customers who are totally satisfied contribute 17 times more sales to a firm than customers who are somewhat dissatisfied and 2.6 times as much sales as customers who are somewhat satisfied (Friedman & Rahman, 2011).

Customers with a medium and high level of loyalty seek and wish to develop further the relationship, but in order to do so, the company must reciprocate. Thus companies must find appropriate and tangible ways of maintaining the relationships (McMullan & Gilmore, 2008). McMullan and Gilmore also found out that greater two-way communication may lead to more effective ways of recognizing customers who have experienced difficulties. Thus managing customer loyalty involves realizing the need for reciprocating through recognition and rewards where both parties are engaged in the relationship.

2.2.3 Employee Empowerment and Behaviour

Herzberg Two Factor Theory

In the hospitality industry, employees have a direct responsibility on the customer relationship, and this relationship is a powerful factor in a company’s success. Frontline employees deal directly with their customers, thus their attitudes, behaviours and treatments towards their customers will determine whether customers will become loyal towards the organization (Cengiz, Er, & Kurtaran, 2012). Competition as a result of changing customer demand has compelled organizations to motivate their employees in order to get out of them and to stay competitive. The Herzberg Two-Factor Theory states that employee motivation is achieved when employees are faced with challenging but enjoyable work where one

can achieve, grow, and demonstrate responsibility and advance in the organization. That is, when the employees' efforts are recognized, it brings about job satisfaction and motivation (Baah & Amoako, 2011).

Together with the growth of the hospitality industry, the demands and expectations for quality services are also increasing, and the customer tastes are varying. Being the hospitality industry is a service industry, and based on services, the success of the industry mainly depends on the employees and the front line employees, who have direct contact with the customers, play an important role. To survive in this competitive environment, the organizations must be faster, leaner, provide better service quality, be more efficient, and profitable, an empowered and proactive service worker is thought to be essential(Lundberg, Gudmundson, & Anderson, 2009). In the hospitality industry, empowerment of employees will provide exceptional customer service which will play a great role in enhancing customer loyalty and improved competitiveness of the industry.

Herzberg (1968) suggested in a Two-Factor theory of motivation that there were two factors driving employee satisfaction in workplace: motivation factors and hygiene factors. The hygiene factors are also referred to as the maintenance factors and comprise of the physiological, safety and love needs from Maslow's hierarchy of needs. They are factors that are not directly related to the job but the conditions that surround doing the job. They operate primarily to dissatisfy employees when they are not present, however, the presence of such conditions does not necessarily build strong motivation (Baah & Amoako, 2011). These factors include; company policy and administration, technical supervision, interpersonal relations with supervisor, interpersonal relations with peers and subordinates, salary, job security, personal life, work conditions and status. The hygiene factors are not direct motivators but are necessary to prevent dissatisfaction and at the same time serve as a starting point for motivation.

Herzberg motivator factors pertain to the job content, they are intrinsic to the job itself and do not result from "carrot and stick incentives". They comprise the physiological need for growth and recognition. The absence of these factors does not

prove highly dissatisfying but when present, they build strong levels of motivation that result in good job performance. They are therefore called satisfiers or motivators. These factors include; achievement, recognition, advancement, the work itself, the possibility of personal growth and responsibility (Baah & Amoako, 2011). In hospitality industry rewarding success and empowering employees to take up responsibilities lead to employee satisfaction, which will help in enhancing customer loyalty through superior customer service.

Resource Exchange Theory

Foa and Foa (1974) as cited in Brinberg and Wood (1983) developed the resource exchange theory that attempts to categorize and identify the structure underlying what is exchanged between two social units as well as the patterns of exchange. Donnenworth and Foa (1974) as cited in Brinberg and Wood (1983) developed six categories that describe these resources as love, status, information, money, goods and services. Each resource can be classified by tangibility and particularism. Love and status are highly intangible and particularistic, information, goods and status are the most intangible, love is the most particularistic, and money is the least particularistic.

According to resource theory, when individuals receive a specific type of resource, they tend to want to give an identical type of resource in return, and when individuals invest intangible and particularistic resources in each other, they tend to be more satisfied with the relationship, tend to continue the relationship for a longer period, and tend to establish more intimate relationships (Morais, Dorsch, & Backman, 2004). In service failure situations, the strategies that the customer will use to win back will dictate whether the customer will feel if they got value for the money. Customers may give back through re-patronage, positive word-of-mouth and being loyal to the firm.

The findings in the Morais, Dorsch and Backman (2004) study of a nature-based tourism provider were consistent with resource theory: investments in love, status and information were more closely associated with loyalty than investments of

money. These findings led the authors to suggest that loyalty programs should invest in intangible and particularistic resources in their most valuable customers instead of tangible and non-particularistic investments like money or free or discounted goods and services. Resource theory is very appropriate for tourism, travel and hospitality industries since close interactions between customers and front line staff occur regularly.

Social Exchange Theory

Social exchange theory was developed through the works of Malinowski (1922) and Mauss (1925). Social exchange theory involves a series of interactions that generate obligations, with interactions being seen as interdependent and contingent on the actions of another person. This theory holds that relationships evolve over time into trusting, loyal, and mutual commitments (Cropanzano & Mitchell, 2005). Service failure and recovery encounters can be considered mixed exchanges with both utilitarian and symbolic dimensions. Utilitarian exchange involves economic resources such as money, goods, or time, whereas symbolic exchange involves psychological or social resources such as status, esteem, or empathy. Service failures can result in the loss of economic or social resources for customers. Service providers may attempt to recover by offering customers economic resources in the form of compensation (discount) or social resources (apology) (Yi & Lee, 2005).

Compensation is a strategy for restoring equity to an exchange relationship when one party has been harmed by the other. Social exchange theories tend to view social relationship as similar to economic transactions, with people feeling fairly treated when they perceive their economic outcomes, in proportion to their inputs. In social exchange theories, an apology is viewed as a valuable reward that redistributes esteem (a social resource) in an exchange. An apology from the service provider communicates politeness, courtesy, concern, effort, and empathy to customers who have experienced a service failure and it may enhance their evaluations of the encounter (Yi & Lee, 2005).

2.2.4 Perceived Justice

Justice Theory

Justice theory is used in service recovery studies to help analyze the way that customers perceive the entire recovery process. Equity theory forms the basis of justice theory. It was developed in 1963 by J.C Adams, stating that in every exchange that takes place, people weigh the inputs (the perceived contributions) against the outcomes (the perceived rewards received) and compare them with those of others in similar situations. In the event that there is an equal balance between them, the exchange is considered as 'fair', but if the outcomes do not meet with the person's expectations, then this results in inequity (Kuenzel & Katsaris, 2009). Justice theory has been applied as a theoretical framework for assessing the effectiveness of service recovery procedures (Wirtz & Mattila, 2012).

Justice theory was originally posited as having three dimensions, namely, distributive, interactional and procedural justice. Distributive justice focuses on the fairness of an exchange by comparing their inputs to outcomes to form an equity score. An exchange is judged as fair when this equity score is proportional to the scores of a referent point. When applied to service recovery research, distributive justice focuses on the outcomes of the recovery attempt (solution) such as compensation, exchange or replacement compared to the input (purchase, consumer's time and effort during the recovery process), or the outcomes that one consumer gets compared to other consumers (Nguyen, McColl-Kennedy, & Dagger, 2012). Procedural justice focuses on fairness of the processes leading to the final outcome. An outcome is more likely to be perceived as fair when involved parties perceive that they have an input into the final decision. In a service recovery context, procedural justice focuses on the process of resolving the failure, that is, whether the company appears to have fair policies or whether the customer's interests are considered in the firm's policies (Nguyen, McColl-Kennedy, & Dagger, 2012)

Interactional justice refers to the manner in which individuals are treated during the exchange process. An exchange is considered as fair when involved parties interact

and treat one another in a decent manner. Thus, in a service recovery context, interactional justice focuses on the way customers are treated throughout the service recovery process such as courtesy, respect, concern and empathy shown by the provider. Interactional justice has been dimensionalised as interpersonal justice and informational justice. Applying these two concepts to service recovery, interpersonal justice refers to the interactions between the customer and the service provider and includes courtesy and politeness during the interaction, and informational justice refers to the quantity and quality of the information exchanged between the service provider and the customer (Nguyen, McColl-Kennedy, & Dagger, 2012).

2.3 Conceptual Framework

Conceptual framework is a tool used by a researcher to develop awareness and understanding of the situation under scrutiny and to communicate (Kombo & Tromp, 2006). A conceptual framework is a concise description of the phenomena under study accompanied by a graphic or visual depiction of the major variables of the study (Mugenda, 2008). The conceptual framework explains the possible connection between the variables and answers the why questions. It is a conception or model of what is out there that you plan to study, and of what is going on with these things and why – a tentative theory of a phenomena that you are investigating (Smyth, 2004).

The key variables in this study were categorized as independent variables, dependent variable and mediating variable. The study analyzed the influence of entrepreneurial service recovery on customer loyalty in the hospitality industry in Kenya. The independent variables of the study were compensation, employee empowerment, employee behavior and communication. The dependent variable of the study was customer loyalty, while the mediating variable was perceived justice.

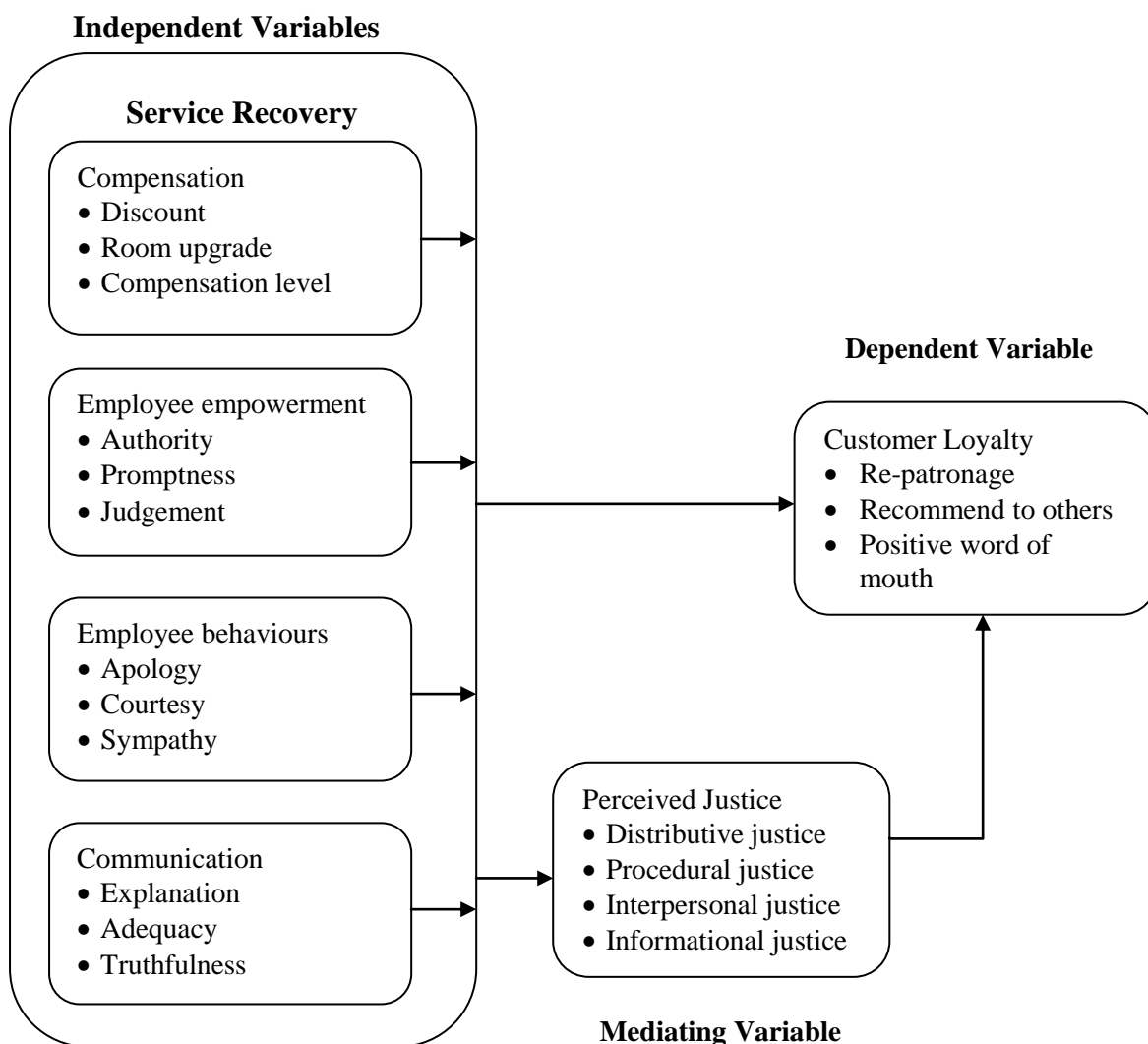


Figure 2. 1: Conceptual Framework

2.3.1 Service Recovery

Service industries are undergoing significant developments with focus shifting from customer acquisition to customer retention; and it is vital that organizations not only attract new customers and satisfy their immediate needs, but also do their utmost to retain them as this will probably give them a greater chance of survival. Building relationships with customers lies in the fact that repeat business not only promotes

profitability, it can actually be the lifeblood of the organization (Steyn, Mostert, De Meyer, & Van Rensburg, 2011).

Increasingly, service firms as well as their customers, are seeking a flawless performance on delivery of both core and supplementary service elements, although due to human errors, service failure is inevitable from time to time, especially in medium and high contact services such as hospitality industry services (Mattila & Cranage, 2005). No matter what level of excellence of service a company delivers, many companies will often make the mistake when trying to meet the expectations of today's customers, who are more demanding and less loyal than ever before. Even the most customer-oriented organization with the tightest quality assurance program is not able to eliminate all service failures (Del Río-Lanza, Vázquez-Casielles, & Díaz-Martín, 2009). Service recovery is a valuable marketing tool which constitutes a second chance for the hotel to satisfy the customer (Kuenzel & Katsaris, 2009).

The use of the word "recovery" in a service context originated from British Airway's "putting the customer first" campaign when they defined service recovery as an organization's attempt to offset the negative impact of a failure or breakdown (Kanousi, 2005). Boshoff and Klemz (2005) viewed service recovery as any appropriate strategy which can be put in place to correct service failures, with the aim of reinstating the customer's level of satisfaction and thus keeping the customer loyal. Yunus (2009) further pointed out that service recovery is an umbrella term for systematic efforts by a firm to correct a problem following a service failure, in order to retain customer's goodwill.

Service recovery helps to solve problems in two potential situations: during the service encounter (before a customer complaint) and shortly after the service encounter if the customer is dissatisfied (Gronroos, 2007). Immediate recovery after the failure ensures that the company will have a good image or reputation (Wirtz & Mattila, 2012). However, even with these potential benefits, service recovery often fails because of unresolved tensions that arise from the conflicts among perspectives relating to customer recovery, process recovery and employee recovery (Michel, Bowen, & Johnston, 2009).

Service recovery does not guarantee that the failure has been completely dealt with and will not recur (Schoefer & Ennew, 2005). Recent research warns that the rate of failures has not improved and that service recovery management still fails too often (Michel, Bowen, & Johnston, 2009). Despite the efforts and precautions a company may take to avoid errors or breakdowns during service delivery, failures are at one time or another bound to occur (Seawright, Bell, Preston, & Hoopes, 2013). Currently, service recovery is no longer conceived as a set of specific, one-off actions in response to an unsatisfied consumer, or as an operational mechanism of damage control, but as an integral part of the service company's long-term strategy which involves comprehensive management practices (Smith, Karwan, & Markland, 2009). An integrated approach to service recovery gives the organization a new opportunity to maintain dissatisfied clients, recover employees and learn, and hence to prevent or reduce the likelihood of future errors (Michel, Bowen, & Johnston, 2009).

The hotel industry involves a high degree of interaction between employees and consumers and so provides many opportunities for service failure to occur. The quality of service encounters is frequently determined by the actions of front-line staff, whose experience and commitment may be limited and whose attitudes may vary from one encounter to another. The inseparability of production and consumption means that failures occur at the point of consumption, providing little scope for correction without inconveniencing the guests (Lewis & McCann, 2012).

Service failure causes customer dissatisfaction with the service provider, and due to that customers may exit silently, spread a negative word-of-mouth, voice their complaints to the operator, or continue to patronage the same service provider despite their dissatisfaction (Kim, Kim, & Kim, 2013). Service errors have an impact on end-user perception and can affect satisfaction/dissatisfaction levels (Michel & Meuter, 2011). However, effective service failure management, and a timely solution can restore customer satisfaction (Hocutt, Bowers, & Donavan, 2006; Varela, Vazquez, & Iglesias, 2008). By not effectively offering service recovery after service failures, customers could be let down for the second time,

leading to customers leaving the organization for a competitor, spreading negative word-of-mouth communication about the organization, or rating the organization lower than it would have done directly following the service failure (Lewis & McCann, 2012).

Lewis & McCann (2012) identified service recovery strategies and classified them as: apology; correction; empathy; compensation; follow-up; acknowledgement; explanation; exceptional treatment; and managerial intervention. Boshoff (1999) as cited in Boshoff (2005) developed the RECOVSAT instrument which measures satisfaction as communication, empowerment, feedback, atonement, explanation, and tangibles. They explained how customers evaluate service recovery efforts using justice theory, which comprises of three dimensions: distributive justice which is the perceived fairness of the outcome (compensation, repairs, replacement); Interactional justice which is the perceived fairness of the manner in which the customer is treated (provision of an apology, demonstration of politeness, concern, honesty, an explanation, and the effort put into resolving the problem; and procedural justice which is the perceived fairness of the process used to rectify service failure (speed of response, accessibility and flexibility of the procedure, company policies). Greenberg (1993) as cited in Nikbin, Ismail, Marimuthu, and Armesh (2012) introduced informational justice as a component of interactional justice relating to communication issues.

Service recovery's major importance is owed to the fact that it affects customer satisfaction and, as a consequence, customer loyalty (Kuenzel & Katsaris, 2009). Satisfaction with the service recovery directly affects a customer's intention to repurchase and to recommend the service provider (Lewis & McCann, 2012). These relationships constitute the vital reasons why providers pay so much attention to service recovery because in financial terms loyal customers can increase profits including through their recommendation of the service to others (Kuenzel & Katsaris, 2009). When service failures have occurred, service recovery is the primary way a firm can retain its customers and minimize the costs associated with

customer defection and negative word of mouth (Seawright, Bell, Preston, & Hoopes, 2013).

Service recovery has been an issue of concern in both developing and developed world. In a study involving 4,000 respondents from nearly 600 U.S.A companies, it was found out that 56 percent believe their companies are slow to respond to and fix recurring problems, and 41 percent of respondents to a 2006 survey of Austrian and German firms indicate they have no complaint handling process in place (Gross, Caruso, & Conlin, 2007). According to Valenzuela, Vasquez-Parraya, Llanos, & Vilches, (2006), customers in developing countries may face service failure more often and more intensely than customers in developed countries, making service recovery a more important task in those countries.

In a study conducted in Botswana, Manwa (2011) found out that restaurants had incompetent staff that tends to ignore customers' suggestions, and are ignorant of menus of the restaurants they worked for. They do not attend to customers' complaints, and therefore, problems remain unresolved. Customers are subjected to long waiting periods and when they try and make suggestions on how to improve the service, they feel that their suggestions are ignored. This shows that customers do not trust the restaurant staff and without mutual trust they will be reluctant to return to the restaurant because they do not believe in the information given by the service providers. This shows that employees are not well trained and experienced to work in the restaurants. According to Kvist and Klefsjo (2006) it is critical that employees in the restaurants should have the necessary training and experience. Without trained and experienced staff it is difficult to deliver quality service (Tsau & Lin, 2011). These inconsistencies in serving customers have also been observed in other parts of Africa, and poor service delivery is a region-wide problem (Manwa, 2011). Service recovery basically addresses the firm's ability to react immediately to a failed service encounter, pleasing the customer before he or she finds it necessary to complain (Michel & Meuter, 2008).

Boshoff and Staude (2003) state that successful service recovery can be achieved through communicating with the unhappy customer, being compassionate, providing feedback, supplying an explanation for the service failure, empowering employees to respond suitably when receiving complaints, ensuring that employees who deal with customers are professional when doing so, and ensuring that employees dealing with customers are suitably dressed. Little and Marandi (2003) contend that, in addition to these steps, the organization should ensure that it is easy for the customer to complain by making sure that employees are trained to set the customer at ease. A hotel should also establish a policy concerning complaints. This can be done by, for example, publishing a customer service quality guarantee, which will give customers the confidence to complain. A recovery strategy should also be put in place as fast as possible – certainly before negative attitudes set in. A service organization should plan for service recovery; when this is successful it can lead to a higher level of satisfaction than that initially felt by the customer (Schoefer, 2013). Customers who complain are more likely to return to the organization even though their complaint is not handled satisfactorily than those customers who do not complain when a service failure is experienced (Petzer, Steyn, & Mostert, 2009).

Compensation

Compensation is designed to overcome negative consumer outcomes regarding the experience by providing tangible evidence that the service provider is fair. It is considered an important tool to overcome service failure, and can restore equity to an exchange relationship or connote associations with distributive justice (Bhandari, Tsarenko, & Polonsky, 2013). Consumers expect compensation for the damages the failure may have caused them and/or the costs they incurred to obtain a solution and is considered the second crucial recovery action (La & Kandampully, 2010). Firms can assign tangible resources to correct problems and restore the interchange with the client by returning the money, replacing the service, or offering discounts on a future purchase (Akbar, Mat Som, Wadood, & Alzaidiyeen, 2010). Compensations may also include upgrading to a better hotel room, a free ticket, or a free meal (Boshoff & Klemz, 2013).

Compensation is associated with customer perceptions of distributive justice (Bhandari, Tsarenko, & Polonsky, 2013). The concept of distributive justice has its origins in social exchange theory and emphasizes the allocation of benefits and costs. Social exchange theories tend to view social relationships as similar to economic transactions and accordingly, people feel fairly treated when they perceive their economic outcomes, in proportion to their inputs, as in balance with the perceived ratio of the economic outcomes compared to the inputs of relevant others (Adams, 1965 as cited in Namkung, Jang, Almanza, & Ismail, 2009). Social exchange theories tend to view social relationships as similar to economic transactions, with people feeling fairly treated when they perceive their economic outcomes, in proportion to their inputs, as in balance with the perceived ratio of the economic outcomes compared to the inputs of relevant others. When the ratios are not in balance an individual experiences inequity and, as a result, he or she is motivated to reduce this inequity distress (Adams, 1965 as cited in Namkung et. al, 2009).

Therefore the hypothesis:

H₀1: Compensation has no significant influence on customer loyalty in the hospitality industry in Kenya.

H₁1: Compensation has a significant influence on customer loyalty in the hospitality industry in Kenya.

Employee Empowerment

Since front-line employees account for as much as 65 percent of complaint initiation, they are vital to the timelines of service recovery strategies (Maxham & Netemeyer, 2012). Employee empowerment refers to the extent to which the employee who first receives the complaint is able to solve the problem, and does not have to solicit the help of someone else to do so (Boshoff, 2013). Employee empowerment refers to the authority for an employee to present a solution that meets the needs and expectations of the individual customer; which means giving frontline employees the desire, skills, tools, and authority to serve the customer. The

empowerment of the employees requires that they are able to understand and manage failure, as well as customer expectations of appropriate recovery actions (Bhandari, Tsarenko, & Polonsky, 2013).

Due to their relative position in the process of service recovery, front-line employee's appropriate actions can prevent small problems from becoming bigger problems. Empowerment of front-line service workers must come with knowledge and the ability to effectively deal with service failures (Robinson Jr, Neeley, & Williamson, 2011). They must be able to identify service failures and have the authority to solve them when they happen (Jong & Ruyter, 2004). A likelihood of successful service recovery could be increased if the initial worker contacted after failure has appropriate authority and handled the complaint in a timely manner (Robinson Jr, Neeley, & Williamson, 2011). Responsibility has to be backed up with appropriate training in how to recover the service, which encourages employees in their work and gives them confidence to use the discretion they have received appropriately (Santos-Vijande, Diaz-Martin, Suarez-Alvarez, & Del Rio-Lanza, 2013).

Empowering employees to fix problems in real time may lead to different service recovery solutions for any given case depending on which person is dealing with it, hence diminishing recovery justice (Michel, Bowen, & Johnston, 2009). It is thus advisable to set up clearly formalized service recovery policies and procedures, even if this is to the detriment of the employee's decision-making capacity (Smith, Karwan, & Markland, 2009). There should be a proper combination of employee empowerment and training to develop successful recovery strategies, which will contribute to employee satisfaction after the failure since it is the employee who can make decisions to rectify the process and to compensate the client immediately if necessary, and thus alleviate the tensions that arise from dealing with service recovery (Santos-Vijande, Diaz-Martin, Suarez-Alvarez, & Del Rio-Lanza, 2013).

The response speed which refers to the speed of reaction at which complaints are resolved is also important in dealing with service failure because it enhances the prospect of positive evaluation by the customer of how they are treated by the firm (Donavan, Brown, & Mowen, 2004). In order to be effective and efficient, real time contextual information can be a key to success in dealing with the circumstances. Front-line employees should have a unique perspective of the situation that can be used as an advantage when deciding how to respond (Robinson Jr, Neeley, & Williamson, 2011). Rapid identification of a problem, even before the client is aware of it, will only be fruitful if the firm responds rapidly; and if possible by the first person who is contacted (Boshoff & Klemz, 2013). In order for the front-line employee to be more effective and immediate in dealing with unpredictability, they should possess the aptitude to adapt to real-time situations, with one of the key elements of being adaptive is having a sufficient knowledge base of customer information (Jong & Ruyter, 2004). The speed of problem handling has been identified as an important dimension of procedural justice (Bhandari, Tsarenko, & Polonsky, 2013).

Therefore the hypothesis:

H₀2: Employee empowerment has no significant influence on customer loyalty in the hospitality industry in Kenya.

H₁2: Employee empowerment have a significant influence on customer loyalty in the hospitality industry in Kenya.

Employee Behaviours

Organizations set goals in order to manage recovery expectations through employee behaviours, which involve moving beyond simply developing policies to deal with service recovery. The various recovery actions that employees undertake serve as a valuable reward that redistributes esteem in an exchange relationship (Smith, Bolton, & Wagner, 2009). An apology is an important recovery action available to an employee to rectify a failed encounter (Karatepe, Avci, & Tekinkus, 2009). An

apology is often associated with customer perceptions of interactional justice do that they feel they are being treated fairly (Bhandari, Tsarenko, & Polonsky, 2013).

Richard and Walker (2007) suggested that an apology contains four elements: acknowledgement of the event, expressing of sympathy, expressing of remorse, and admission of fault. Admission of fault is an aspect that distinguishes apology from other forms of accounting for one's behavior. They termed apology without admission of fault as a partial apology. When a person only shows sympathy without admitting the fault, the person offers a partial apology. In contrast, apology is defined as a partial apology plus admission of fault. According to Kuo, Yen, and Chen (2011), 37 percent of the buyers felt satisfied with an apology as a recovery strategy, which involved providing verbal expression of remorse or regret for a mistake made. The buyer satisfaction with this strategy was 37 percent and repeat purchase intention after this strategy was 34 percent. Past research studies have demonstrated the importance of interactional justice in study of service failure and recovery. In a survey conducted by Namkung and Jang (2009) in a restaurant industry setting in USA, shows that interactional justice could increase consumer's retention by increasing consumer satisfaction.

Therefore the hypothesis:

H₀3: Employee behaviours have no significant influence on customer loyalty in the hospitality industry in Kenya.

H₁3: Employee behaviours have a significant influence on customer loyalty in the hospitality industry in Kenya.

Communication

Communication refers to written communications such as personalized letters, direct mail, web site interactions, other machine-mediated interactions, and e-mail, as well as in-person communication with service personnel before, during and after service transactions (Ball, Macha's, & Coelho, 2014). The service provider provides information in such a way that the customer personally benefits with a minimum of

effort necessary to decode the communication and determine its utility (Komunda & Osarenkhoe, 2012). Information refers to the extent to which the service firm's employees communicated clearly, asked questions to clarify the situation, and are understanding, reliable and honest in their endeavours to solve the problem (Boshoff & Klemz, 2013).

Communications are endeavors to make customers aware of rescue steps and actions and aiming at adjusting the expectation of service quality, communications can shape and change customer cognitions (Van Vaerenbergh, Lariviere, & Vermeir, 2009). The relationship marketing literature suggests that timely communications can boost customer trust and commitment, which are two key factors of boosting customer relationships and satisfaction. Prudent communications are more effective in resolving disputes and aligning perceptions and expectations, more so than compensation or apology. In addition, communications make customers aware that the company would try to resolve the problems rather than act opportunistically (Vazquez Casielles, Suarez Alvarez, & Diaz Martin, 2010). In his study Boshoff (2013) found out that communication and explanation are the dimensions of importance to consumers when they report a service failure to a service firm.

Therefore the hypothesis:

H₀4: Communication has no significant influence on customer loyalty in the hospitality industry.

H₁4: Communication has significant influence on customer loyalty in the hospitality industry in Kenya.

2.3.2 Perceived Justice

Justice theory (Adams, 1965) suggests that the effects of explanations are mediated by perceptions of justice fairness. Several types of justices are distinguished as distributive justice, procedural justice and interactional justice (Bradley & Sparks, 2012). Under the justice theory, service failure and recovery affect customer evaluations by altering customers' sense of whether they have been treated fairly

(Bradley & Sparks, 2012). The study sought to determine whether perceived justices clarify the nature of the relationship between service recovery and customer loyalty.

Distributive Justice

Distributive justice refers to the assignment of tangible resources by the firm to rectify and compensate for a service failure (refunding money, changing the good or service, discounts for future purchase)(Del Río-Lanza, Vázquez-Casielles, & Díaz-Martín, 2009).Huang (2011) defined distributive justice as the extent to which customers feel they have been treated fairly with respect to the final recovery outcome, with these distributive justice outcomes representing discounts and refunds offered to customers after a service failure. Organizations should tailor their service recovery efforts, focusing on those resources in the bundle that will have the greatest positive impact and create the most favorable customer response (Huang & Lin, 2011).

Distributive justice examines the way resources or rewards are allocated among parties to a transaction, with resources and rewards representing the outcome of a consumer complaint. The consumer who receives a refund, compensation for lost time, or even a free gift may be said to experience a favourable outcome; while the firm that refuses to compensate the consumer may create an outcome that will be perceived as favourable (Li, 2011). Distributive justice during service recovery has a significant influence on overall satisfaction with the service recovery, with higher levels of distributive justice result in more favorable repatronage intentions and a decreased likelihood of negative word-of-mouth (WOM)(Del Río-Lanza, Vázquez-Casielles, & Díaz-Martín, 2009). Perceived justice brought about by service recovery efforts has a positive influence on customer WOM and revisit intention (Ha & Jang, 2009).

Therefore the hypothesis:

H₀₅: Distributive justice does not mediate the relationship between service recovery and customer loyalty in the hospitality industry in Kenya.

H₁₅: Distributive justice mediates the relationship between service recovery and customer loyalty in the hospitality industry in Kenya.

Procedural Justice

Procedural justice refers to the methods the firm uses to deal with the problems arising during service delivery in aspects such as accessibility, timing/speed, process control, delay and flexibility to adapt to the consumer's recovery needs (Del Río-Lanza, Vázquez-Casielles, & Díaz-Martín, 2009). This form of justice may also include formal policies and structural considerations related to service recovery, such as the length of time required to receive a refund, as well as the responsiveness and flexibility displayed during the recovery (Ha & Jang, 2009). According to Huang (2011), procedural justice means the perceived fairness of recovery policies and procedures involving the recovery effort, and there is evidence suggesting that procedural justice affects service recovery outcomes. Procedural justice theory investigates the effect of the process of decision making on the quality of exchange relationships (Cengiz, Er, & Kurtaran, 2012). Ha and Jang (2009) noted that perceived justice brought about by service recovery efforts has a positive influence on customer WOM and revisit intention.

Time has commonly been viewed as a significant component of the total cost of a transaction, it is important to make consumers aware that their time is a valuable and finite resource, and recognize that waiting has negative effects on service evaluation. Customers identify punctuality as an important component of overall service and are often inclined to overestimate time spent waiting and the delay can influence affective reactions (Namkung, Jang, Almanza, & Ismail, 2009). In a restaurant setting, service waits can be caused by the time required for production (e.g. to prepare food) or by demand exceeding the capacity of the delivery system (customers arriving at a rate that exceeds the service provider's ability to accommodate). From a benefit convenience perspective, restaurant consumers may complain about *entrées* that arrive at the table too late or too soon, and this can reduce the benefit (Berry, Seiders, & Grewal, 2012). In any service context

customers have first-come, first-served expectations regarding seating waiting customers (Namkung, Jang, Almanza, & Ismail, 2009).

Therefore the hypothesis:

H₀₆: Procedural justice does not mediate the relationship between service recovery and customer loyalty in the hospitality industry in Kenya.

H₁₆: Procedural justice mediates the relationship between service recovery and customer loyalty in the hospitality industry in Kenya.

Interpersonal Justice

Interpersonal justice has been defined as the extent to which customers feel they have been treated fairly regarding their personal interaction with service providers throughout the whole process of recovery (Cengiz, Er, & Kurtaran, 2012). It may include interpersonal sensitivity, treating people with dignity and respect, and providing appropriate explanations for the service failure in the context of service recovery (Ha & Jang, 2009). Interpersonal justice refers to the interactions between the customer and the service provider and includes courtesy and politeness during the interaction (Nguyen, McColl-Kennedy, & Dagger, 2012). The provision and receipt of services within the hospitality sector involves an exchange between customer and service provider. These moments of interaction directly reflect the level of service from the customer's point of view, and are therefore particularly relevant to the hospitality industry where organizations thrive, or die, based on guest perceptions (Namkung, Jang, Almanza, & Ismail, 2009). Services, such as those in the hospitality industry, rely heavily on the service providers' interpersonal skills. It is the quality of interpersonal interaction between the customer and contact employee that often influences customer evaluations of services (Namkung, Jang, Almanza, & Ismail, 2009).

Interpersonal justice includes customers' perceptions about employees' empathy, courtesy, sensitivity, treatment and the effort they expend to solve the problem (Del Río-Lanza, Vázquez-Casielles, & Díaz-Martín, 2009). Lewis and McCann (2012), and De Run & Kusyarnadi (2008), pointed out that the most frequently service recovery strategy is an apology and is seen as the minimum recovery that would be offered by a service provider. Presenting an apology is one of the most cost effective service recovery techniques, although in instances where a customer complains, only 48% of firms are forthcoming with an apology (Cengiz, Er, & Kurtaran, 2012). Wirtz and Mattila (2012) indicated that an apology has a positive effect on perceived fairness of consumers.

Therefore the hypothesis:

H₀₇: Interpersonal justice does not mediate the relationship between service recovery and customer loyalty in the hospitality industry in Kenya.

H₁₇: Interpersonal justice mediates the relationship between service recovery and customer loyalty in the hospitality industry in Kenya.

Informational Justice

Greenberg (1993) as cited in Nikbin, Ismail, Marimuthu, and Armesh (2012) asserted that the component of interactional justice relating to communication issues formed a separate construct which he labeled “informational justice”. Information justice refers to the adequacy and truthfulness of information which explains the causes of a negative event (Mattila & Cranage, 2005), and the quantity and quality of information exchanged between the service provider and the customer (Nguyen, McColl-Kennedy, & Dagger, 2012). A customer perception of information justice is threatened by the lack of explanations provided to people about why procedures were used in a certain way or why outcomes were distributed in a certain manner (Colquitt, 2001).

Information justice focuses on the equity of the explanation and justifications offered about decisions and the reasons that support those decisions (Ambrose, Hess, & Ganesan, 2007). A customer's perception of information justice is threatened by the lack of explanations provided to people about why procedures were used in a certain way or why outcomes were distributed in a certain manner (Colquitt, 2001). Information justice has been relatively ignored in service marketing literature, and only recently applied into the context (Lee & Park, 2010). Colquitt (2001) found out that interpersonal justice was related to helping behaviour, whereas informational justice was related to collective esteem. Adapting informational justice to a post-failure situation in service delivery, offers consumers an informed choice in a service setting enhances a customer's informational fairness perception following a service failure (Mattila & Cranage, 2005).

Therefore the hypothesis:

H₀₈: Informational justice does not mediate the relationship between service recovery and customer loyalty in the hospitality industry in Kenya.

H₁₈: Informational justice mediates the relationship between service recovery and customer loyalty in the hospitality industry in Kenya.

2.3.3 Customer Loyalty

Customer loyalty has been classified into three categories which include: behavioral loyalty, attitudinal loyalty and emotional attachment (Khan, 2012). Behavioral loyalty means consumers' repurchase behavioral or intension of specific brand (Russell-Bennett, McColl-Kennedy, & Coote, 2007). It is expressed as repeated transactions (or percentage of total transactions in the category, or total expenditures in the category) and can be measured with observational techniques (Komunda & Osarenkhoe, 2012). Behavioural loyalty reflects the customer actions and involves the measurement of past purchases of the same brand or the same brand-set and/or the measurement of probabilities of future purchase given past purchase behaviour (Bandyopadhyay & Martell, 2007). Behavioural loyalty is measured through purchases, repeat buying, satisfaction, and length of time spent with a firm.

Most loyalty programs that award points for frequent purchasing fall under this category with customers being rewarded for the repeat purchase behavior (Liu, 2010).

Attitudinal loyalty is often defined as positive effect toward both continuance of the relationship and the desire to remain in the relationship, and is sometimes defined as equivalent to relationship commitment (Rod & Ashill, 2010). Attitudinal loyalty means consumers' sense of specific products or service (Kumar, Shah, & Venkatesan, 2006). Attitudinal loyalty dimensions include factors such as the intention to repurchase, positive word-of-mouth, as well as commitment (Liu, 2010). Attitudinal loyalty is measured by questionnaire methods (Komunda & Osarenkhoe, 2012). Strong attitudinal loyalty makes customers more resistant to attempts by other marketers to steal them away (Boshoff , 2005) and more resistant to counter-persuasion or to searching for alternatives (Komunda & Osarenkhoe, 2012).

The highest level of loyalty can only be developed if a firm can build emotional connections, in addition to positive attitudes and behaviours(Shoemaker & Bowen, Loyalty: A strategic commitment, 2013). Behavioural loyalty is highly prized, because it means sales; attitudinal loyalty is also highly prized because behavioural and attitudinal loyalty are highly intertwined: repeated purchases lead to positive effect, which lead to cognitive loyalty, that is, high levels of involvement and intention to continue repurchasing(Turner & Wilson, 2006). Turner and Wilson added that attitudinal loyal customers are much less susceptible to negative information about the brand than non-loyal customers. There must be a strong attitudinal commitment to a brand for true loyalty to exist, which is seen as taking the form of a consistently favourable set of stated beliefs towards the brand purchased. Such attitudes may be measured by asking people how much they like the brand, feel committed to it, will recommend it to others, and have positive beliefs and feelings about it (Komunda & Osarenkhoe, 2012).

Behaviorally loyal customers could be divided to sub-segments by the reason of acting: forced to be loyal, loyal due to inertia and functionally loyal. Customers are forced to be loyal when they have to be clients even if they do not want to. Customers may be forced to consume certain products or products/services offered by certain vendor e.g. when the company acts as a monopoly or the poor financial status of the customer is limiting his selection of goods. Kuusik (2007) found out that companies with low price strategy had a much higher loyalty than expected from their customer satisfaction and that companies that had used a lot of energy on branding had a high customer satisfaction but they did not have a correspondingly high loyalty with forced loyalty being established through creating exit barriers as well.

Loyal behaviour may also result from inertia – customer does not move to another vendor due to comfort or relatively low importance of operation – if the choice has low importance, there is no point to spend time and effort on searching for alternatives. Thus, based on his faith in the suitability of the current product, the customer continues to use it without checking alternatives (Kuusik, 2007). Hofmeyr and Rice (2000) as cited in Kuusik (2007) found out that customers don't switch brands when they are dissatisfied as they feel that the alternatives are just as bad as the brand they are using or even worse. Inertia may be caused also by lack of information about attractive characteristics of the brands (Wernerfelt 1991 as cited in Kuusik (2007).

In a study of loyal customers, Craighead, Karwan, and Miller (2004) found that loyal customers express greater displeasure when less serious problems occur. When a serious problem occurs, loyal customers tend to be more understanding as long as adequate recovery efforts are put in place. Loyal customers who experience less serious problems attach less importance to an apology, but expect management to deal with the problem quickly. For serious (or highly critical) problems, loyal customers expect an apology, sincerity, fair compensation, an added value offer and fast recognition of the problem as well as solutions to it. Customers with a high level of loyalty are not more forgiving of service failure, but emphasize the importance of

getting the basics right and as the level of loyalty increases, so too do expectations because of the higher level of involvement and commitment (McMullan & Gilmore, 2008).

McMullan and Gilmore (2008) found out that customers with high level of loyalty development respond to being recognized by the company, believing in a reciprocal relationship supported by unique rewards. Customers with a medium level of loyalty are also keen to develop a relationship, especially where they perceive a reciprocal approach with rewards for their loyalty. On the other hand, customers with a low level of loyalty are least interested in developing a relationship, but very interested in promotional offers. This is in contrast to customers who have a high level of loyalty who are typically less cost conscious and tend not to actively seek out promotional offers. Thus it is important for companies to be aware that not all customers are interested in developing a relationship, but for those who are, there are expectations that the company will reciprocate and recognize loyalty with appropriate rewards.

The inability to get service delivery right the first time is thought to lead significant losses to the organization in terms of lower loyalty, less repurchase intentions and significantly higher switch and external response intentions than those with resolved problems (Roodurmun & Juwaheer, 2010). Michel and Meuter (2008) argued that firms with the ability to react to service failures effectively and implement some form of service recovery will be in a much better position to retain profitable customers. The concept of customer satisfaction occupies a central position in the customer-centered firms. This is because customer satisfaction is a key to customer retention (Kotler, Keller, Ang, Leong, & Tan, 2006). In relating with service recovery, research has shown that satisfaction is a mediator that explains the relationship between service recovery and post purchase behavior: customer loyalty and favorable word-of-mouth (Wirtz & Mattila, 2012). In other words, service recovery influences post purchase behavior is mediated by satisfaction.

Khan (2012) found a link between satisfaction and customer loyalty. The study revealed that satisfaction levels for attitudinally loyal customers were lower than emotionally loyal customers. Although attitudinally loyal customers claimed to be satisfied with the company, emotionally loyal customers claimed to be very satisfied. The study shows a positive link between memorable experiences and emotional loyalty. Similarly, the lack of memorable experiences is linked with attitudinal loyalty. A vast majority of emotionally loyal customers had memorable experiences with their company. The results also show that none of the attitudinally loyal customers had a memorable experience.

2.4 Empirical Review

In a study to investigate the influence of service recovery on consumer satisfaction and consumer loyalty (Fan, Wu, & Wu, 2010), found out that perceived distributive fairness positively affect consumer satisfaction. They also found out that higher distributive justice would lead to higher satisfaction and hence customer loyalty. The study also revealed that procedural justice has an influence on re-patronage intention and distributive justice has significant difference in positive word-of-mouth (PWOM), and that consumers who receive higher level of remedies from online retailer would show higher satisfaction and would incline to spread positive comments. When consumer received immediate response, they would have higher RS and are more willing to patronage the same online retailer.

Noone (2012) found out that overcompensation can enhance consumers' perceptions of distributive justice following a severe service failure, with cash-based overcompensation being perceived as fairer. He found out that the relationship of cash-based overcompensation with perceived fairness is not strictly linear. While perceptions of fairness increased with increases in the monetary amount of cash-based overcompensation, this increase was not significant. This fits with prospect theory as represented by a value function that is concave in the domain of gains. Prospect theory suggests a diminishing sensitivity to gains. The marginal impact of cash-based overcompensation decreases as the amount of overcompensation increases. Furthermore, the study's findings suggest that, while credit-based

overcompensation yields higher perceptions of distributive justice than full compensation, unlike cash-based overcompensation this increase is not significant. This finding supports the idea that the immediacy and certainty associated with cash-based overcompensation serves to enhance its value to the consumer.

In their study, Kuo, Yen, and Chen (2011) found out that 81.4 percent of the buyers felt satisfied with correction of the failure as the recovery strategy. This strategy refers to simple and uncomplicated correction of mistakes such as by replacing mis-delivered products, increasing repair speed and providing reasonable explanation without extra compensation. Buyer satisfaction for this strategy was 72 percent, and repeat purchase intention (after applying this strategy) was 66 percent. They also found out that 93.9 percent of the buyers felt satisfied with correction plus recovery strategy, which involved correction of the failure and some form of compensation such as providing a free upgrade or free gift. Buyer satisfaction with this strategy was 77 percent, and the repeat purchase intention was 76 percent, both of which were the highest among all strategies. 88.5 percent of the buyers felt satisfied with discount as a recovery strategy. The buyer satisfaction for this strategy was 70 percent, and the repeat purchase intention was 60 percent.

The same study also found out that 14.3 percent of the buyers felt satisfied with replacement as a recovery strategy, which involved replacing a defected or out-of-stock product with a good one whose price equaled or exceeded that of the originally ordered product. The satisfaction level and repeat purchase intention for this strategy were 34 percent and 35 percent respectively. Another 56.3 percent of the buyers felt satisfied with store credit as a recovery strategy, which involved providing coupons as compensation for the failure and to allow buyers to exchange them for a rebate or reduced shipping fee. The satisfaction level and repeat purchase intention for this strategy were 61 percent and 64 percent respectively. 37 percent of the buyers felt satisfied with an apology as a recovery strategy, which involved a verbal expression of remorse or regret for a mistake made. The buyer satisfaction with this strategy was 37 percent, and repeat purchase intention after this strategy was 34 percent. Finally the study found out that 62.7 percent of the buyers felt satisfied with refund

as a recovery strategy, which involved asking the buyer to return the good for a return of the payment. The buyer satisfaction for this strategy was 64 percent, and repeat purchase intention was 52 percent.

Lewis and McCann (2012) found out that majority of the hotels are not doing enough to resolve customer problems, as only 40 percent reported that “correction” was used on them. They also pointed out that it was also possible that guests may not have complained at all, and if they did it may have been too late to rectify the problem. This implies that hotels need to actively seek out failures to enable them to be corrected in advance of any complaint. The study also found out that only a quarter of the guests felt that they had received an explanation of why the failure occurred. This is a method that all hotels should endeavour on using as it is cheap and can lead to increased levels of customer satisfaction and loyalty. In the study a number of guests who were not satisfied with the problem resolution still said they would revisit the hotel. This may be a demonstration that some of the customers lack influence on where to stay, or lack of choice due to price and location, or may mean that frequency of the visit to the hotel leads them to expect and accept a certain level of dissatisfaction. Half of the customers dissatisfied with problem resolution had no intention of re-visiting the hotel which represents a lost market opportunity.

Customer’s positive recommendations about the hotel to family and friends are an important, cost-effective method of promotion. Lewis and McCann found out that nearly half of the respondents said they would recommend the hotel even when there was a service failure; with those guests who were satisfied or very satisfied with the hotel’s service recovery efforts being most likely than dissatisfied guests to recommend the hotel (70.4 percent compared with 20.8 percent). This shows the importance of hotels improving their response to customer service problems. Finally, Lewis and McCann found out that 39.5 percent of the guests would not recommend the hotel to family and friends which indicates the possibility that they might engage in negative word-of-mouth communication. This could be a problem for hotels that depend on repeat business, as spreading negative word-of-mouth about a hotel, might lead to loss of future business.

In another study, Hocutt, Bowers, and Donovan (2006) found out that perceived justice positively influenced customer satisfaction and minimized negative word-of-mouth intentions. An interaction effect was found between employee responsiveness and employee empathy/courtesy. The effect revealed that satisfaction was maximized (and negative WOM intentions minimized) only when the service recovery was swiftly handled by a courteous, caring employee. The results indicated that to maximize customer satisfaction service providers must respond quickly and respond with empathy/courtesy. Tangible redress was found to decrease negative WOM only when coupled with a sufficient of empathy (i.e. an interaction effect). The study also confirmed the “service recovery paradox” by confirming that consumer satisfaction may indeed be greater following a well managed service recovery than it would be if there had been no service failure in the first place. It was also found that a failure to respond with proper levels of redress, responsiveness, and courtesy can be just as bad as when a problem occurs but is not recognized by the service provider.

Wirtz and Mattila (2012), in their study on consumer responses to compensation, speed of recovery and apology after a service failure, found out that offering compensation might not add value in situations where the recovery process is well implemented (immediate recovery combined with an apology). They also found out that offering compensation did not make up for poor recovery effort (delayed response without any apology). They found out that in the absence of compensation, recovery speed interacted with apology on post-recovery satisfaction, and that an apology is highly effective when combined with an immediate recovery, while offering an apology with a delayed recovery is less powerful. Both interactive and procedural fairness seem to be needed to deliver a satisfying service recovery in the absence of compensation. Furthermore, the study found out that satisfaction is the key variable in service recovery. Satisfaction as a mediator explained the relationship between service recovery dimensions and post-recovery behaviors (repurchase intent and negative WOM).

Compensation was found to not only reduce conflict between the customer and the service provider, but also increase controllability attributions. Compensation might be perceived as an admission of guilt, and hence enhance the perception that the service provider had control over the service failure. The study also indicated that a delayed service recovery prompts the consumer to attribute the cause of the service failure to be more stable and more controllable, while an immediate recovery reduces such attributions. Finally, the study indicated that the effects of service recovery attributes were not fully mediated by consumers' attributional processes, the consumers seem to derive satisfaction from an effective recovery process regardless of their attributions for service failure.

In their study, Nikbin, Armesh, Heydari, and Jalalkamali, (2010) found out that the impact of perceived justice on customers switching intentions appears to be stronger than that of distributive justice and informational justice. The study also found out that speedy response, empowerment and compensation as a recovery action minimizes consumer intentions to switch service provider. Distributive justice was found to negatively affect switching intentions. The results of the study suggested that procedural, distributive, and informational justices are negatively related to switching intentions. The significant role of distributive justice in affecting repurchase intention would be supported by fair distributive treatment such as refunds, and discounts that are important in returning back airline passengers to repurchase from the same service provider. Airlines should implement an effective way of distributive justice; by implementing fair distributive treatment such as discounts and refunds which are important in encouraging customers to repurchase.

Wahab and Norizan (2012) in their study found that customers will spread positive or negative word of mouth if they are satisfied or dissatisfied with the outcome they received during the recovery effort. If the customer found that the outcome they received is fair, they were likely to spread a positive of mouth to the other people, but if they received a bad outcome, it will cause them to spread the word to all the people. It was also found out that interactional justice is also important in determining the customer word of mouth, if the customer perceived that they are

treated well by the service provider they are likely to spread a positive word of mouth. The study indicated that service providers need to make sure they always include the explanations and efforts, and empathy and politeness during the interaction with their customers so that the customer will feel that they are being appreciated by the organization. The study revealed that distributional justice significantly influenced customer word of mouth. Thus, what the customers received during the service recovery effort will determine whether they will spread a positive or negative word of mouth. Interactional justice was also found to significantly influence customer word of mouth, and concluded that the organization needs to make sure their employees use the explanation and effort, empathy and politeness aspect during handling dissatisfied customers.

Lin, Wang, and Chang (2011) in their study found out that distributive justice, procedural justice, and interactional justice have a significant positive influence on customer satisfaction in the context of online retailing, although among the three dimensions, only distributive justice has a significant positive influence on repurchase intention, and only interactional justice has a significant negative influence on negative word-of-mouth (WOM). They also found out that both the interaction between distributive justice and procedural justice and the interaction between distributive justice and interactional justice are found to significantly influence customer satisfaction, negative WOM, and repurchase intention. The study also indicated that the service recovery paradox does not appear to exist in the online retailing context.

The study found out that when procedural justice increases, the positive effect of distributive justice on customer loyalty also increases. In the case of a delivery delay, high distributive justice plus high procedural justice can result in a higher level of customer satisfaction as compared to high distributive justice plus low procedural justice. It was found that when interactional justice increases, the positive effect of distributive justice on customer loyalty also increases. When a delivery delay occurs in online retailing, high distributive justice plus high interactional

justice will result in higher customer satisfaction as compared to high distributive justice plus low interactional justice.

Lin, Wang, and Chang (2011) also found that among the three dimensions of service recovery justice, only distributive justice has a significant positive influence on repurchase intention within the online retail context; and that there is an interaction effect of distributive justice and procedural justice on repurchase intention. When procedural justice is low, distributive justice has a negative effect on repurchase intention; when procedural justice is high, distributive justice has a positive effect on repurchase intention. Similarly, distributive justice and interactional justice are also observed to have an interaction effect on repurchase intention; such that when interactional justice is low, distributive justice exhibits a negative influence on repurchase intention; when interactional justice is high, distributive justice exhibits a positive influence on repurchase intention.

In his study Khan (2012) found out that service recovery has an impact on the development of loyalty among customers. The study also found out that while a good service recovery can lead to a pleasant experience for customers, not having failures at all is even more important to developing higher levels of loyalty. Out of the emotionally loyal customers surveyed 88 percent had never experienced a service failure, suggesting that lack of service failure is important for emotional loyalty development. Attitudinally loyal customers had suffered service failures without recovery, suggesting that this hampers them from moving up to the emotionally loyal phase. The study also found out that loyal customers (attitudinal and emotional) will recommend the company to others. The study found that emotionally loyal customers are more vocal and will recommend more frequently as compared to attitudinally loyal customers. This study indicated that loyal customers spend more with a firm, with emotional loyal customers dedicating a larger percentage of their total spend with a company (approximately 86% for emotionally loyal and 55% for attitudinally loyal customers).

The study by Khan (2012) also revealed attitudinally loyal customers search for alternatives less frequently than behaviorally loyal customers. Moreover, emotionally loyal customers do not search for alternatives at all. This study too, found also that that loyal customer will be willing to pay higher prices to remain with the same firm. Emotionally loyal customers will be willing to pay up to 20 percent higher prices to remain with the same company or brand. Attitudinally loyal customers have been found not to accept higher prices. The findings of this research have revealed that the length of time spent with a firm is important in determining the type of loyalty for a customer. The findings show that, on average, it takes longer for customers to become emotionally loyal to a company or brand than it does to become attitudinally loyal. The results of the study revealed that the average attitudinally loyal customer had spent a minimum of 3 years with the firm and emotionally loyal customers a minimum of 5 years. The study also revealed that emotionally loyal customers tend to switch over from attitudinal loyalty to emotional loyalty between the third and the fifth year with the firm.

In their study Yi and Lee (2005) found out that for any given service failure, offering the customers more recovery increased their positive future intentions. Low recovery (an apology only) was more effective than no recovery, which confirmed the previous study that an apology is better than no apology. They also found out that monetary compensation with apology had a more effect than did an apology only, which implies that high recovery is more effective than low recovery. Yi and Lee also found out that a high loss situation (core service failure) required very high recovery whereas low recovery was as effective as high recovery in a low loss situation (peripheral service failure).

2.5 Critique of the Existing Literature

The last decade has witnessed an increased attention in the literature of service failures and recovery issues. The main reason for this has been the realization that organized service recovery programs are key tools to firms in their efforts to maintain satisfied and loyal customers (Johnston & Michel, 2008). Most of the studies were conducted using scenario-based questionnaires, although the design has

been proved in terms of its reliability and validity in past research studies, a field survey would have been more appropriate to increase the generalizability of the findings (Fan, Wu, & Wu, 2010). Other studies have been conducted on a single service context though it would have been better to enlarge the scope of the service industry studied to confirm the robustness of the results (Noone, 2012).

In most of the studies, students population has been used as the respondents (Hocutt, Bowers, & Donovan, 2006, Wahab & Norizan, 2012). Students may not have sufficient experiences to respond to the situation with understanding and sympathy and may not also be possible to generalize the results across different subjects populations and service contexts. They may lack exposure to ideal hospitality setting offering quality services and thus lack an understanding of judging the service failure situations. Students may also be biased in their analysis of situations which might be influenced by the amount of money they spend in obtaining a service due to low spending capacity. The student population may not provide rich demographic characteristics that would help in generalizing the findings to the entire population.

In other studies like the study by Khan (2012) which sought to draw findings of emotional attachment and customer loyalty, the use of a case study cannot allow the findings to be generalized to the other service industry sectors. The study confined itself to studying aspects of customer loyalty without putting into consideration other factors that might affect the relationship. The study did not take into considerations the different demographic characteristics that can affect the findings like age, level of education and levels of income. The study should have studied a diverse population that would facilitate the generalization of the findings to an extended group of customers. Despite the fact that customers in developing countries face service failure more intensely than customers in developed countries (Valenzuela, Vasquez-Parraga, Llanos, & Vilches, 2012), thus making service recovery a more important task in these countries, there is lack of literature in service failure and recovery to show the studies that have been done in those countries.

2.6 Summary of Literature Review

This chapter reviewed theoretical, empirical and secondary literature on service recovery and customer loyalty. From the above literature it was evident that focus in hospitality industry is shifting from customer acquisition to customer retention; and that it is important that organizations not only attract new customers and satisfy their immediate needs, but also do their utmost to retain them (Steyn, Mostert, De Meyer, & Van Rensburg, 2011). Service recovery is a valuable marketing tool which constitutes a second chance for the hotel to satisfy the customer (Kuenzel & Katsaris, 2009). It is important that organizations come up with integrated approach to service recovery which gives them a new opportunity to maintain dissatisfied clients, recover employees and learn and hence prevent or reduce the likelihood of future errors (Michel, Bowen & Johnston, 2009).

The literature looked at the following theories that guided the study on service recovery and customer loyalty: Kirzner theory of entrepreneurship, Schumpeter theory of innovation, Resource-based view theory, Reciprocity theory, Herzberg Two-Factor theory, Resource exchange theory, Justice Theory, and Social exchange theory. These theories were found appropriate in the study of service recovery and customer loyalty. The theories addressed the need for firms to come up with superior quality services for the customers in order to enhance their competitiveness and use the information obtained from the customers for organization learning and hence a launch paid for future innovations.

From the literature it is evident that different service recovery strategies influence customer loyalty differently. The level of distributive justice influence customer satisfaction and customer loyalty differently. Higher distributive justice leads to higher satisfaction and hence customer loyalty (Fan, Wu & Wu, 2010). Interactional justice was found to significantly influence customer word of mouth with organizations required to make sure that their employees use explanation and effort, empathy and politeness aspects during the process of handling dissatisfied customers (Wahab&Norizan, 2012). It was also evident that when procedural justice is low, distributive justice has a negative effect on repurchase intention; when procedural

justice is high, distributive justice has a positive effect on repurchase intention (Lin, Wang & Chang, 2011).

2.7 Research Gaps

A lot of studies have been done in the area of service recovery and customer loyalty but mostly in the developing countries. Despite the importance of service industry in the Kenyan economy, the industry is lacking studies on service quality that should play a big role in improving the competitiveness of the industry. The studies that have been conducted locally have concentrated on other aspects of customer loyalty and not in the hospitality industry. Odera, Chepkwony, Korir, Lagat, and Mumbo (2012) conducted a study on the effects of distributive justice complaints resolution strategies on customer satisfaction in Kenya's banking industry. Komunda, (2012) investigated the effects of service recovery on customer satisfaction and loyalty in a commercial banking environment. Auka (2012) conducted a study on service quality, satisfaction; perceived value and loyalty among customers in commercial banking, with Mage (2010) conducted a study on empirical estimation of customer loyalty in tourism industry and developed a model that can be used in estimating customer loyalty.

Most of other studies that have been conducted have adopted the use of scenarios without conducting field surveys. Lin, Wang and Chang (2011) studied consumer responses to online retailer's service recovery after a service failure; Noone (2012) investigated overcompensation for severe service failure: perceived fairness and effect on negative word-of-mouth intent. Another study by Hocutt, Bowers and Donovan (2006) conducted an experimental role playing design and student respondents were used. The use of these methods and respondents has their shortcomings as students may not have sufficient experiences to respond to situations. These studies should be authenticated by conducting a field survey in different service industries and using respondents with varied demographic characteristics to help in generalizing the results.

The purpose of this study was to fill these existing knowledge gaps in the empirical literature by conducting a field study on the influence of entrepreneurial service recovery on customer loyalty in the hospitality industry in Kenya. The study sought to understand the service recovery strategies that entrepreneurial firms in the hospitality industry use in addressing service failure situations in order to enhance customer loyalty. The study aim was to help in understanding how organizations in the hospitality industry can use the service failure situations in collecting information that would be crucial for organization learning which is important for firms engaging in strategic entrepreneurship.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter describes the methodology that was used in conducting this study. It covers the following areas: research philosophy, research design, population, sampling design, sampling frame, data collection instruments, data collection procedure, pilot tests, measurement and scaling techniques and finally data processing and analysis.

3.1.1 Research Philosophy

Research philosophy relates to the development of knowledge, the nature of that knowledge and contains important assumptions about the way in which researchers view the world, and it is examined in two ways: ontology and epistemology (Saunders, Lewis, & Thornhill, 2009). An epistemological issue concerns the question of what is (or should be) regarded as acceptable knowledge in a discipline (Bryman & Bell, 2011). Epistemology concerns itself with the analysis of what is meant by the term 'knowledge' itself, and with questions about the limits and scope of knowledge, its reliability, and what constitutes justification for holding knowledge (Edgar & Sedgwick, 2003).

There are three epistemological considerations: positivism, realism and interpretivism (Bryman & Bell, 2011). This study was guided by positivism approach. Positivism is an epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond. It entails the elements of both deductive and inductive strategy, with the role of research being to test theories and to provide material for the development of laws. It describes the research task as entailing the collection of data upon which to base generalizable propositions that can be tested. This study entailed collecting data from customers of five start hotels in order to test the influence of entrepreneurial service recovery on customer royalty in the hospitality industry in Kenya. The data

collected was used to test the theories in order to draw conclusions. The connection between theory and research carry with them the implication that it is possible to collect observations in a manner that is not influenced by pre-existing theories (Bryman & Bell, 2011).

3.2 Research Design

Research design is the blueprint that enables the researcher to come up with solutions to problems and guides him in the various stages of the research (Nachmias & Nachmias, 2008). Research design provides a framework for the collection and analysis of data (Bryman, 2012, Bryman & Bell, 2011). Kothari (2006) defines research design as an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. A choice of research design reflects decisions about the priority being given to a range of dimensions of the research process. This includes the importance attached to expressing causal connections between variables, generalizing to larger groups of individuals, understanding behaviour and the meaning of that behaviour, and having a temporal appreciation of social phenomena and their interconnections (Bryman, 2012).

This study used a survey approach that was guided by a cross-sectional research design. This study used this approach because studies using a survey approach have superior generalizability and greater external reliability because they are based on actual marketing exchanges (Churchill & Iacobucci, 2005). Surveys allow the collection of a large amount of data from a sizeable population in a highly economical way and are perceived as authoritative by people in general and are both comparatively easy to explain and to understand (Saunders, Lewis, & Thornhill, 2009).

A cross-sectional design entails the collection of data on more than one case and at a single point in time in order to collect a body of quantitative or quantifiable data in connection with two or more variables, which are then examined to detect patterns of association (Bryman & Bell, 2011). Cross-sectional design is best suited to

studies aimed at finding out the prevalence of a phenomenon, situation, problem, attitude or issue, by taking a cross-section of the population. It is useful in obtaining an overall picture as it stands at the time of the study (Kumar, 2005). Casado, Nicolau and Mas (2011) in their study on the harmful consequences of failed recoveries in the banking industry used a cross-sectional field study.

3.3 Population

Bryman (2012) defined population as the universe of units from which a sample is to be selected. Population contains all units of a set which are sometimes referred to as a universe (Abbott & McKinney, 2013). Population refers to the larger group from which the sample is taken (Kombo, 2006). A Population is also defined as the total collection of elements about which the researcher makes inferences (Cooper & Schindler, 2011). The target population of this study was hotel customers in Kenya. The target population refers to the total number of subjects of interest to the researcher (Oso & Onen, 2009).

The accessible population of this study was customers who patronize five star hotels in Kenya. Specifically the study collected data from customers who were residing in these hotels from October 2013 to March 2014 who amounted to a total of 25, 585. The accessible population is a subset of the target population that is accessible to a researcher because of geographic, temporal, or cultural characteristics. The hospitality industry setting was chosen for two reasons. First, hospitality settings provided a familiar context for the respondents. Second, prior research has documented that service failures and recovery occur frequently within the hospitality industry (Smith & Bolton, 2002).

3.4 Sample Size and Sampling Design

A sample design is a definite plan for obtaining a sample from a given population (Kothari, 2009). Sampling is the act, process or technique of selecting a suitable sample, or a representative part of a population for the purpose of determining parameters or characteristics of the whole population, is done to some elements of a population so that conclusions about the entire population can be drawn (Kombo,

2006). A sample may also be defined as segment of the population that is selected for research (Bryman, 2012, Bryman & Bell, 2011). A sample is also defined as a part of the total population (Mugenda, 2008), and Kothari (2009) defines it as a collection of units chosen from the universe to represent the population. Research conclusions and generalization are only as good as the sample they are based on.

The study collected data from customers patronizing all the five star hotels during the period of data collection which was from October 2013 to March 2014. There are 17 five star hotels and lodges in Kenya (ROK, 2003). During that period a total of 25, 585 customers patronized these hotels. Since the number of customers was more than 10, 000, the sample size was computed using Fischer's (1998) formula ($n=Z^2pq/d^2$), where:

n = Sample size (if the target population is more than 10, 000)

Z = 1.96, that is the value of Z corresponding to the 95% confidence level

p = 0.5 (50%)

q = 1-p (1-0.5=0.5)

d = 0.05 (5% error margin)

This gave a sample size of 384 respondents. The respondents were drawn from the five star hotels and were selected using simple random sampling. Mburu, Van Zyl, and Cullen (2013) in their study on the determinants of customer satisfaction in the Kenyan banking industry used Fischer's (1988) formula in computing their sample.

3.4.1 Sampling Frame

Sample frame is defined as a list of all the accessible cases in a population from which a sample is drawn (Bryman, 2012). Sampling frame is also defined as the list from which the sample is drawn (Cooper & Schindler, 2011). It is a complete list of

all the cases in the population from which the study will draw a sample (Saunders, Lewis, & Thornhill, 2009). The sampling frame was obtained from the hotels database for the customers who were residing in these hotels from October 2013 to March 2014. The list of hotels was obtained from Hotels and Restaurant Authority (ROK, 2003). The sample size was distributed as shown in appendix II.

3.5 Data Collection Instruments

This study used a questionnaire as the data collection instrument. Kothari (2009) defined a questionnaire as a document that consists of a number of questions printed or typed in a definite order on a form or set of forms. Questionnaires provide an efficient way of collecting responses from a large sample because each respondent is asked to respond to the same set of questions (Saunders, Lewis, and Thornhill, 2009). Questionnaires were chosen to collect data as it had been assumed that respondents were able to read and write independently. Each item in the questionnaire was developed to address a specific objective addressing both qualitative and quantitative data. The study used both open-ended and closed-ended questions. The structured questions were accompanied by a list of all possible alternatives from which respondents will select the answer that best describes their situation.

Kothari (2009) pointed out the merits of using questionnaires to collect data as; low cost even when the universe is large, free from bias of the interviewer, respondents have adequate time to give well thought answers and large sample can be reached. Questionnaires consist of a series of specific, usually short questions that are either asked verbally by an interviewer or answered by the respondent on their own (Bryman, 2012). Lewis and McCann (2004) in their study on “service failure and recovery: an evidence from the hotel industry”, used a questionnaire to collect data from guests in a hotel.

3.6 Data Collection Procedure

Data collection refers to the process of gathering data from the sample so that the research questions can be answered (Bryman, 2012). Data collection allows for

dissemination of accurate information. Primary data was collected using a questionnaire. Secondary data was collected from publications such as books, journals, reports and other studies. Secondary sources are an interpretation of primary data (Cooper & Schindler, 2011). The study used the provided telephone numbers to call the respondents for self administration of the questionnaire with some of them requesting for the questionnaire to be sent through emails. The method of data collection was used by Lewis and McCann (2004) in their study on “Service Failure and Recovery: Evidence from the Hotel Industry”, where the questionnaire was administered through telephone and email.

3.7 Pilot Study

Pilot study is carried out in order to establish the accuracy and appropriateness of the research design and data collection instruments (Saunders, Lewis, & Thornhill, 2009). Pilot testing has a role of ensuring that the research instrument as a whole functions well and is crucial in relation to research based on self-completion questionnaire (Bryman, 2012). Pilot test is conducted to detect weaknesses in design, instrumentation and to provide proxy data for selection of probability sample (Cooper & Schindler, 2011). The desirability of piloting research instruments is not solely to ensure that survey questions operate well but also ensure that the research instrument as a whole functions well (Bryman & Bell, 2011).

The questionnaire was pre-tested to a selected sample which is similar to the actual sample to be used in the study. The pilot study should not be carried out on people who might have been members of the sample that would be employed in the full study (Cooper & Schindler, 2011). The pilot test respondents should be comparable to members of the population from which the sample for the full study will be taken (Bryman & Bell, 2011). The pretest sample is between 1% and 10% (Mugenda & Mugenda, 2003). Similarly, the size of the pilot group may range from 25 to 100 subjects, depending on the method to be tested, but the respondents do not have to be statistically selected (Cooper & Schindler, 2011).

The procedure that was used to pretest the questionnaire was identical to that which was used during the actual data collection to allow meaningful observations. This helped in ensuring that items in the instrument were stated clearly and have the same meaning to all respondents. The pretest revealed the questions that were vague and suggestions that were made by respondents were considered and incorporated to improve the questionnaire. A pilot test was conducted on twenty customers (5 percent of the study sample) of 4 star hotels in Nairobi. The hotels were selected using convenience sampling methods with the pretest sample selected using random sampling method.

3.7.1 Reliability of Research Instrument

Reliability is the extent to which a given measuring instrument produces the same result each time it is used (Abbott & McKinney, 2013). It refers to the consistency of a measure of a concept (Bryman, 2012). It is generally understood to be the extent to which a measure is stable or consistent and produces similar results when administered repeatedly (Sushil & Verma, 2010). A measuring instrument is reliable if it provides consistent results; if the quality of reliability is satisfied by an instrument, then while using it the researcher can be confident that the transient and situational factors are not interfering (Kothari, 2009). Abbott and McKinney (2013) classified reliability into three. First, inter-rater reliability which is the extent to which there is agreement between two or more expert judges classifying the presence of some measure, second, re-test reliability which is the extent to which the responses of a measure correlate highly with the same measure administered at another time or with a similar form of measure, and lastly, internal consistency which is the extent to which the items of a single instrument correlate with one another either in separate halves of the test (split-half reliability) or to which items correlate among themselves if there is a single theme or content in the instrument.

This study used the internal consistency method to test the reliability of the questionnaire. This method involves use of formulas such as Cronbach's alpha (Abbott & McKinney, 2013). Cronbach's alpha (α) was used to ensure that items have reasonably good internal consistency and measure the same underlying

construct consistently. The Cronbach alpha provides reliability coefficient that tells us, in theory, how reliable our estimate of the stable entity that we are trying to measure is, when we combine scores from p test items (Warner, 2008). It uses the mean of all the inter-item correlations (for all pairs of items or measures) to assess the stability or consistency of measurement (Warner, 2008). Cronbach's alpha (α) is a coefficient (a number between 0 and 1) that is used to rate the internal consistency (homogeneity) or the correlation of the items in a test (Sushil & Verma, 2010). It is used to test internal reliability, and it essentially calculates the average of all possible split-half reliability coefficients (Bryman, 2012). A computed alpha coefficient will vary between 1 (denoting perfect internal reliability) and 0 (denoting no internal reliability) (Bryman & Bell, 2011). Reliability of 0.8 is typically employed as the rule of the thumb to denote an acceptable level of internal reliability (Bryman, 2012). Lin, Wang, and Chang (2011) in their study on consumer responses to online retailer's service recovery after a service failure used Cronbach's alpha (α) to evaluate the reliability of their measures.

3.7.2 Validity of the Research Instrument

Validity is the extent to which a research measure actually captures the meaning of the concept it is intended to measure (Abbott & McKinney, 2013). It also refers to the issue of whether or not an indicator (or set of indicators) that is devised to gauge a concept really measures that concept (Bryman & Bell, 2011). There are two ways of establishing the validity of a research instrument, that is, logic and statistical evidence. Logic evidence implies justification of each question in relation to the objectives of the study, whereas statistical procedures provide hard evidence by way of calculating the coefficient of correlations between the questions and the outcome variables (Kumar, 2005).

This study used construct validity to measure the validity of the questionnaire. Construct validity checks whether a measure of a concept relate strongly with another measure that it should correlate strongly with (converging measures), and negatively with measures it should not agree with (diverging measures)(Abbott & McKinney, 2013). Construct validity is based upon statistical procedures and is

determined by ascertaining the contribution of each construct to the total variance observed in a phenomenon (Kumar, 2005). It involves the situations where the researcher is encouraged to deduce hypotheses from a theory that is relevant to the concept. When working with multiple constructs in a survey study, it is important to satisfy convergent and discriminant validities in order to satisfy construct validity (Guo, Aveyard, Fielding, & Sutton, 2008). Convergent validity involves gauging the validity of a measure by comparing it to measures of the same concept developed through other methods (Bryman & Bell, 2011).

Confirmatory factor analysis (CFA) and average percentage of variance extracted (AVE) was used to measure convergent validity. Factor analysis is a statistical method used to find a small set of unobserved variables (also called latent variables, or factors) which can account for the covariance among a larger set of observed variables (also called manifest variables)(Albright, 2008). In exploratory factor analysis (EFA), no substantive constraints are imposed on the data, instead it is assumed that each common factor affects every observed variable and that the common factors are either all correlated or uncorrelated (Albright, 2008).

Convergent validity is established if the factor loading of each indicator is greater than 0.50 and average variance extracted (AVE) is greater than .50 (Hair, Anderson, Tatham, & Black, 2006). To measure the discriminant validity, the square root of the average variance extracted (AVE) in each construct will be compared to the correlation coefficients between two constructs. If the square root of the AVE for all constructs is greater than the absolute value of their standardized correlation with any other construct in the analysis, it will be deemed to be a good convergent and discriminant validity measurement. Fan, Wu, and Wu (2010) in their study on the impacts of online retailing service recovery and perceived justice on customer loyalty employed confirmatory factor analysis to measure construct validity. Dos Santos and Basso (2012) also in their study on, "Do ongoing relationships buffer the effects of service recovery on customers' trust and loyalty?" also used confirmatory factor analysis to measure construct validity. Similarly, Lin, Wang, and Chang (2011) in their study on consumer responses to online retailer's service recovery

after a service failure also tested the convergent validity of the measures using the factor analysis approach.

3.8 Measurement and Scaling Techniques

Measurement involves the assignment of real numbers to some characteristics or attribute according to specified rules while scaling involves development of systematic rules and meaningful units of measurement to represent empirical observations (Mugenda, 2008). There are two goals of measurement. The first goal is to replace the ambiguity of words and general concepts with operationally defined constructs, which provides a specific method for converting observations to a specified range of potential values. Operational definitions helps researchers achieve the goal of public verification of observation because other researchers can then use, critique, or revise the operational definition for future work. The second goal is standardization or consistency in measurement, which allows the researcher to compare people using a common set of procedures and scales. Standardization also implies that the numbers used in a measure have a constant meaning (Weathington, Cunningham, & Pittenger, 2012).

This study used open ended questions and a 7 point Likert scale to measure the objectives. Open ended questions give a chance for the respondent to add information that might not be included in the closed ended questions while Likert scale is designed to examine how strongly subjects agree or disagree with a statement (Sekaran, 2006). All the objectives were measured by a seven point Likert scales that will range from “Strongly disagree” to “Strongly agree”. 7-point scales are a better approximation of a normal response curve and extraction of more variability among respondents (Cooper & Schindler, 2011). Research on the reliability and validity of scale scores from Likert-type scales has led to the conclusion that 7 or more response options are the most preferred (Weathington, Cunningham, & Pittenger, 2012). Hess Jr., Ganesan, and Klein (2003) in their study on Service Failure and Recovery: The Impact of Relationship Factors on Customer Satisfaction used a 7-point Likert scales ranging from strongly disagree to strongly agree.

3.8.1 Measurement of Independent Variables

The study used a cross-sectional survey comprising structured scale items and open-ended questions. Scale items were measured on the standard seven-point, Likert scale ranging from strongly agree (1) to strongly disagree (7), with all the hypothesis to test the relationship between service recovery and customer loyalty being measured using structural equation modeling. In compensating customers for service failure firms can assign tangible resources to correct problems and restore the interchange with the client by returning the money, replacing the service, or offering discounts (Akbar, Mat Som, Wadood, & Alzaidiyeen, 2010). Compensation can also be in terms of room upgrade, a free ticket, or a free meal (Boshoff, 1997). This study used offering of discounts, room upgrade and adequacy to measure compensation.

Employee empowerment regards to the authority accorded to the employee to present a solution that meets the needs and expectations of the customer (Bhandari, Tsarenko, & Polonsky, 2013). Empowerment can also be in terms of setting up formalized service recovery policies and procedures (Smith, Karwan, & Markland, 2009). It also includes the response speed which enhances the prospect of positive evaluation by the customer (Donavan, Brown, & Mowen, 2004). This study used authority and promptness to measure employee empowerment.

Employee behaviours refers to actions taken by an employee for resolving the problem to the customers satisfaction and can be implanted by many employee activities (Bhandari, Tsarenko, & Polonsky, 2013). The most common employee activities for resolving customer complaints are provision of an apology, demonstration of politeness, concern, honesty, an explanation (information), and the effort put into resolving the problem (Boshoff, 2005). This study used apology and courtesy to measure employee behaviours. Communication will be determined through adequacy and truthfulness of information relied to customers. In service recovery context communication refers to the adequacy and truthfulness of information which explains the causes of a negative event (Mattila & Cranage, 2005), and the quantity and quality of the information exchanged between the service provider and the customer (Nguyen, McColl-Kennedy, & Dagger, 2012).

3.8.2 Measurement of Mediating Variable

The mediating variable in this study was perceived justice. Justice theory suggests that the effects of explanations are mediated by perceptions of justice or fairness (Adams, 1965). Several types of justices are distinguished as distributive justice (fairness of outcome), procedural justice (fairness of formal procedures used to allocate outcomes), interpersonal justice (fairness of interpersonal treatment during the process) and informational justice (extent to which appropriate and relevant information is communicated between parties) (Bradley & Sparks, 2012). To measure the perceived fairness of distributive justice the study used compensation in terms of offering discounts and option of room upgrade. To measure the perceived fairness of procedural justice the study used employee empowerment in terms of authority and promptness of response. To measure the perceived fairness of the manner in which the customer is treated in interpersonal justice the study used employee behaviours in terms of apology and courtesy. To measure the perceived fairness of the extent to which appropriate and relevant information is communicated between parties the study used adequacy and truthfulness of the information accorded to the customer.

3.8.3 Measurement of Dependent Variable

The dependent variable in this study was customer loyalty. The study developed a customer loyalty index that was developed based on items in Burke's secure customer index. It includes 5 dimensions which are overall satisfaction, likelihood to recommend to others, likelihood to repurchase, earned loyalty to the firm, and the preferred company (Burke, 2004). The study also used positive word-of-mouth. Mattila and Cranage (2005) identified loyalty to be measured by five items: say positive things about the service provider to other people, recommend the service provider to others, encourage friends and relatives to do business with the service provider, consider the service provider your first choice to buy casual dining services and do more business with the company in the next few years. Shapiro and Nieman-Gonder (2006) in their study on the effect of communication mode in justice-based service recovery measured customer loyalty with five items pertaining

to the likelihood that the customer would continue to do business with the company, switch to another firm, and/or recommend the company to others.

3.9 Data Processing and Analysis

Data analysis usually involves reducing accumulated data to a manageable size, developing summaries, looking for patterns, and applying statistical techniques. Data preparation includes editing, coding, and data entry and is the activity that ensures the accuracy of the data and their conversion from raw form to reduced and classified forms that are more appropriate for analysis. Editing detects errors and omissions, corrects them where possible, and certifies that maximum data quality standards are achieved. Coding involves assigning numbers or other symbols to answers so that the responses can be grouped into a limited number of categories (Cooper & Schindler, 2011). Data entry converts information gathered by secondary or primary methods to a medium for viewing and manipulation. International Business Machines (IBM) Statistical Package for Social Sciences (SPSS) version 21 was used as a tool to analyze the data.

This study used descriptive statistics in the form of percentages, means and measures of dispersion; which allows for presentation of data in a more meaningful way and thus simpler interpretation of data. The use of percentages is important as they simplify data by reducing all the numbers to a range between 0 and 100, and help translate the data into standard form with a base of 100 for relative comparisons and easier interpretations (Cooper & Schindler, 2011). The analyzed data was interpreted and presented in frequency tables, bar charts, graphs and pie charts. Responses from the open-ended questions were coded, interpreted and their frequencies determined through cross-tabulations on differences between respondents and the central tendencies of the responses to each factor.

The study also tested for outliers. An outlier is an extreme case that distorts the true relationship between variables, either by creating a correlation that should not exist or suppressing a correlation that should exist (Abbott & McKinney, 2013). In multivariate data, outliers for ordinal variables are those units representing an

unusual combination of the categories or of the ranks of the variables (Riani, Torti, & Zani, 2012). This study tested for outliers through computing Mahalanobis distance for each sample, with outliers being identified as those samples yielding large values of Mahalanobis distance (Webb & Copsey, 2011).

Normality of data was then conducted. Normality is important in determining the shape of distribution and helps to predict dependent variables scores (Wahab & Norizan, 2012). To test the normality of the data, the study used Kolmogorov-Smirnov (K-S) test. The K-S statistic is based on the maximum absolute difference between the empirical distribution function (e.d.f) and specified cumulative distribution function (c.d.f) (Sukkasem, 2010). This was used to test the nature of statistical population's relative frequency distribution. The theoretical distribution of population is the specified cumulative frequency distribution, which represents H_0 (Bhattacharya, 2007). The one sample run test of significance is commonly used to test the randomness in a sample. This is done because a non-random sample may be a biased representation of the data (Bhattacharya, 2007). Marković, Mlinarević, and Vouk (2011) in their study on Efficiency of Service Recovery Compensation Type-A study of Croatian Consumers used Kolmogorov-Smirnov test to test the normality of the data. The normality of the data distribution was also assessed by examining its skewness and kurtosis. The absolute values of standardized skew or kurtosis indices were used to assess the linearity of the variables (Kline, 2005).

The study checked for the problem of multicollinearity, which is present if there are high correlations between some of the independent variables (Burns & Burns, 2008). Multicollinearity was examined using correlation matrices and collinearity diagnostics. Multicollinearity is a statistical phenomenon in which two or more predictor variables in a model are highly correlated (Gujarat & Porter, 2009). The study also conducted a linearity test, which is the amount of change or rate of change between scores on two sets of variables and is constant for the entire range of scores for the variables (Bai & Perron, 2008).

Structural equation modeling (SEM) with AMOS software was used for data analysis using a two-phase process consisting of confirmatory measurement model

and confirmatory structural model as suggested by Anderson and Gerbing (1988). SEM is a comprehensive statistical approach for testing hypotheses about relations between observed and latent variables. It was chosen because it permits the analyses of multiple structural relationships simultaneously while maintaining statistical efficiency (Hair, Anderson, Tatham, & Black, 2006). It combines features of factor analysis and multiple regressions for studying both the measurement and the structural properties of theoretical models. SEM is formally defined by two sets of linear equations called the inner model and the outer model. The inner model specifies the relationships between unobserved or latent variables, and the outer model specifies the relationships between latent variables and their associated observed or manifest variables (Turkyilmaz&Ozkan, 2007). SEM methodology can account for independent variable errors and model multiple relationships simultaneously, which results in more powerful tests of mean differences (Martinez et al., 2008).

The study's construct measures were initially tested using exploratory factor analysis (EFA) and tested for reliability using SPSS 21. EFA is intended to explore the data if the links between the observed and latent variables are unknown or uncertain (Byrne, 2010). The extent of relationships among all measured variables to every factor is represented by factor loadings. A set of highly inter-correlated measured variables is grouped into a distinct factor. EFA provides the researcher with information about numbers of factors that best represent the data. This means that in EFA, statistical units, not theory, derive the factors (Hair, Black, & Babin, 2010).

Factor analysis was conducted on all the constructs to determine the ones that will be regressed against the dependent variable, with the principal axis factoring with varimax rotation being employed(Kau & Loh, 2006).Prior to the extraction of factors, the Kaiser-Meyer Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity was conducted to confirm whether there is a significant correlation among the variables to warrant the application of exploratory factor analysis (EFA) (Narteh, 2013).Bartlett's test of sphericity is a statistical test for the

presence of correlations among the variables by examining the entire correlation matrix. It provides the statistical significance that the correlation matrix has significant correlations among at least some of the variables (Hair, William, Barry, Rolph, & Ronald, 2006).

The overall KMO interpretation provides some information regarding how the data will fair when factored, as it is an index of the extent to which observed correlations are a function of variance that is shared across variables as opposed to uniquely present among particular pairs of variables (Hoelzle & Meyer, 2012). Some items sometimes represent the same idea, thus these can be omitted if they are redundant or unnecessary. If the number of samples in the factor analysis is 100 or larger, factor loadings in the range of $\pm .30$ to $\pm .40$ are considered to meet the minimal level for interpretation of structure. Loading of $\pm .50$ or greater are considered practically significant, and loadings exceeding $\pm .70$ are considered indicative of well-defined structure and are them goal of any factor analysis (Hair, William, Barry, Rolph, & Ronald, 2006). Narteh (2013) in their study on determinants of student's loyalty in the Ghanaian banking industry used the Bartlett test of sphericity and the Kaiser-Meyer Olkin (KMO) to check whether there is a significant correlation among the variables.

The study also checked for communalities. Communality is the variance of an observed variable that is accounted for by the common factor (Kim & Mueller, 1978). Communalities after extraction should be greater than 0.7 when fewer than 30 variables are analyzed (Field, 2009). Communality values were then checked to measure the variability of each observed variable that could be explained by the extracted factors (Field, 2009).Principal axes factor analysis was used for extracting factors. Factor extraction is used to find the number of factors that can adequately explain the observed correlation among the observed variables (Kim & Mueller, 1978). A factor that accounts for less than 5% of the variance is considered not important for further investigation. Also, only factors with an eigenvalue of 0.1 or more are retained.

Confirmatory factor analysis (CFA) was then performed. CFA is appropriately used when the researcher has some knowledge of the underlying latent variable structure. Based on knowledge of the theory, empirical research, or both, the study postulates relations between the observed measures and the underlying factors a priori and then tests the hypothesized model statistically (Byrne, 2010). The study used the two-phase process consisting of confirmatory measurement model and confirmatory structural model as suggested by Anderson and Gerbing (1988). The relationship between the selected measurement items (observed variables) and their associated latent constructs needs were tested to ensure that the items adequately measure their associated constructs. This procedure ensures that the resultant measurement models are accepted as “proper” measures of the constructs (Singh & Smith, 2004). If the researcher does not use this two-step procedure, it would be difficult to identify the source of model-fit problems (Kline, 2005). This two step approach makes it possible to rule out problems in the measurement models and concentrate the investigation on the structural model as the source of inefficiency (Singh & Smith, 2004).

Anderson and Gerbing (1988) were the first to use this two-step approach for employing SEM. In the first step, the study validates the measurement model through CFA, which shows the extent to which the observed variables (indicators) represent an underlying latent construct (Hair, Black, & Babin, 2010). Each observed variable is assigned to one and only one construct or latent variable (Garver & Mentzer, 1999). Once the measurement model is validated, the second step is carried out by estimating the structural relationships (path analysis) among latent variables or constructs (Garver & Mentzer, 1999) to explain the causal effect and the amount of unexplained variance (Ping, 2004). When applying EFA, the results showed a clear factor structure with an acceptable level of cross loadings. Additionally, the reliability and internal consistency of the items constituting each construct was estimated. Scale refinement was assessed using item to total correlations analysis, with indicators with an item to total correlation threshold of 0.3 and higher being maintained for further analysis (Hair, Anderson, Tatham, & Black, 2006).

Before confirmatory structural models were developed, properties of multi-item constructs were analyzed for construct reliability and construct validity by conducting confirmatory factor analysis (CFA). SEM is useful as a method of testing the theoretical relationship between measurement items and their associated construct, as it allows for the development of a confirmatory measurement model for scale purification, measurement-item reduction and testing for the measures' convergent validity, discriminant validity and reliability (Anderson & Gerbing, 1988). Confirmatory factor analysis offers a more rigorous evaluation of unidimensionality and reliability than the early steps of exploratory factor analysis (Anderson & Gerbing, 1988).

3.9.1 Confirmatory Structural Model and Hypothesis Testing of Study

Variables

The structural model was examined by employing SEM which aids in examining the hypothesized causal paths/links presented in the conceptual framework. In SEM the fit indices establish whether the overall model is acceptable, and if acceptable, the researchers establish whether specific paths are significant (Moss, 2009). The study used 2 types of fit statistics that are commonly used, that is, absolute fit indices and incremental fit indices (Hair, Black, & Babin, 2010). For absolute fit indices the study used AGFI, Goodness-of-fit Index (GFI) and Root mean square error of approximation (RMSEA), while for incremental the study used Comparative Fit Index (CFI) to determine the model fits.

When the initial hypothesized model was determined not to be the best fitting model, the model needed to be re-specified (Kline, 2005). Once the model was modified, the alternative hypothesized model was tested to determine the best fitting model to the observed dataset. To assess the internal consistency reliability of the total scale and subscales of the study, the Cronbach alpha reliability coefficient was used to analyze the data. In the following sections, the measurement model of each subscale was tested, and goodness of fit indices was examined to determine the fit of each model.

Regression weights were used to test the contribution of each indicator to their relevant convergent validity. Regression weights were also used to explain the nature of the relationship since all the variables were in the same measurement scale. Path coefficients estimates were used to determine the direction and strength of the factors. T statistics provided information on the significance of the relationship. T-statistics value (CR) was used to test whether the models were significant by comparing the model output with the conventional critical value of -1.96 or 1.96 at 0.05 significance level ($P < 0.05$). Given that the research model has multiple independent variables, a mediating variable, and dependent variable, structural equation model (SEM) analysis and multiple regression analysis are the appropriate multivariate techniques (Fang, Chiu, & Wang, 2011).

In order to test causal relations of the variables, Structural Equation Modeling (SEM) in particular the path analysis was used to construct the linkage between the dimension of service recovery, perceived justice, and customer loyalty. Structural equation modeling (SEM) is a statistical methodology that takes a confirmatory approach to the analysis of a structural theory bearing on some phenomenon (Byrne, 2010). Path analysis models are concerned with the analysis of the relationships existing between latent variables (Kenett & Salini, 2012). Structural Equation Modeling (SEM) was chosen over regression analysis because SEM can simultaneously analyze all the paths in one analysis, and provides full information about the extent to which the research model is supported by the data than in regression techniques. Confirmatory factor analysis (CFA) will be used to estimate the measurement model, which determines whether the manifest variables reflect the hypothesized latent variables, and to identify the underlying structure of service recovery model (Namkung, Jang, Almanza, & Ismail, 2009).

Once the data collected is subjected to Confirmatory Factor Analysis (CFA) to assess the constructs it will then proceed to testing the goodness-fit of the proposed research model using SEM. Universally-accepted statistical indexes, such as Goodness-of-Fit Index (GFI), will be used to assess the goodness-of-fit of the proposed model. The value of Root Mean Square Error of the Approximation

(RMSEA) of the proposed model will also be ascertained to identify the reasonable error of approximation of the model before concluding that the proposed model is acceptably fit or not (Hair, Anderson, Tatham, & Black, 2006). Cengiz, Er, and Kurtaran (2007) in their study on the effects of failure recovery strategies on customer behaviours via complainants' perceptions of justice dimensions in banks used RMSEA to identify the reasonable error of approximation of the model.

The goodness-of-fit test (normed chi-squared) is the χ^2 statistics divided by the degree of freedom. The expected p-value for the chi-square statistic should not be significant to accept the null hypothesis and demonstrate good fit of the proposed model to the data. Chi square statistic has been indicated as being very sensitive to sample size, thus the ratio of chi-square to degrees of freedom (χ^2/df) may be used to assess fit (Robinson Jr, Neeley, & Williamson, 2011). A (χ^2/df) ratio value less than 5 is acceptable fit between the hypothesized model and the sample data (MacCallum, Browne, & Sugawara, 1996). The parsimony-adjusted index (Root Mean Square Error of the Approximation, RMSEA) includes correction for model complexity, approximates the discrepancy that could be expected in the population, and estimates the lack of fit of the hypothesized model to the population covariance matrix. While a RMSEA value of zero indicates the best-fit approximation of the population covariance matrix, a value of less than 0.08 indicates good fit (Wong, Kuek, & Ong, 2011).

The study used the IBM SPSS 21 which has the Analysis of Moment Structures (AMOS) component to construct a conceptual model linking the variables under study. The study used SEM to confirm and explain conceptual models that involve attitude and perceptions (Argyrous, 2005). Maiyaki and Mohd. Mokhtar (2012) in their study on the determinants of customer behavioural responses in Nigerian retail banks used AMOS 16. To test whether perceived justice mediates the relationship between service recovery and customer loyalty, the study used the Baron and Kenny (1986) technique, which stipulates that four conditions must be upheld for full mediation. The first condition is that the independent variable (Service recovery) must directly affect the mediator (Perceived Justice). The second condition is that

the mediator (perceived justice) must affect the dependent variable (customer loyalty). The third condition is satisfied when the independent variable (service recovery) directly affects the dependent variable (customer loyalty) once the mediator is removed from the model. Finally, full mediation is supported if the direct path from the independent variable to the dependent variable becomes insignificant, when the paths to and from the mediators are once again included in the model (Lin & Ding, 2005).

Using Baron and Kenny approach, the study will fit three regression models:

$$M = \beta_1 + aX + \varepsilon_1 \quad (\text{Equation 1})$$

$$Y = \beta_2 + cX + \varepsilon_2 \quad (\text{Equation 2})$$

$$Y = \beta_3 + c'X + \varepsilon_3 \quad (\text{Equation 3})$$

Where:

β are the intercepts

ε is the model fit errors

a, b, c and c' terms are the regression coefficients capturing the relationships between the three focal variables.

Evidence for mediation is said to be likely if, first, the term a in equation (1) is significant, that is, there is evidence of a linear relationship between the independent variable (X) and mediating variable (M). Second, the regression coefficient in c in equation (2) is significant, that is, there is a linear relationship between the independent variable (X) and dependent variable (Y). Finally, the term b in equation (3) is significant, indicating that the mediator (M) helps predict the dependent variable (Y) and also c', the effect of the independent variable (X) directly on the dependent variable (Y) becomes significantly smaller in size relative to c in equation (3).

CHAPTER FOUR

RESEARCH FINDINGS AND DATA ANALYSIS

4.1 Introduction

This chapter presents the analyses used to test the conceptual model and reports on the results of the study. It goes on to provide information on population demographics and respondent characteristics, descriptive statistics, response rates, data screening, test of assumptions, measurement model estimation and the testing of the hypotheses. Additionally, details on measurement and structural model estimation using SPSS and Amos software are discussed. The findings are presented based on the study objectives and their respective hypotheses tested.

4.2 Response Rate

Data was collected from customers of five star hotels in Kenya. The sample size was 384 respondents. A total of 370 out of 384 self administered questionnaires were filled and returned, yielding a response rate of 96.4%. However, 9 questionnaires were found to have substantial number of questions unanswered, prompting the study to drop them. This is in line with Sekaran (2010), who indicated that if more than 25% of the items in a questionnaire are left unanswered, it may be good to throw out the questionnaire and not include it in the data set for analysis.

A few missing responses were found randomly in another three questionnaires, with a maximum likelihood function used to replace those missing values (Enders & Bandaio, 2001). Questions may have been left blank because the respondent did not understand the question, did not know the answer, was not willing to answer, or was simply indifferent on the need to respond to the entire questionnaire (Sekaran, 2010). This translated to a revised response rate of 94.01 per cent, which was considered adequate for data analysis. Mugenda (2008) suggested that a response rate of 50% is adequate, 60% is good, and above 70% very good for analysis.

In their study on effects of distributive justice complaints resolution strategies on customer satisfaction in Kenya's banking industry, Chepkwony, Lagat, Korir, Mumbo, and Odera, (2012) achieved a response rate of 86.7%. Xiao, Ran and Omar (2014) in their study on service recovery activities and customer satisfaction achieved a response rate of 97.2%. Li (2011) in his study on the study of service recovery of travel agency based on customer satisfaction achieved a response rate of 77%. In another study on the effect of service failure and recovery on airline passenger relationship by Steyn, Mostert, Meyer, Van-Rensburg (2011) achieved a response rate of 80%. Therefore a response rate of 94.01% is very high and good for analysis.

4.3 Background Information

The study sought background information of the study participants which included gender of the respondents, age bracket of the respondents and level of education. The study also sought background information on the level of the customer's experiences in using hotel services and in service failure encounters.

4.3.1 Gender of the Respondents

The study sought to establish the gender of the respondents. As shown in Figure 4.1, majority (51%) of the respondents were females, while few (49%) were males. This shows that there was a balanced representation of both genders in the study. This shows that hospitality industry targets all genders and thus hotels should provide services that will continue appealing to all genders. Since majority of responses for this study relies on the perceptual measures of the respondents this gender distribution is expected to accommodate the opinions and views from both sides of the gender divide.

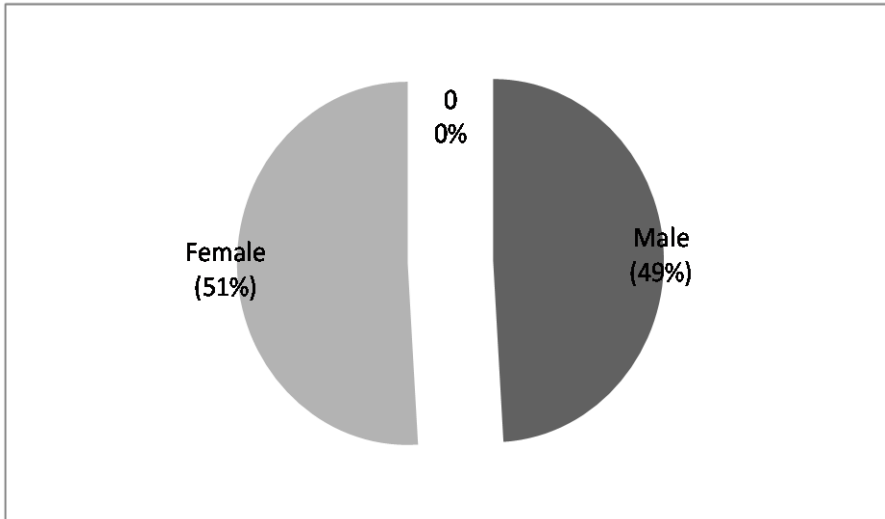


Figure 4. 1: Gender of the Respondents

4.3.2 Age of the Respondents

The study sought to establish the age brackets of the respondents. The study found out that majority (39%) of the respondents' were aged between 31 and 40 years, 35% were between 41 and 50 years, 22% were above 50 years, and a few (4%) were below 30 years of age as shown in Figure 4.2. This implies that majority of hotel customers are in the age brackets of 31-50 years. This could be attributed to the fact that at this age group most of the people are at the prime of their careers and thus have a higher disposable income.

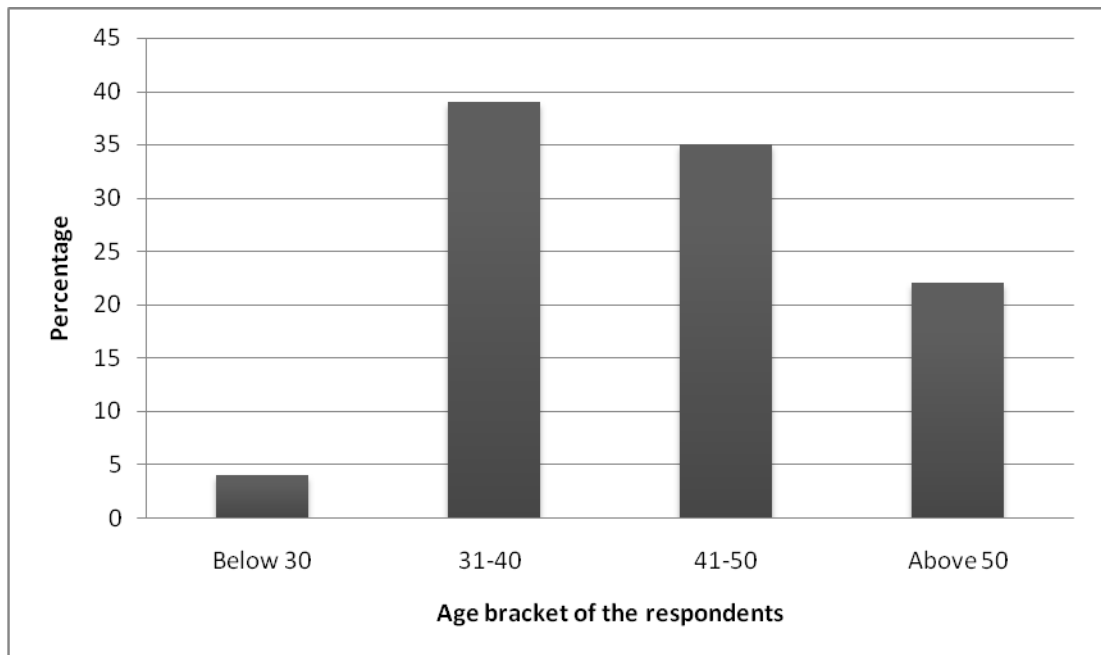


Figure 4. 2: Age of the Respondents

4.3.3 Level of Education

The study also sought to establish the respondents' level of education. As shown in Figure 4.3, the study found out that majority (51%) of the respondents had a Bachelor's Degree, 23% had a Master's degree, 22% had a Diploma, while a few (2%) had tertiary certificate and O-level. This shows that the majority of the respondents were well educated, an indication that well educated people are well paid, enabling them to have a higher disposable income and thus the spending habits. This also shows that majority of clients that frequent the five star hotels are the educated, and thus these hotels should target that group in their marketing efforts. The educated could be targeting the five star hotels due to their economic status.

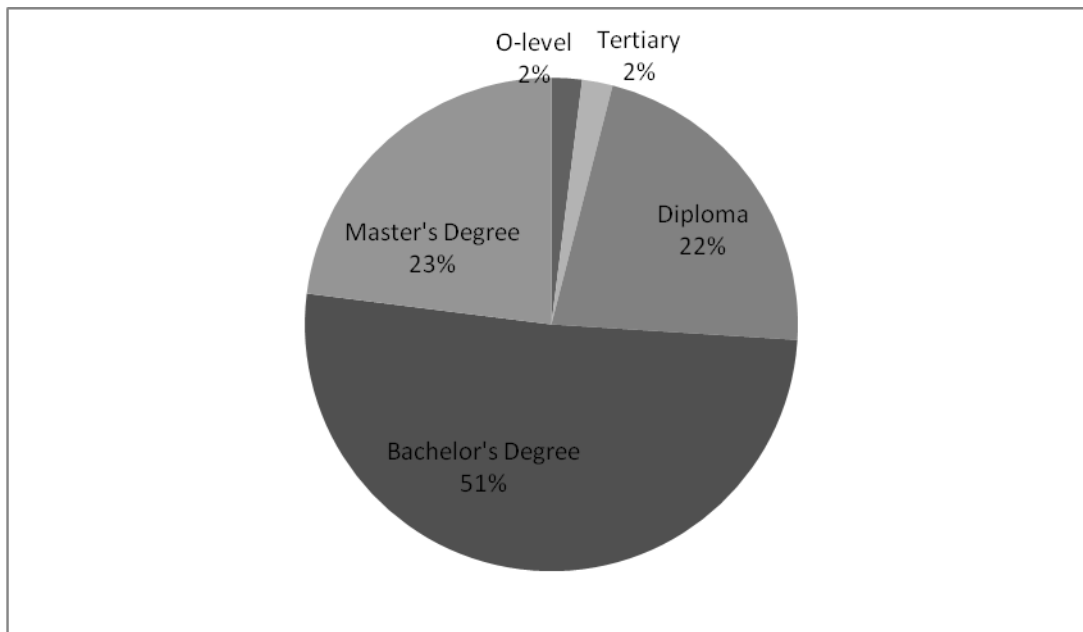


Figure 4. 3: Levels of Education of the respondents

4.3.4 Analysis of Hotel Service Experience amongst Hotel Customers.

The respondents were asked to indicate how often they frequented a hotel in order to determine their experiences in using hotel services. As shown in Figure 4.4, majority (61%) of the respondents indicated that they frequented a hotel once in a while, 19% frequently, 11% more often and a few (9%) rarely. This shows that the majority of the respondents had experience in using hotel services. These findings agree with Kim, Kim and Kim (2013) study on the effect of perceived justice on recovery satisfaction, trust, word of mouth and revisit intention in upscale hotels, who pointed out that customer satisfaction in a particular service encounter is influenced by the individual's prior experiences with the service provider.

In their study on the effect of service failure and recovery on airline-passenger relationships, Steyn, Mostert, Meyer and Van-Rensburg (2011) pointed out that whenever customers deal with organizations, their service delivery expectations will be influenced by their previous experiences with the organization and especially their service encounters with the organization (Steyn, Mostert, Meyer & Van-Rensburg, 2011). Emotional bonding or relationship status might make customers

more lenient towards service providers in service failure (Mattila, 2004). Even though it is unlikely that organizations can eliminate service failures from occurring, they can through their service recovery efforts learn how to effectively handle these failures to maintain and possibly even enhance customer satisfaction (Bamford & Xystouri, 2005).

In order for the hotels to create a positive service experience and a strong bond with the customers they need to come up with service innovations that will keep them ahead of the competition. They also need to learn from service failures and adopt entrepreneurial oriented behaviours which will help in encouraging the aggrieved customer to indicate areas where the organization is failing. This will assist the organization in developing innovative strategies that the employees and organization can use in improving on its service quality. Schumpeter's principles indicate that entrepreneurship is associated with something innovative and original (Ateljevic & Page, 2009). Innovativeness of the firm is a key propensity to generate new combinations resulting in new products, processes and business models (Augier & Teece, 2007). Schumpeter (1934) indicated that innovations do not appear independently of one another but in swarms or clusters. In the hospitality industry this will be achieved by combining the successes and failures in service experiences, which will help in coming up with creative and innovative service delivery processes.

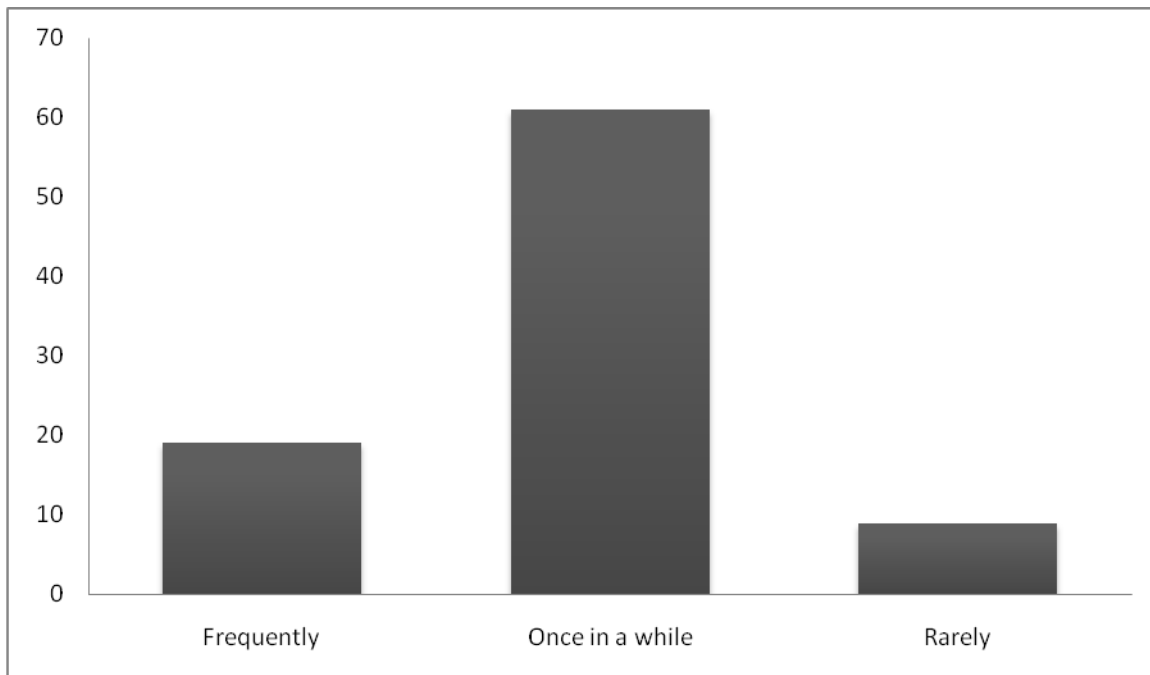


Figure 4. 4: Frequency of Hotel Visits

The respondents were also asked to indicate whether they would recommend the hotel to others and whether the hotel had won their loyalty. As shown in Table 4.1, majority (75%) of the respondents indicated that the hotel had won their loyalty, with a few (25%) indicating it had not. These findings are important for this study because as Gregoire and Fisher (2008) found out in their study on a comprehensive model of customer direct and indirect revenge: understanding the effects of perceived greed and customer power, loyal customers might retaliate if they feel betrayed by a service failure. Wirtz and Mattila (2012) in their study on consumer responses to compensation, speed of recovery and apology after a service failure, also found out that a customer with low levels of emotional bonding might be highly ‘forgiving’ as long as the service recovery is effectively handled.

Firms must strive to design appropriate recovery strategies in order to remain competitive, as service recovery is an important strategy to reduce the dissonance in customers (Dutta, Venkatesh, & Parsa, 2012). It is therefore in the interest of organizations in the hospitality industry to foster entrepreneurial mindset among the employees that will lead to enhanced customer loyalty and more so come up with

innovative strategies that will help in restoring the customer loyalty when service failure occurs. While entrepreneurial process always involves teams, it typically begins with an individual and is kept alive and nurtured by individuals. The single most important ingredient for entrepreneurship to occur is the dedicated employee, who champions a concept, persists in overcoming internal and external obstacles, accepts responsibility for failure and, in effect, risks his or her job on the outcome of a venture (Kuratko, Morris, & Covin, 2011). In today's dynamic market conditions, where customers' needs are unknown, or are shifting rapidly, the more the creative firms should be as markets are becoming way too complex to be reacted on and responded to, and thus firms need to set the course for future innovations.

Table 4. 1: Hotel Service Experience

Variable	Values	Frequency	Percentage
Loyalty	Yes	272	75
	No	91	25

4.3.5 Analysis of Service Failure Experience amongst Hotel Customers

The study sought information on whether the respondents had ever experienced service failure in the course of patronizing each of the respective hotels. As shown in Table 4.2, all (100%) of the respondents indicated that they had experienced a service failure at some point while patronizing their favourite hotels. This shows that service quality in the hospitality industry in Kenya is a big challenge to the industry growth. In their study on service failure and recovery strategies in the restaurant sector, Dutta, Venkatesh, and Parsa (2007) found out that 98% of restaurant goers experienced service failure of one kind or the other while being served in a restaurant. In another study by Mattila and Cranage (2005) on the impact of choice on fairness in the context of service recovery, they found out that service failure is inevitable from time to time, especially in medium and high contact services such as

hospitality industry. If allowed to continue, poor service delivery threatens the long-term survival of the firm (Michel & Meuter, 2008).

Firms in the hospitality industry should therefore learn from their service failures and apply such learning, not only to amend their existing systems but also to create a set of knowledge that can be used for continuous innovation and transformational change. Organization learning is a source of sustainable competitive advantages when it's based on continuous innovations. When firms carry out effective complaint handling, this can have a great impact on customer retention rates, deflect the spread of damaging word of mouth (WOM), and improve bottom-line performance (Morrisson & Huppertz, 2010). Service failure management achieves a strategic consideration since it involves a profound revision of overall firms operations and the organizational commitment to proactively prevent failures, efficiently recover and learn from mistakes and successfully maintains long-term relationships (Santos-Vijande, Diaz-Martin, Suarez-Alvarez & Rio-Lanza, 2013).

Ireland, Hitt, and Sirmon (2003) identified six domains as central to strategic entrepreneurship, that is innovation (creating and implementing ideas), networks (providing access to resources), internationalization (adapting quickly and expanding), organizational learning (transferring knowledge and developing resources), growth (stimulating success and change), and top management teams and governance (ensuring effective selection and implementation strategies). Organizational innovativeness is a key source of competitive advantage and subsequent firm performance (Henneke, 2007). Successful recovery strategies can not only restore, but also enhance perceptions of the organization's competence and serve to increase customer satisfaction, retention, positive word-of-mouth behavior, and ultimately long-term profitability (Shapiro & Nieman-Gonder, 2006). Firms should not regard service failure as a problem but as an opportunity to be entrepreneurial and must learn from the experiences of service recovery. Through learning innovative entrepreneurs are able to create new organization as envisaged by Schumpeter (1934), which influences the ability to produce a radical innovation

that enables the entrepreneur to secure both a competitive advantage of the innovation.

Table 4. 2: Service Failure

Variable	Values	Frequency	Percentage
Experienced service failure	Yes	363	100

The study also sought to find out the kind of service failure that the respondents encountered during their visit to the respective hotels. As shown in Figure 4.5, majority (43%) of the respondents indicated that the employees lacked courtesy while serving the patrons, 28% indicated that the employees were unable to address their issues, 8% indicated that the hotel had unclean rooms and facilities, with 15% indicating that their names were missing from the records despite the fact that they had made prior bookings and a few (6%) indicating that the management was busy to address their problems. In their study on service failure and recovery strategies in the restaurant sector, Dutta, Venkatesh, and Parsa (2007) pointed out that the major types of service failure in hotels include slow service, inefficient staff, food and beverage quality problem, cleanliness, unfriendly and unhelpful staff, incorrect billing, untidy staff, reservation missing, physical evidence lacking in ambience, and advertised promises not met.

Service recovery is a valuable marketing tool which constitutes a second chance for the hotel to satisfy the customer (Kuenzel & Katsaris, 2009), thus enhancing entrepreneurial marketing. Entrepreneurial marketing enhances the organizational responsiveness to the marketplace and a seemingly intuitive ability to anticipate changes in customer demands. There is a need to pay increased attention to the information on service failures, learn from mistakes, transform such information into process improvements, and increase our understanding of how recovery affects the firm's overall performance in the long term and/or its future relationships with clients (Johnston & Michel, 2008). Hotels must therefore encourage and foster

creativity in their employees. Creativity is the soul of entrepreneurship and is needed in developing innovative business solutions. The organization must emphasize managerial practices that result in provoking employee’s ways of thinking in order to spur creativity when dealing with the customers.

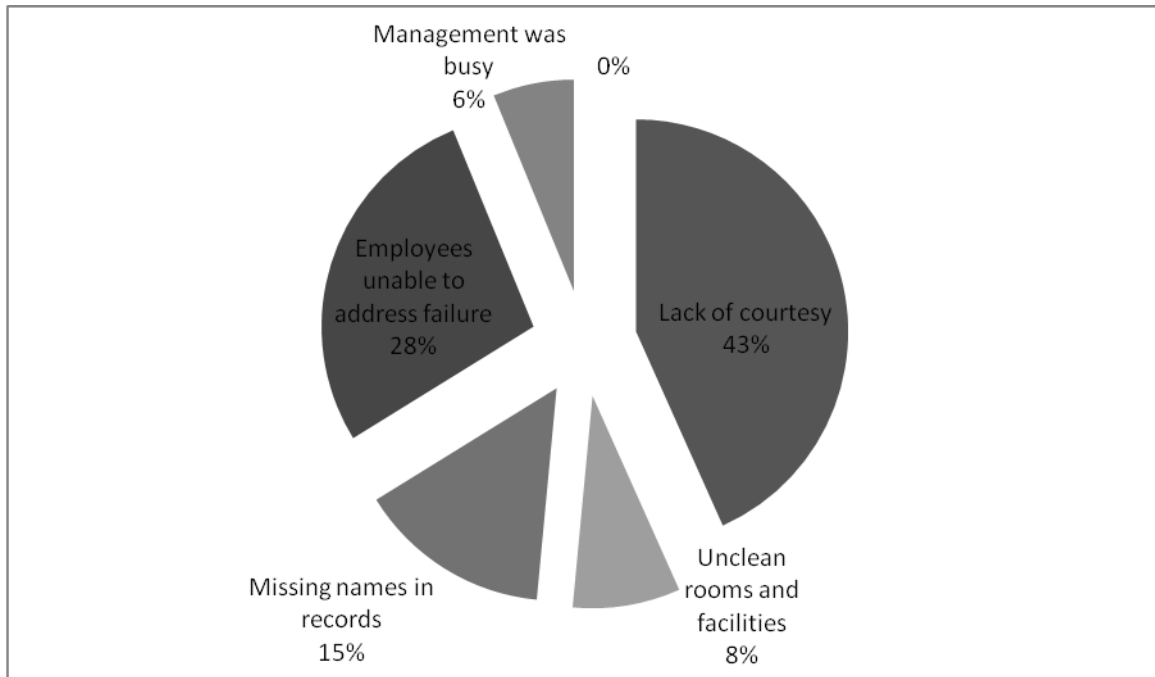


Figure 4. 5: Service Failures Encountered by the Respondents

4.3.6 Analysis of Customer Complaints

The respondents were asked to indicate whether they complained due to the service failure. As indicated in Table 4.3, majority (93%) of the respondents indicated that they complained, with only a few (7%) of the respondents deciding not to complain. This shows that the Kenyan hotel customers are conscious of the kind of services to expect and will not shy away from airing their grievances when they feel that the service offered does not meet the level of expected service. This corroborates a study by Dutta, Venkatesh, and Parsa (2007) on service failure and recovery strategies in the restaurant sector who found out that 100% of the customer in India registered their complaints. Tax and Brown (2012) pointed out that there are situations where customers refuse to complain due to lack of non-confrontational

attitude, as well as the belief that the company will not be responsive to the complaint if it was voiced. Similarly, some dissatisfied customers prefer to keep silent, but resort to other negative behaviours, such as switching providers and/or indulging in negative word-of-mouth comments, which can diminish the image and market profitability of the service firm (Newman, 2007). In Kenya most of the customers may prefer to complain due to lack of alternative providers and also to avoid switching costs. Therefore hospitality industry in Kenya should come up with quality management program that will enhance retention of customers who experience service problems, and as an important tool to gain competitive advantage.

Business enterprises are faced with many challenges in handling their customers. This affects their ability to gain sustained entrepreneurial success in a competitive environment. Thus, successful business enterprises are always looking for a way to out-smart, out-produce or out-sell their competitors; they are always looking for a way to gain sustained entrepreneurial success. Ottih (2008) pointed out that environmental factors play a decisive role in determining the success, failure and even, the continued existence of the business enterprise. One of those factors that business enterprises are conscious of is the customer, who is the heart of a business. Drucker (1994) noted that the purpose of a business is to create the customer. Therefore, as Kotler and Keller (2006) pointed out business enterprises that wants to succeed in today's global competitive market, where customers have been empowered and brand loyalty erosion is increasing will have to foster customer relationship management. This indicates that organizations in the hospitality industry need to develop and manage the relationship between them and their customers, because these relationships are profitable ways of creating loyal customers and by extension sustaining their entrepreneurial success.

The study sought to know whether the respondent's complaints were addressed. As shown in Table 4.3, majority (85%) of the respondents indicated that their complaints were addressed and a few (15%) indicating that their complaints were not addressed. This shows that majority of the hotels in Kenya value their customers

and that's why they made an effort in addressing the customer's complaints. In their study on the effect of communication mode in justice-based service recovery, Shapiro and Nieman-Gonder (2006) pointed out that growing competition among firms and the ability of consumers to readily switch royalties requires that firms fully understand and manage failures and recoveries (Shapiro & Nieman-Gonder, 2006). One way to retain existing customers is to be receptive to customer complaints rather than the current practice in many organizations of evading them (Homburg & Furst, 2007).

Competitive pressures and the scale of product choices have elevated the importance of the service element, which has now become the value denominator of virtually all business transactions, with firms that earn a reputation for superior customer service being more likely to demand premium prices and large market share (La & Kandampully, 2010). Entrepreneurs should take customer complaints as a valuable source of important market intelligence, which should be used to correct the root cause of the problem and to improve the service or the product, through service innovations. It is more rational and economical to keep old customers instead of looking for new ones. This is because the expense of acquiring customers is incurred only at the beginning stages of the commercial relationship (Ehigie, 2006). Old customers buy more and if satisfied, may create positive image for the company by word-of-mouth promotion. Also, long-term customers are less sensitive to price changes (Baumann, Burton, & Elliott, 2005). This highlights the need for entrepreneurs to establish a positive relationship with their customers and manage the same even in situations of failures for sustained entrepreneurial success.

Table 4.3: Analysis of Customer Complaints

Variable	Values	Frequency	Percentage
Complained	Yes	338	93
	No	25	7
Complaint addressed	Yes	309	85
	No	54	15

4.4 Description of Factors of Study Variables

This section consists of description of factors used in the study as shown in Appendix IV. The description was used for cross referencing the factors used in the study. The factors described in this section are drawn from the following variables: compensation, employee empowerment, employee behaviour, communication, distributive justice, procedural justice, interpersonal justice, informational justice and customer loyalty.

4.5 Correlation of Study Variables

Correlation analysis examines the relationships between variables describing the direction and degree of association between them; hence help in testing for multicollinearity. A correlation is very low if the coefficient has a value under 0.20, low between 0.21 and 0.40, moderate between 0.41 and 0.70, and high between 0.71 and 0.91 (Pfeifer, 2005). A coefficient of +1 indicates that the two variables are perfectly positively correlated, so as one variable increases, the other variable increases by a proportionate amount. Conversely, a coefficient of -1 indicates a perfect negative relationship, that is, if one variable increases, the other decreases by a proportionate amount (Field, 2009). Absence of correlation allows the study to utilize all the independent variables (Farndale, Hope-Hailey, & Kelliher, 2010). In this study, Pearson correlation coefficient was used to explore the relationship between study variables.

The Pearson Correlation matrix obtained for the variables is shown in Table 4.4. The lowest correlation in this study was between information justice (INFOJ) and procedural justice (PJ) ($r=0.001$, $p<0.01$). The highest correlation was between distributive justice and procedural justice ($r=0.604$, $p<0.01$). A correlation of above 0.90 is a strong indication that the variables may be measuring the same thing (Tabachnick & Fidell, 2013). Since all the correlations were less than 0.90 was an indication that the factors were sufficiently different, and thus the study utilized all the independent variables. In their study, Remedy or cure for service failure? Effects of service recovery on customer satisfaction and loyalty”, Komunda and Osarenkhoe (2012) used Pearson Correlation Coefficient to test the relationship between variables.

Table 4.4: Correlation of Study Variables

	C	COM	EE	EA	DJ	IJ	INFOJ	PJ
C	1							
COM	0.007	1						
EE	0.083	-0.013	1					
EA	0.038	0.022	0.267	1				
DJ	0.043	-0.046	0.039	-0.068	1			
IJUST	0.019	-0.114	0.028	-0.011	0.008	1		
INFOJ	0.1	-0.03	-0.029	0.101	-0.248	0.426	1	
BJST	0.05	-0.138	0.039	-0.072	0.604	0.019	-0.001	1

Key: C-Compensation, COM-Communication, EE- employee empowerment, EA- Employee behaviour, DJ- Distributive justice, IJUST- Interpersonal justice, INFOJ- Informational justice, BJST-Procedural justice.

4.6 Test of Assumptions of Study Variables

Data collected through questionnaires was coded and entered into SPSS. As part of the preparation and screening process, data was checked for missing data, non-response bias and outliers. Multivariate statistical assumptions like normality, multicollinearity, and linearity test were examined. Data screening was carried out to test the multivariate assumptions, that is, outliers test, normality, linearity, and

multicollinearity, as any violation of these assumptions usually undermines the use of multivariate statistical techniques (Hair, Anderson, Tatham, & Black, 2006).

4.6.1 Outliers Test

An outlier is an extreme score on either the low or the high end of a frequency distribution of a quantitative variable (Warner, 2008). This study checked for univariate outliers; that is, observations or cases with characteristics or values that are markedly different from the majority of cases in a data set (Kline 2005; Hair, Black, & Babin, 2010). Outliers can influence the results of analyses and may lead to incorrect decisions about the analyses, such as Type I and Type II errors (Tabachnick & Fidell, 2007). Both of these errors are important and a balance must be struck between them (Weiss, 2008). The assumption is that there is a core of at least 50 % of observations that is homogeneous and a set of remaining observations (hopefully few) which has patterns that are inconsistent with this common pattern (Kennet & Salini, 2012).

To identify univariate outliers, all scores for each variable were converted to standard scores (z scores) (Tabachnick & Fidell, 2007). Hair, Black, and Babin (2010) suggests that a common rule of the thumb is that z scores can range from $+3$ to -4 for sample of more than 80. Cases with standardized scores greater than 3.29 ($p < 0.001$, two tailed test) are potential outliers (Tabachnick & Fidell, 2007). All z scores for the variables in this study were less than 3.29, meaning that univariate outliers were absent in the data set.

Normal probability plots and histograms were evaluated in order to assess for univariate outliers. All data sets were assessed for univariate outliers. The results indicated that only four cases have z score beyond the mean; the z scores of these cases were very close to 3.29. Since the most extreme case has z score 3.72, and the least extreme case has z score 3.33, therefore the study decided to retain all cases in the following analysis. Some cases that were outliers were removed as shown in Figure 4.6. In their study on the effectiveness of service recovery and its role in

building long-term relationships with customers in a restaurant setting, Ok (2004) used Mahalanobis D^2 to test for outliers.

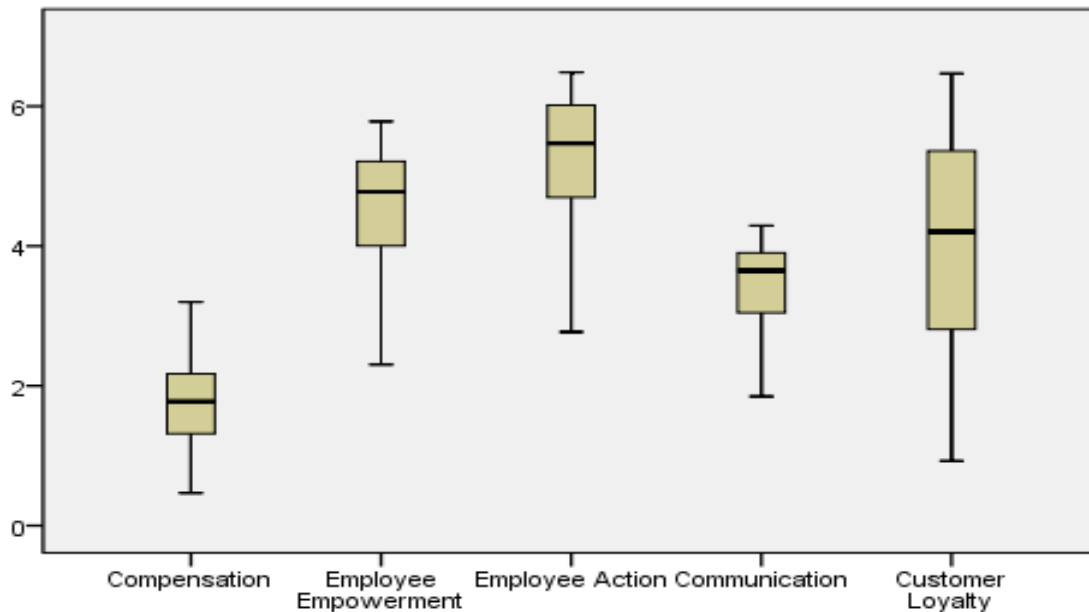


Figure 4. 6: Outliers Results

4.6.2 Test for Normality of data

The assumption of normality is a prerequisite for many inferential statistical techniques (Coakes, Steed & Ong, 2010). Normality is important in knowing the shape of distribution as the normality helps to predict dependent variables scores. The first basic assumption about SEM is that all data have a multivariate normal distribution (Hulland, 1999). Multivariate normal distribution included both the distributions of individual variables and the distributions of variables. This assumption is necessary in order to allow significant testing using T-test and F statistics (Tabachnick & Fidell, 2007). Also, in the SEM model, estimation and testing are usually based on the validity of multivariate normality, and lack of normality will adversely affect goodness-of-fit indices and standard errors (Hulland, 1999).

Tabachnick and Fidell (2007) pointed out that there are two ways that can be used to validate this assumption, that is, skewness and kurtosis. The normality of data distribution was assessed by examining its skewness and kurtosis. The absolute values of standardized skew or kurtosis indices were used to assess the linearity of the variables (Kline, 2005). A variable with an absolute skew-index value greater than 3.0 is described as extremely skewed, and a kurtosis index greater than 8.0 is categorized as extreme kurtosis (Kline, 2005). Cunningham (2008) suggested that an index smaller than an absolute value of 2.0 for skewness and an absolute value of 7.0 is the minimal violation of the assumption of normality. Hair, Babin, Anderson, Tatham and Black (2006) also pointed out that the range for skewness and kurtosis is considered acceptable if it is in the range of +/- 3.

As shown in appendix V, the values of skewness and kurtosis of all variables in this study ranged from absolute values of 0.040 to 1.822 and from absolute values of 0.020 to 3.369 respectively. This implies that the assumption of normality for this study was satisfied. In their study on “Identifying the Underlying Structure of Perceived Service Fairness in Restaurants”, Namkung, Jang, Almanza and Ismail (2009) also used skewness and kurtosis to test for normality. Similarly, Wahab and Norizan (2012) in their study on the influence of service recovery on word of mouth, views of mobile phone users, used skewness and kurtosis to test for data normality.

The study also conducted the normality of data using Kolmogorov-Smirnov and Shapiro-Wilk test. The tests reject the hypothesis of normality when the p-value is less than or equal to 0.05 (Shapiro & Wilk, 1965). Table 4.5 shows that the Kolmogorov-Smirnov and Shapiro-Wilk statistics were 0.70 and 0.980 respectively. Markovic, Mlinarevic, and Vouk (2011) in their study of “Efficiency of Service Recovery Compensation: Type A study of Croatian consumers used Kolmogorov-Smirnov test to test the normality of their data. In their study on the, “Influence of Selected Antecedents of Frontline Employee’s Perceptions of Service Recovery Performance, Ardahan (2007) tested for normality of data using Kolmogorov-Smirnov and Shapiro-Wilk test.

Table 4.5: Tests of Normality(Kolmogorov-Smirnov and Shapiro-Wilk)

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.070	363	.000	.980	363	.000

a. Lilliefors Significance Correction

4.6.3 Multicollinearity Test

The study checked for the problem of multicollinearity, which is present if there are high correlations between some of the independent variables (Burns & Burns, 2008). Multicollinearity was examined using correlation matrices and collinearity diagnostics. Multicollinearity is a statistical phenomenon in which two or more predictor variables in a model are highly correlated (Gujarat & Porter, 2009). This results in the sample coefficient being far from the actual population parameter and when the coefficients are tested, the t-statistics becomes small, which leads to the inference that there is no linear relationship between the affected independent variables and the dependent variable (Cooper & Schindler, 2011).

A tolerance with a value close to 1 means there is little multicollinearity, whereas a value close to 0 suggests that multicollinearity may be a problem (Belsley, Kuh, & Welsch, 2004). The Variance Inflation Factor (VIF) measures multicollinearity in such a way that if no two independent variables are correlated, then all the VIF values will be 1, signifying the absence of multicollinearity. If on the other hand, VIF value is around or greater than 5, then there is multicollinearity associated with that variable. To avoid multicollinearity, Tabachnick and Fidell (2007) suggested deleting one of the two variables that possess a bivariate correlation equal to or higher than 0.9. The correlation values between two variables in this study ranged from 0.572 to 0.966, this is as shown in Table 4.6. This shows that there is no multicollinearity among all independent variables. None of the factors were found to

register VIF greater than 5. In a similar study on, “An Integrated Service Recovery System: Influence on Knowledge-Intensive Business Services Performance”, Santos-Vijande, Diaz-Martin, Suarez-Alvarez and Rio-Lanza (2013) checked for the problem of multicollinearity in their data.

Table 4. 6: Multicollinearity Test Results for Study Variables

Dependent Variable	Independent Variables	Collinearity Statistics	
		Tolerance	VIF
Compensation	Communication	.790	1.266
	Employee Empowerment	.580	1.726
	Employee behaviour	.572	1.749
Employee empowerment	Communication	.781	1.281
	Compensation	.944	1.059
	Employee behaviour	.803	1.245
Employee behaviour	Communication	.815	1.226
	Employee empowerment	.834	1.200
	Compensation	.966	1.035
Communication	Compensation	.961	1.040
	Employee behaviour	.581	1.703
	Employee empowerment	.583	1.715

4.6.4 Linearity Test

Linearity of data, which is the amount of change or rate of change, between scores on two sets of variables is constant for the entire range of scores for the variables

(Bai & Perron, 2008). It is therefore the consistent slope of change that represents the relationship between an independent variable and a dependent variable (Granger & Tera, 2007). As shown in Table 4.7, R-squared and the large F-value of all the independent variables were significant ($p\text{-value}=0.0000<0.05$) hence their individual relationship with the dependent variable was linear. In their study on service recovery activities and customer satisfaction: mediating role of justice dimensions: A case study in China, XiaoRan and Omar (2014) conducted a linearity test to check the rate of change between scores of two sets of variables.

Table 4. 7: Linearity Test of Study Variables

Variable	R-squared	F-value	Sig.value
Compensation	0.140	58.617	0.000
Employee Empowerment	0.219	101.232	0.000
Employee behaviours	0.080	37.51	0.000
communication	0.059	22.77	0.000

4.7 Pilot Test of Study Variables

4.7.1 Reliability Test

Reliability test which is the extent to which a given measuring instrument produces the same result each time it is used (Abbott & McKinney, 2013), was tested in this study. This study used the internal consistency method to test the reliability of the questionnaire, which generated a Cronbach's alpha coefficient. Cronbach's alpha is a reliability coefficient that indicates how well the items in a set are positively correlated to one another (Sekaran, 2010). The Cronbach's alpha provides reliability coefficient that tells us, in theory, how reliable our estimate of the stable entity that we are trying to measure is, when we combine scores from p test items (Warner, 2008). Cronbach's alpha (α) is a coefficient (a number between 0 and 1) that is used

to rate the internal consistency (homogeneity) or the correlation of the items in a test (Sushil & Verma, 2010). It is used to test internal reliability, and it essentially calculates the average of all possible split-half reliability coefficients (Bryman, 2012).

A computed alpha coefficient will vary between 1 (denoting perfect internal reliability) and 0 (denoting no internal reliability) (Bryman & Bell, 2011). Reliability of 0.7 is typically employed as the rule of the thumb to denote an acceptable level of internal reliability (Pallant, 2010). In this study as shown in appendix VI, all the items were found to have overall Cronbach's alpha of above 0.7 and thus had a good internal consistency. Lin, Wang, and Chang (2011) in their study on "Consumer Responses to Online Retailer's Service Recovery after a Service Failure" settled for 0.7 as the Cronbach's alpha (α) to evaluate the reliability of their measures.

4.7.2 Construct Validity

Validity is the extent to which a research measure actually captures the meaning of the concept it is intended to measure. Construct validity checks whether a measure of a concept relate strongly with another measure that it should correlate strongly with (converging measures), and negatively with measures it should not agree with (diverging measures) (Abbott & McKinney, 2013). Convergent validity is the extent to which the latent construct correlates to observed variables designed to measure that same construct, while discriminant validity is only established when the items or indicators of theoretically unrelated constructs are indeed empirically found to be unrelated (Hair, Black, & Babin, 2010).

Convergent Validity

Confirmatory factor analysis (CFA) was conducted to assess the convergent validity of the constructs. Convergent validity is established if the factor loading of each indicator is greater than 0.50 and average variance extracted (AVE) is greater than 0.50 (Hair, Black, & Babin, 2010). The CFA results of item loadings are reported in appendix VII. The items were significantly loaded on the proposed factors with

loading higher than 0.5. Convergent validity was also assessed using average variance extracted (AVE). The AVE of all constructs were above the 0.5 threshold indicating that the latent constructs account for at least 50% of the variance in the items. This indicates that the measurement scales exhibited adequate measurement validity (Hair, Anderson, Tatham, & Black, 2006). In their study, “Symptoms of burnout and service recovery performance; the influence of job resourcefulness, Rod and Ashill (2009) used confirmatory factor analysis to measure for convergent validity, with two of the items having loadings between 0.65 and 0.7.

Discriminant Validity

The study used Fornell and Larcker’s (1981) approach to assess discriminant validity. To measure the discriminant validity, the square root of the average variance extracted (AVE) in each construct is compared to the correlation coefficients between two constructs. If the square root of the AVE for all constructs is greater than the absolute value of their standardized correlation with any other construct in the analysis, it will be deemed to be a good discriminant validity measurement (Hair, Black, & Babin, 2010). As shown in Table 4.8, all the constructs in the model met this criteria indicating that discriminant validity is supported. In their study on, “Consumer Responses to Online Retailer’s Service Recovery after a Service Failure”, Lin, Wang and Chang (2011) tested the discriminant validity of the measures with the results indicating that all the measurement items loaded significantly (loading>0.5) on the single factor to which they belonged.

Table 4. 8: Discriminant Validity

Construct	$R^2 \geq 0.17$	FornellLarker (AVE \geq highest correlation ²)
Procedural Justice	0.30	0.688>0.005
Employee Behaviour	0.57	0.652>0.047
Customer Loyalty	0.380	0.592>0.27
Information Justice	0.025	0.629>0.06
Interpersonal Justice	0.14	0.680>0.181
Employee Empowerment	0.34	0.619>0.2914
Communication	0.47	0.497>0.019
Distributive Justice	0.012	0.759>0.365
Compensation	0.34	0.486>0.01

4.8 Factor analysis

4.8.1 Confirmatory Measurement Model

Structural Equation Modeling (SEM) with AMOS software was used for the data analysis using a two-phase process consisting of confirmatory measurement model and confirmatory structural model as suggested by Anderson and Gerbing (1988). Structural Equation Modeling (SEM) is a comprehensive statistical approach for testing hypotheses about relations between observed and latent variables. It was chosen because it permits the analyses of multiple structural relationships simultaneously while maintaining statistical efficiency (Hair, Anderson, Tatham, & Black, 2006). It combines features of factor analysis and multiple regressions for studying both the measurement and the structural properties of theoretical models.

Structural Equation Modelling is formally defined by two sets of linear equations called the inner model and the outer model. The inner model specifies the relationships between unobserved or latent variables, and the outer model specifies the relationships between latent variables and their associated observed or manifest variables (Turkyilmaz & Ozkan, 2007). Structural Equation Modelling methodology can account for independent variable errors and model multiple relationships simultaneously, which results in more powerful tests of mean differences (Hair, Anderson, Tatham, & Black, 2006).

The relationship between the selected measurement items (observed variables) and their associated latent constructs needs to be tested to ensure that the items adequately measure their associated constructs. This procedure ensures that the resultant measurement models are accepted as “proper” measures of the constructs (Singh & Smith, 2004). If the study does not use this two-step procedure, it would be difficult to identify the source of model-fit problems (Kline, 2005). This two-step approach makes it possible to rule out problems in the measurement models and concentrate the investigation on the structural model as the source of inefficiency (Singh & Smith, 2004). Anderson and Gerbing (1988) were the first to use this two-step approach for employing SEM. In the first step, the study validates the measurement model through CFA, which shows the extent to which the observed variables (indicators) represent an underlying latent construct (Hair, Black, & Babin, 2010). Each observed variable is assigned to one and only one construct or latent variable (Garver & Mentzer, 1999).

However prior to CFA, exploratory factor analysis (EFA) that involved computation of factor loading matrix, communality and principle component analysis (PCA) was conducted (Byrne, 2001). The study's construct measures were initially tested using exploratory factor analysis (EFA) and tested for reliability using SPSS 21. Exploratory factor analysis (EFA) is intended to explore the data if the links between the observed and latent variables are unknown or uncertain (Byrne, 2010). The extent of relationships among all measured variables to every factor is represented by factor loadings. A set of highly inter-correlated measured variables is

grouped into a distinct factor. EFA provides the researcher with information about numbers of factors that best represent the data. This means that in EFA, statistical units, not theory, derive the factors (Hair, Black, & Babin, 2010).

4.8.2 Kaiser Meyer-Olkin and Bartlett Test of Sphericity

Prior to the extraction of factors, the Bartlett test of sphericity and the KMO measure of sampling adequacy were tested. Bartlett's test of sphericity is a statistical test for the presence of correlation among the measurement items (Hair, Black, & Babin, 2010). The Kaiser-Meyer-Olkin (KMO) Measure of sampling adequacy is a representation of the ratio of the squared correlation between variables (Field, 2009). It is used to quantify the degree of intercorrelations among the measurement variable and the appropriate factor analysis (Hair, Black, & Babin, 2010). Kaiser-Meyer-Olkin (KMO) statistic ranges between 0 and 1 (Tabachnick & Fidell, 2013). Values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, values between 0.8 and 0.9 are great, and values above 0.9 are excellent (Hutcheson & Sofroniou, 1999). The value of 0.868 in this study was considered good for adequate sample sizes.

Bartlett test of sphericity was performed to assess the appropriateness of using factor analysis (Hair, Black, & Babin, 2010). For factor analysis to be deemed suitable, the Bartlett's test of sphericity should have p-value of less than 0.05 (Duncan, 2003). Bartlett's test of sphericity indicated a chi-square of 10254.535 with an associated p-value of 0.000 which is lower than the conventional probability value of 0.05. Therefore, factor analysis was found to be appropriate for this study. This is as shown in the Table 4.9.

In their study on the effects of service recovery on consumer satisfaction: a comparison between complainants and non-complainants, Kau and Loh (2006) used Kaiser-Meyer-Olkin test to measure sampling adequacy and Bartlett's test to measure the presence of correlation among the measurement items. The Bartlett test of sphericity was found to be less than 0.05 which confirmed that factor analysis

was appropriate. The value of KMO statistics was 0.943 that fell within the range of a good model.

Table 4. 9: Kaiser-Meyer-Olkin and Bartlett's Test Results

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.868
	Approx. Chi-Square	10254.535
Bartlett's Test of Sphericity	df	561
	Sig.	.000

4.8.3 Communalities

Communality is the variance of an observed variable that is accounted for by the common factor (Kim & Mueller, 1978). Its value ranges between 0 (a variable shares none of its variance with other variables) and 1(a variable has no specific variance). Communalities after extraction should be greater than 0.7 when fewer than 30 variables are analysed (Field, 2009). Communality values were then checked to measure the variability of each observed variable that could be explained by the extracted factors (Field, 2009). A low value for communality, less than 0.3, is undesirable, as it could indicate that the variable does not fit well with the other variables in its component (Pallant, 2010). Communalities of all variables were found to be ranging from 0.424 to 0.948, which shows that the variables fitted well with other variables. This is as shown in appendix VIII. Rod and Ashill (2009) in their study, “Symptoms of burnout and service recovery performance: The influence of job resourcefulness”, used communalities to check for the variance of an observed variable that is accounted for by the common factor.

4.8.4 Principal Axes Factor Analysis

Factor extraction is used to find the number of factors that can adequately explain the observed correlation among the observed variables (Kim and Mueller, 1978). The techniques for extracting factors are numerous such as principal components analysis, principal axes factor analysis and maximum likelihood. In this study, principal axes factor analyses was used. A factor that accounts for less than 5% of

the variance is considered not important for further investigation. Also, only factors with an eigenvalue of 0.1 or more are retained. Principal axis factoring revealed the presence of ten components that were able to explain 73.622% of the total variance in the data. This is as shown in appendix IX. Kau and Loh (2006) in their study on the effects of service recovery on consumer satisfaction: a comparison between complainants and con-complainants employed principal axis factoring in their analysis.

4.8.5 Exploratory Factor Analysis

From the pattern and structures matrix in the rotated component matrix, the variables that loaded on each of the 10 factors can be seen clearly. The first variable accounted for 28.167% of the variability in all the variables, while the second accounted for 11.02% of the variability in all the variables. Altogether, the 10 factors accounted for 73.622% of the total variance. The results show that the ten factors derived from EFA in this study are consistent with those suggested in the service recovery literature. Appendix X summarizes the EFA output of service recovery loading factors from the rotated component matrix, eigenvalues and percentage of variance. Similarly, Lin, Wang and Chang (2011) in their study on consumer responses to online retailer's service recovery after a service failure conducted an exploratory factor analysis in their study.

4.8.6 Confirmatory Factor Analysis

Confirmatory factor analysis (CFA) was then performed using SPSS AMOS 21 software for measurement model estimation. Confirmatory factor analysis (CFA) is appropriately used when the researcher has some knowledge of the underlying latent variable structure. Based on knowledge of the theory, empirical research, or both, the study postulates relations between the observed measures and the underlying factors a priori and then tests the hypothesized model statistically (Byrne, 2010).

The structural model was examined by employing SEM which aids in examining the hypothesized causal paths/links presented in the conceptual framework. In SEM the fit indices establish whether the overall model is acceptable, and if acceptable, the researchers establish whether specific paths are significant (Moss, 2009). The study used 2 types of fit statistics that are commonly used, that is, absolute fit indices and incremental fit indices (Hair, Black, & Babin, 2010). For absolute fit indices the study used Adjusted goodness-of-fit (AGFI), Goodness-of-fit Index (GFI) and Root mean square error of approximation (RMSEA), while for incremental the study used Comparative Fit Index (CFI) to determine the model fits.

When the initial hypothesized model was determined not to be the best fitting model, the model needed to be re-specified (Kline, 2005). Once the model was modified, the alternative hypothesized model was tested to determine the best fitting model to the observed dataset. To assess the internal consistency reliability of the total scale and subscales of the study, the Cronbach alpha coefficient was used to analyze the data. In the following sections, the measurement model of each subscale was tested, and goodness of fit indices was examined to determine the fit of each model.

Regression weights were used to test the contribution of each indicator to their relevant convergent validity. Regression weights were also used to explain the nature of the relationship since all the variables were in the same measurement scale. Path coefficients estimates were used to determine the direction and strength of the factors. T statistics provided information on the significance of the relationship. T-statistics value (CR) was used to test whether the models were significant by comparing the model output with the conventional critical value of -1.96 or 1.96 at 0.05 significance level ($P < 0.05$).

Once the measurement model is validated, the second step is carried out by estimating the structural relationships (path analysis) among latent variables or constructs (Garver & Mentzer, 1999) to explain the causal effect and the amount of unexplained variance (Ping, 2004). When applying EFA, the results showed a clear factor structure with an acceptable level of cross loadings. Additionally, the

reliability and internal consistency of the items constituting each construct was estimated. Scale refinement was assessed using item to total correlations analysis, with indicators with an item to total correlation threshold of 0.3 and higher being maintained for further analysis (Hair, Anderson, Tatham, & Black, 2006).

Before confirmatory structural models were developed, properties of multi-item constructs were analyzed for construct reliability and construct validity by conducting confirmatory factor analysis (CFA). SEM is useful as a method of testing the theoretical relationship between measurement items and their associated construct, as it allows for the development of a confirmatory measurement model for scale purification, measurement-item reduction and testing for the measures' convergent validity, discriminant validity and reliability (Anderson & Gerbing, 1988). Confirmatory factor analysis offers a more rigorous evaluation of unidimensionality and reliability than the early steps of exploratory factor analysis (Anderson & Gerbing, 1988).

4.8.6.1 Construct Reliability

Construct reliability measures whether the scales used to measure a particular construct provide consistent measurement results (Cronbach, 1971). Construct reliability was assessed by computing the composite reliability and the Cronbach alpha of the constructs (Hair, Black, & Babin, *Multivariate Data Analysis: A Global Perspective*, 2010). The Cronbach alpha coefficients were all above the 0.6 threshold as specified, which indicates average to good reliability. The composite reliability coefficients of reflective items were all above the acceptable 0.7 threshold which means all the variables in the study exhibited construct reliability, as shown in Table 4.10. In their study on the joint effects of compensation frames and price levels on service recovery of online price error, Lii and Lee (2011), used construct reliability to measure whether the scales used to measure a particular construct provided consistent measurement results.

Table 4. 10: Construct Reliability Results

Construct	Composite Reliability ≥ 0.7	Cronbach Alpha ≥ 0.6
Procedural Justice	0.868	0.850
Employee Behaviour	0.882	0.751
Customer Loyalty	0.852	0.963
Information Justice	0.867	0.900
Interpersonal Justice	0.864	0.794
Employee Empowerment	0.829	0.816
Communication	0.699	0.799
Distributive Justice	0.926	0.870
Compensation	0.722	0.761

4.9 Descriptive Analysis of Customer Loyalty

A seven-point likert scale was used to measure the customer loyalty. The 7-point likert scale ranged from “Strongly disagree (SD), moderately disagree (MOD), mildly disagree (MID), “neither”, mildly agree (MIA), moderately agree (MOA), and strongly agree (SA). Seven-point likert scales are better approximation of normal response curve and extraction of more variability among respondents (Cooper & Schindler, 2011). Hess, Ganesan, and Klein (2003) in their study on Service Failure and Recovery: The Impact of Relationship Factors on Customer Satisfaction used a 7-point likert scales ranging from strongly disagree to strongly agree.

The study sought information on whether the respondents were satisfied with the hotel services, majority (59%) of the respondents agreed, a few (30%) disagreed and 11% were neutral. This is as shown in Table 4.11. In their study on the effects of severity of failure and customer loyalty on service recovery strategies, Craighead, Karwan and Miller (2004) found out that when serious problem occur, loyal customers tend to be more understanding as long as adequate recovery efforts are put in place. Consumer satisfaction is also seen as a key performance indicator within a business (Adolphson, Eklöf & Parmler, 2012). Hotels should therefore aim at creating a long-term relationship with valued customers to satisfy them and create sustainable competitive advantages. This requires a more comprehensive approach than an exclusive focus on service quality or customer satisfaction, but creating an entrepreneurial culture in the organization with the ultimate goals of up scaling its performance.

The study also sought to know whether the hotel had earned the respondent's loyalty, as shown in Table 4.11, majority (53%) of the respondents disagreed, a few (39%) agreed, and 8% were neutral. In their study on the service recovery paradox: true but overated? Michel and Meuter (2008) found out that only 30% of customers who lodge complaints with a company are happy with the company's complaints handling efforts. Komunda and Osarenkhoe (2012) indicated that customer loyalty is critical in conducting business in today's competitive marketplace. Customer loyalty is generally positively related to the profitability and long-term growth of a firm. Thus, for hotels to earn customers loyalty there is a need for enhancing product and service differentiation which represents a source of competitive advantage.

The study also sought to know whether the respondent will say positive things about this hotel. As shown in Table 4.11, majority (53%) of the respondents agreed, a few (33%) disagreed and 14% were neutral. This corroborates a study by Kuo, Yen and Chen (2011) that found out that 81% of the buyers were satisfied with correction of failure as a recovery strategy, which involved, replacing mis-delivered products, increasing repair speed and providing reasonable explanation without extra compensation. After service failure, some dissatisfied consumers seek redress, while

others do not approach the seller with their complaints but may engage in negative WOM behaviours (Gruber, Szmigin, & Voss, 2009). This is because many organizations do not pay sufficient attention to handling complaints effectively (Stauss & Schoeler, 2004). When customer complaints are well-resolved and the relationship between the organisation and the customer is improved, this can lead to improvement in terms of customer satisfaction, trust and commitment to the organization.

This study shows that firms with a good service recovery strategy achieve a more valuable client base, since customer satisfaction, loyalty and perceived value are enhanced, and at the same time client’s complaints diminish, the firm’s market image improves and the best clients decide to stay with the company, hence improved and sustainable performance. This will eventually increase service companies’ competitiveness.

Table 4. 11: Customer Loyalty Results

		SD	MOD	MID	N	MIA	MOA	SA	Mean	Std. Dev.
CL1	%	14	4	12	11	21	19	19	3.88	0.741
CL4	%	26	6	13	19	10	10	16	3.75	0.725
CL5	%	25	8	20	8	10	10	19	3.71	2.204
CL6	%	15	7	11	14	12	14	27	4.43	2.141

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA- Mildly agree, MOA-Moderately agree, SA-Strongly agree.

4.10 Descriptive Analysis of Compensation in Service Recovery.

The study sought information on how the respondent's complaints were addressed. As shown in Table 4.12, majority (58%) of the respondents indicated that the complaint was addressed by being offered a discount as compensation, 13% were allocated another room, 9% had their room cleaned, another 9% were offered a room upgrade at no extra cost, and a few (0.3%) were offered a full refund of money used. In their study on developing effective service compensation strategies, Huang and Lin (2010) found out that service recovery strategies can include a variety of options, involving both costly and no-cost actions such as discounts, replacements, refunds, free gifts, coupons, apologies, empathetic listening and remediation. In their study on "Revitalization of Service Quality to Gain Customer Satisfaction and Loyalty", Akbar, Mat Som, Wadood & Alzaidiyeen (2010) found out that firms assign tangible resources to correct problems and restore the interchange with the client by returning the money, replacing the service or offering discounts on a future purchase.

Monetary compensation help to remedy customer losses and signify an effort to both discover the cause of the failure and avoid similar errors in the future (Chen, Wu, & Chang, 2013). Xie and Peng (2009) argue that functional repair (compensation) communicates a corporate intention to protect consumers' well-being and interests. Such economic compensation is also useful to restore the market-oriented, calculus-based trust, that is, based on tangible benefits, and the more costly the functional compensation, the more favorable victims' reactions are when they receive it (Desmet, Cremer, & Van Dijk, 2011). Firms in the hospitality industry should use their resources in enhancing their marketing orientation. A market oriented firm is presumed to have superior market sensing and customer-linking capabilities, and these capabilities are assumed to assure them higher profits in comparison with firms that are less market oriented (Day, 1994).

In strategic entrepreneurship, process of opportunity and advantage seeking behaviours firms in the hospitality industry should also balance exploration and exploitation through entrepreneurial opportunity focused and measured strategic actions drawn from their resource base to exploit opportunities (Kyrgidou & Hughes, 2010). These firms should take advantage of the resource base to come up with innovative strategies to enhance customer loyalty in service failure and thus creating entrepreneurial organizations. The resource-based and dynamic capabilities view of the firm, points out that firm in hospitality industry can strategically practice innovation, their limited resources will be utilized to maximum capacity and profitability, and competitiveness will increase as a result. Companies that are founded based on unique value propositions that deviate from accepted industry's strategic recipes are practicing the strategic renewal of strategic entrepreneurship.

The study also sought to know whether they were satisfied with the compensation offered. As shown in Table 4.12, majority (53%) of the respondents indicated that they were satisfied with the compensation offered by the hotel, while a few (47%) were not satisfied. In their study on a Meta analysis of organizational complaints handling and customer responses, Gelbrich and Roschk (2010) contended that compensation was the most powerful determinant of distributive justice. Similarly, in their study on service failure and recovery strategies in the restaurant sector, (Dutta, Venkatesh, & Parsa, 2012) found out that compensation works better than an apology or offer for assistance in case of a service failure as it denotes seriousness on part of the service provider towards valuing their clients and their eagerness to have them back as repeat customers. Michel and Meuter (2008) indicated that only 30 % of customers who lodge complaints with a company are happy with company's complaint handling efforts. Similarly, Hocutt, Bowers, and Donovan (2006) also found out that compensation in the form of tangible rewards when accompanied by courtesy resulted in less negative word of mouth.

In today's competitive market, service recovery should no longer be conceived as a set of specific, one-off actions in response to an unsatisfied customer, or as an operational mechanism of damage control, but as an integral part of the service

company's long-term strategy which involves comprehensive management practices (Smith, Karwan, & Markland, 2009). In the long-term strategy firms should learn from their failures and thus come up with innovative strategies that enhance customer orientation. Wang (2008) indicated that entrepreneurial orientation has a positive impact on learning orientation that in turn has a positive impact on firm performance. Learning is required to develop market orientation, thus enhancing innovativeness and the capacity to understand and adopt new ideas (Hult, Hurley, & Knight, 2004). Firms in the hospitality industry should therefore embrace entrepreneurial orientation that will help in enhancing market differentiation and competitive advantage.

Table 4. 12: Compensation

Variable	Values	Frequency	Percentage
How the complaint was addressed	Allocated another room	46	13
	Room was cleaned	33	9
	Allowed to upgrade room at no cost	34	9
	Offered discount as a compensation	212	58
	Refunded money used	1	0.3
Satisfied with compensation offered	Yes	192	53
	No	171	47

A seven-point Likert scale was used to measure the status of the respondents after compensation. The results are shown in Table 4.13, Majority (29%) of the respondents strongly disagreed that they were in the same position they were before the complaint, 15% moderately disagreed, and 19% mildly disagreed. On the other

hand 11% strongly agreed that they were in the same position they were before complaining, 9% moderately agreed and 14% mildly agree. It was only 3% of the respondents who were neutral. This indicates that majority of the respondents felt aggrieved by the failure and even as much as compensation was offered it could not return them back to the same position that they were in. This is corroborated by the findings of Huang (2011) in their study on “Re-examining the Effect of Service Recovery: The Moderating Role of Brand Equity”, who noted that compensation is less effective in increasing satisfaction when the recovery process is rated poorly (Huang, 2011).

Reciprocity theory states that when customers perceive that they have been helped, they tend to feel indebted and may feel compelled to provide retribution in the form of praise, devotion, personal information and repeat purchases (Crofts, 2011). Hotels therefore need to embrace entrepreneurial mindset that will help them in coming up with creative compensation strategies that could actually help in enhancing customer satisfaction and loyalty, thereby enhancing profitability of the hotel. This will be achieved by embracing entrepreneurial marketing that will be achieved through domain redefinition whereby the firm proactively creates a new product-market arena that others have not recognized or actively sought to exploit (Kuratko, Morris, & Covin, 2011).

The study also sought information on whether the compensation received was adequate. As indicated in Table 4.13, 11% of the respondents strongly agreed that the compensation received was adequate, 20% moderately agree and 14% mildly agreed. On the other hand 27% of the respondents strongly disagreed, 11% moderately disagree and 7% mildly disagree. It was only 10% of the respondents that were neutral. This indicates that the respondents were indifferent with the compensation offered because similar number of respondents agreed as well as those who disagreed. In their study on consumer responses to compensation, Wirtz and Mattila (2004) found out that offering compensation might not add value in situations where the recovery process is well implemented and that compensation did not make up for poor recovery effort. Lovelock and Wirtz (2004) indicated that

too low compensation might be perceived as stingy and further aggravate negative customer reactions, and may even be seen as worse (at times offending) than when no compensation is offered.

Consumers expect compensation for the damages the failure may have caused them and/or the costs they incurred to obtain a solution and is considered the second crucial recovery action (La & Kandampully, 2004). Resource based theory contends that firms have a competitive advantage when they implement a value creating strategy not simultaneously being implemented by any current or potential competitors (Barney, 1991). The entrepreneurial firm hope is that its first-mover status will create a basis for sustainable competitive advantage when and if competitors follow. It is therefore important that enterprises in the hospitality industry come up with compensation policies that would enhance service failure recovery. Thus entrepreneurial leadership is required in order to come up with these policies and help in striking the right balance in their implementation with other service recovery strategies.

Table 4. 13: Status after Compensation

		SD	MOD	MID	N	MIA	MOA	SA	Mean	Std. Dev.
C1	%	29	15	19	3	14	9	11	2.84	0.985
C4	%	27	11	7	10	14	20	11	4.11	0.606

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA- Mildly agree, MOA-Moderately agree, SA-Strongly agree.

4.10.1 Descriptive Analysis of Distributive Justice in Service Recovery.

To test whether distributive justice mediated the relationship between compensation and customer loyalty in the hospitality industry, a seven-point likert scale was used to measure the fairness of compensation. As shown in Table 4.14, 19% of the

respondents strongly agreed that the service received is what they paid for, 12% moderately agreed and 18% mildly agreed. On the other hand, 22% strongly disagreed, 14% moderately agreed and 8% mildly agreed with only 7% remaining neutral. This shows that the respondents were divided on whether they received value of what they paid for. In a study to investigate the influence of service recovery on consumer satisfaction and consumer loyalty, Fan, Wu and Wu (2010), found out that higher distributive justice would lead to higher satisfaction and hence customer loyalty. In another study on the impact of choice on fairness in the context of service recovery, Mattila and Cranage (2005) indicated that tangible compensation for service recovery influence consumer's perception of distributive justice. As a result many service organizations offer various combinations of refunds, credit, discounts and apologies to make peace with dissatisfied customers (Kim, Wang & Mattila, 2010). This would enable the hotel to earn a reputation for superior customer service and hence likely to demand premium prices and control a large market share, thus a source of competitive advantage.

On whether the service outcome received was fair, as shown in Table 4.14, 21% of the respondents strongly agreed, 20% moderately agreed and 12% mildly agreed. On the other hand 17% strongly disagreed, 12% moderately disagreed and 9% mildly disagreed. It was only 9% of the respondents that were neutral. This shows that majority of the respondents were happy with the outcome of compensation received which they deemed as fair. In their study on the effect of communication mode in justice-based service recovery, Shapiro and Nieman-Gonder (2006) found out that customers judge the recovery effort based on both the way in which information is exchanged and the outcome (distributive justice). A significant interaction of distributive and informational justice was found, indicating that the combination of high levels of both produced the greatest effects on loyalty and complaining behavior. Their findings showed that the effects of distributive justice are dependent on customers being treated courteously and respectfully. While a partial discount may be sufficient to restore repatronage intentions, if the customer is treated with courtesy and respect, not even a full refund would be sufficient if the customer is treated rudely.

Organizations in the hospitality industry should engage in human resource practices that will motivate employees to act entrepreneurially by treating the customer as the reason for the organization existence. This would be in recognition of the fact that while the entrepreneurial process always involves teams; it typically begins with an individual and is kept alive and nurtured by individuals (Kuratko, Morris, & Covin, 2011). Therefore, to gain competitive advantage in the hotel industry, customers should be encouraged to be co-producers of the service by giving them some control over the service delivery process which will make them feel partly responsible should a failure occur. The employees should also be able to think and act as entrepreneurs and thus understand the reason of the enterprise existence is the customer. This will enable them to create value propositions that will create a strong bond between the customer and the organization, hence customer loyalty.

On whether the respondents were satisfied with the outcome of the service offered, Table 4.14 shows that 23% strongly agreed, 15% moderately agreed and another 15% mildly agreed. On the other hand, 27% strongly disagreed, 6% moderately disagreed and another 6% mildly agreed. It was only 8% that were neutral. This indicates that majority of the respondents were satisfied with the outcome of the service offered. This agrees with a study by Rio-Lanza et al (2009) that found out that distributive justice during service recovery has a significant influence on overall satisfaction with the service recovery. Similarly, Noone (2012) in their study on overcompensation for severe service failure: perceived fairness and effect on negative word-of-mouth intent found out that overcompensation can enhance consumer's perception of distributive justice following a severe service failure, with cash-based overcompensation being perceived as fairer. Hotels need to adopt social exchange theories that tend to view social relationships as similar to economic transactions, such that people feel fairly treated when they perceive their economic outcomes, in proportion to their inputs, as in balance with the perceived ratio of the economic outcomes compared to the inputs of relevant others.

On whether the hotel offered adequate compensation, as shown in Table 4.14, 30% of the respondent's strongly agreed, 6% moderately agreed and 23% mildly agreed. On the other hand, 30% strongly disagreed, 2% moderately disagreed and 7% mildly disagreed. It was only 2% of the respondents that chose to remain neutral. This shows that majority of the respondents felt that the compensation offered was adequate. This corroborates another study by Kuo, Yen and Chen (2011) on online auction service failures in Taiwan: Typologies and recovery strategies found out that 63% of the buyers felt satisfied with a refund as a recovery strategy.

In their study on consumer responses to compensation, speed of recovery and apology after a service failure, Wirtz and Mattila (2004), found out that offering compensation might not add value in situations where the recovery process is well implemented, that is, immediate recovery combined with positive employee actions. Too low compensation might be perceived as stingy and further aggravate negative customer reactions. In fact, a stingy compensation may even be seen as worse (and potentially offending) than when no compensation is offered (Lovelock and Wirtz, 2004).

To enhance customer satisfaction in service failure hotels should therefore create an entrepreneurial culture within the organization that will call for innovative strategies to be incorporated in the hotels service quality programs. The hotels should come up with business model innovations that involve the creation of value proposition that offers to satisfy the same or different customer needs in new ways by performing a function, solving a problem, or creating an experience through the service offered. In this way the organization will be able to foster entrepreneurial culture in all its operations and thus able to handle service offer inadequacies through creativity and innovation.

Table 4. 14: Fairness of Compensation

		SD	MOD	MID	N	MIA	MOA	SA	Mean	Std. Dev.
DJ1	%	22	14	8	7	18	12	19	5.33	1.6
DJ2	%	17	12	9	9	12	20	21	5.32	1.540
DJ5	%	27	6	6	8	15	15	23	5.55	1.505
DJ6	%	30	2	7	2	23	6	30	4.18	2.423

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA- Mildly agree, MOA-Moderately agree, SA-Strongly agree.

4.10.2 Confirmatory Structural Model and Hypothesis Testing for Compensation

Objective 1: To determine whether compensation has an influence on customer loyalty in the hospitality industry in Kenya

The model was evaluated using AMOS 21 to test construct validity of the survey instrument against the sample data (Byrne, 2010). Compensation was measured by 4 items (C1, C2, C3 and C4), as shown in appendix IV. To remove poorly fitting items from the initially hypothesized measurement model, the study examined modification indices of the variables and identified the variable with the largest standardized residual. Based on the analysis, one item was dropped at a time and then CFA was re-run on the subsequent model. Following the above procedures, two items were deleted, that is, item C2 and C3. The goodness-of-fit measures of the subsequent model are as shown in Table 4.15. All the fit indices indicated a perfect fit of the model to the data.

Table 4. 15: Fit indices for Compensation

The fit Index	RMSEA	GFI	AGFI	CFI
Default model	0.037	0.937	0.838	0.956
Saturated Model		1.000		1.000
Independence model	0.203	0.316	0.121	0.000

To test the above objective the study tested the following hypothesis:

H₀: Compensation in service recovery has no significant influence on customer loyalty in the hospitality industry in Kenya.

The study used Structural Equation Modelling (SEM) path coefficients to determine the direction and strength of the factors. Regression weights were used to test the contribution of different indicators to compensation. As shown in Table 4.16, a unit increase in compensation is associated with 0.758 on whether compensation was offered. Since C. R. (9.038) is greater than 1.96, then there is a significant positive relationship between C1 and compensation. C4 on the other hand indicates that a unit increase in compensation is associated with 1.294 of the adequacy of compensation offered. Since C. R. (11.987) is greater than 1.96, then there is a significant positive relationship between C4 and compensation. The results also show that a unit increase in customer loyalty (CL) is associated with 0.647 increases in compensation. Therefore the results show that there was a significant positive relationship between compensation and customer loyalty.

Table 4. 16 Regression Weights and T-values for Compensation

			Estimate	S.E	C.R	P
CL	←-----	C	.647	.069	9.395	***
C1	←-----	C	.758	.084	9.038	***
C4	←-----	C	1.294	.108	11.987	***

As shown in Figure 4.7 the path coefficient beta value was 0.69. This implies that for every 1 unit increase in compensation, customer loyalty is predicted to increase by 0.69 units. The study also used R^2 to determine the proportion of variation in dependent variable explained by the model. Figure 4.7 shows that compensation had a coefficient R^2 mean of 0.48, which indicates that 48% of the variations in customer loyalty can be accounted for by compensation.

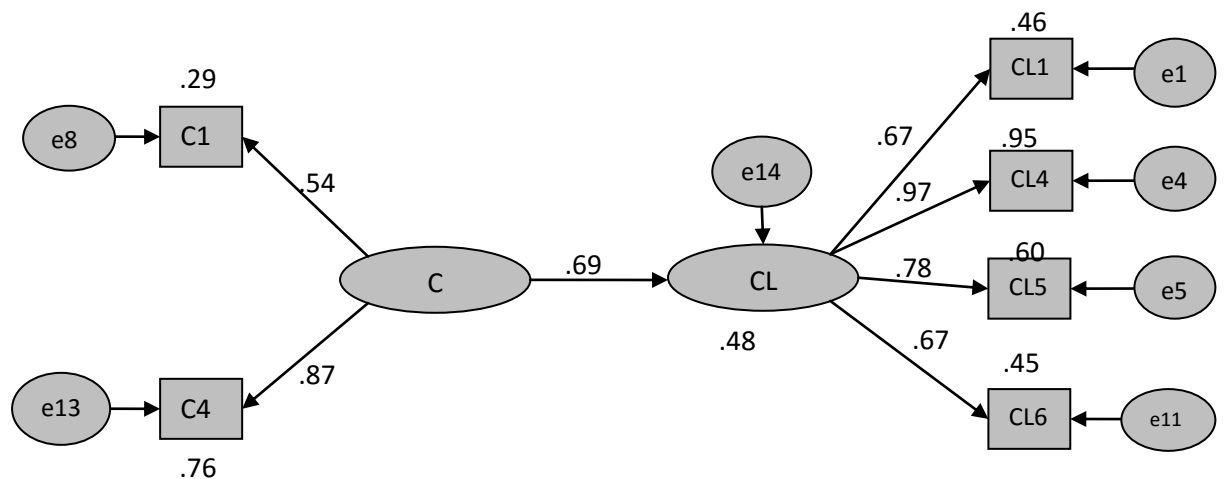


Figure 4. 7: Structural Equation Modeling for Compensation

T-statistics value was used to test whether the relationship between compensation and customer loyalty was significant. To determine the level of significance, the critical

value (CR) should be greater than 1.96 at 0.05 significance level. Figure 4.8 shows a t-scale of 9.395. These results show that there was a significant relationship between compensation and customer loyalty since CR (9.395) is greater than the critical value of 1.96 at 0.05 significance level ($p < 0.05$).

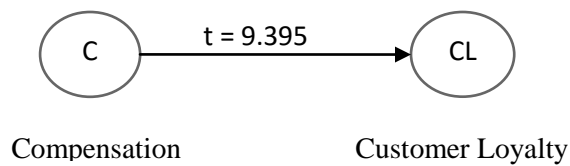


Figure 4. 8: Significance Test for the Influence of Compensation on Customer Loyalty

The findings of the study reveals that the relationship between compensation and customer loyalty is positive and significant ($t=9.395$, p -value .000). This implies that an increase in the level of compensation in service recovery leads to an increase in customer loyalty in the hospitality industry in Kenya. Therefore the null hypothesis that compensation has no significant influence on customer loyalty in the hospitality industry in Kenya is rejected at 0.05 level of significance. The alternative hypothesis that compensation has a significant influence on customer loyalty in the hospitality industry in Kenya is accepted. These findings agree with Kuo, Yen and Chen (2011) study on online auction service failures in Taiwan: Typologies and recovery strategies which found out that buyers felt satisfied with correction plus recovery strategy, which involved correction of the failure and some form of compensation.

Since service failure is inevitable in the hospitality industry, organizations should come up with compensation policies that will help remedy the situation. Compensation will help in enhancing customer linking capabilities that will increase the chances of creating loyal customers. These organizations should use their resource base to create an entrepreneurial culture that is characterised by innovative policies of dealing with aggrieved customers.

4.10.3 Testing Mediation Influence of Distributive Justice on the Relationship between Compensation and Customer Loyalty

The study also tested whether distributive justice mediates the relationship between compensation in service recovery and customer loyalty in the hospitality industry in Kenya. Distributive justice was measured by 6 items (DJ1, DJ2, DJ3, DJ4, DJ5 and DJ6) as shown in appendix IV. Structural Equation Modelling was used for the analysis, where one item was dropped at a time and then CFA was re-run on the subsequent model. After the re-run, two items were deleted, that is, DJ3 and DJ4. The subsequent model fitted well as shown in Table 4.17. All the fit indices indicated a perfect fit of the model to the data.

Table 4. 17: Mediation Influence of Distributive Justice on Compensation and Customer Loyalty

The fit Index	RMSEA	GFI	AGFI	CFI
Default model	0.062	0.818	0.719	0.898
Saturated Model		1.000		1.000
Independence model	0.437	.189	0.065	0.000

To test the above objective the study tested the following hypothesis:

H₀: Distributive justice does not mediate the relationship between compensation in service recovery and customer loyalty in the hospitality industry in Kenya.

In order to test the mediation influence there must be evidence that there is significant influence of the independent variable on the dependent variable. As shown in Figure 4.7, it is evident that there is a significant influence of compensation on customer loyalty ($\beta=0.69$, $t=9.395$, $p<0.1$, $R^2=0.48$). Thus using Baron and Kenny approach, the study fitted the following three regression models:

$$M = \beta_1 + aX + \varepsilon_1 \quad (\text{Equation 1})$$

$$Y = \beta_2 + cX + \varepsilon_2 \quad (\text{Equation 2})$$

$$Y = \beta_3 + c X + \varepsilon_3 \quad (\text{Equation 3})$$

Where:

β are the intercepts

ε is the model fit errors

a, b, c and c` terms are the regression coefficients capturing the relationships between the three focal variables.

As shown in Figure 4.9, the results of the first regression analysis showed that compensation had a significant effect on the proposed mediator, distributive justice ($\beta=0.36$, $t=6.083$, $R^2= 0.31$). The second regression analysis indicated that distributive justice had a significant influence on customer loyalty ($\beta=0.44$, $t=9.480$, $R^2=0.65$). The results of the third regression analysis showed that when distributive justice was entered as the mediating variable, the earlier significant effects of compensation on customer loyalty was less significant ($\beta=0.54$, $t=8.778$, $R^2=0.65$). These results confirm that distributive justice partially mediated the effect of compensation on customer loyalty.

Therefore the null hypothesis that distributive justice does not mediate the relationship between service recovery and customer loyalty in the hospitality industry in Kenya is rejected at 0.05 level of significance. The alternative hypothesis that distributive justice mediates the relationship between service recovery and customer loyalty in the hospitality industry in Kenya is accepted. In a similar study to investigate the influence of service recovery on consumer satisfaction and customer loyalty, Fan, Wu and Wu (2010) found out that perceived distributive fairness positively affect consumer satisfaction and that higher distributive would lead to higher satisfaction and hence customer loyalty.

Since perceived fairness is a matter of personal judgement, the organization needs to create core competencies on their employees so that they are able to handle service failure situations in a creative and innovative way. They should be in a position to address the needs of each individual customer using entrepreneurial efforts like creativity, innovation, risk taking, a long term orientation, and focus on results, flexibility to change and preference to assume responsibility. The employees should also engage the aggrieved customer in order to come up with a solution that is acceptable.

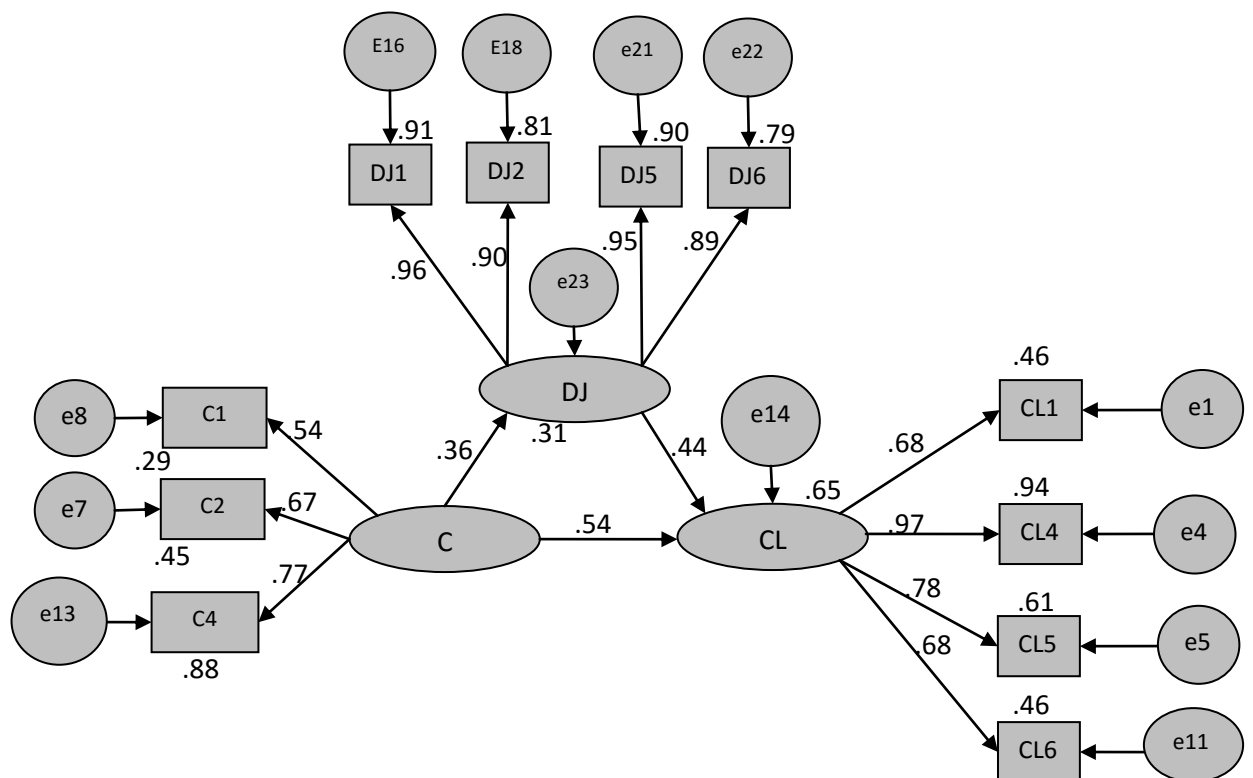


Figure 4. 9:SEM for Mediation between Compensation and Customer Loyalty.

4.11 Descriptive Analysis of Employee Empowerment in Service Recovery

The respondents were required to indicate the first person they contacted when the failure occurred. As shown in Table 4.18, majority (57%) of the respondents indicated that they contacted the receptionist, 30% contacted a waiter/waitress, 7%

contacted the housekeeper and a few (4%) contacted other employees. This corroborates a study by Maxham and Netemeyer (2003) that found out that front-line employees account for as much as 65% of complaint initiation, thus vital to the timeliness of service recovery strategies.

Empowerment of front-line service workers must come with knowledge and the ability to effectively deal with service failures (Robinson, Neeley, & Williamson, 2011). This shows that organizations in the hospitality industry should empower all their staff at the different level in order to address customer's complaints effectively. There should be less formalization of roles and positions within the structure. Organization designs that facilitate variety, change and speed are sources of competitive advantage. Entrepreneurship flourishes where there are fewer layers or levels in the structure of a company (Kuratko, Morris, & Covin, 2011). There should be less formalization of roles and positions within the structure and empowerment efforts should not be treated as token or random, but should be designed to be systematic and consistent, and thus enhance innovation and creativity in service delivery.

The study also sought to know whether the complaint was solved by the first person they contacted. As shown in table 4.18, majority (53%) of the respondents indicated that their complaint was solved by the first person they contacted, while a few (47%) indicated that it was not. In their study on implementing service recovery through customer relationship management, Robinson, Neeley and Williamson (2011) found out that a likelihood of successful service recovery could be increased if the initial worker contacted after failure had appropriate authority and handled the complaint in a timely manner. Tax and Brown (1998) noted that customer dissatisfaction with service failures increases rapidly when the recovery procedures are lengthy, or when the problem is passed on from one employee to another. Miller, Craighead and Karwan (2000), added that customers are far more likely to be satisfied with the service recovery process if the first employee whom they complain to demonstrates both the willingness and the authority to solve the problem. In order for the front-line employee to be more effective and immediate in dealing with their

unpredictability, they should possess the aptitude to adapt to real-time situations (Jong & Ruyter, 2004).

Achieving sustainable advantage in the new competitive landscape requires that managers think and act strategically, through reliance on entrepreneurial behaviour that purposefully and continuously rejuvenates the organization and shapes the scope of its operations through the recognition and exploitation of entrepreneurial opportunities (Ireland, Covin, & Kuratko, 2009). The appropriate structural design can go a long way towards influencing the level of service quality offered, the types of innovations that are produced and the frequency with which they are produced on a consistent basis over time. To impact on the customer's positive experience with the organization, the organization should create an entrepreneurial culture which allows employees to be proactive, innovative and risk takers. Kuratko, Morris, and Covin (2011) pointed out that the willingness of an employee to identify entrepreneurial concepts and to devote oneself to pursuing a concept over time is directly related to an entrepreneur's personal makeup. This positive feeling by the employees is easily transferred to the customers, thus enhancing customer loyalty.

The study also sought to know whether the complaint was attended to on time. As shown in Table 4.18, majority (54%) of the respondents indicated that their complaint was attended to in time, while a few (46%) indicated that it was not attended to in time. In a study on, "I want To believe they really care: How complaining customers want to be treated by frontline employees", Gruber (2011) found out that after the customer has experienced service failure, employees ought to act quickly, show concern, empathy and remain pleasant, helpful and attentive. Organizational procedures (facilitation and timeliness) are the most powerful determinants of procedural justice. Promptness (timeliness) is described as an immediate and easy handling of a complaint (Gelbrich & Roschk, 2010). Customer satisfaction will be higher if a complaint is resolved in a speedy manner (Lin, Wang and Chang, 2011). Customers expect that their complaints will receive a quick response, and that mistakes will be quickly noticed and acknowledged by staff (Gelbrich and Roschk, 2010).

Frontline employees in the hospitality industry need to be empowered to be able to handle employee's complaints on time in order to enhance customer loyalty. The organization management therefore need to demonstrate entrepreneurial leadership which is the ability to influence others to manage resources strategically in order to emphasize both opportunity seeking and advantage seeking behaviours (Ireland, Hitt, & Sirmon, 2003).The entrepreneurial leaders can achieve this by creating an environment that encourages positive entrepreneurial culture where service to the customer is a shared value among all the employees. Kuratko, Morris, and Covin (2011) pointed out that entrepreneurial culture is characterised by focus of people and empowerment, value creation through innovation and change, attention to basics, hands on management, doing the right thing, freedom to grow and fail, commitment and personal responsibility and emphasis on the future and sense of urgency.

Table 4. 18: Resolving the Complaint

Variable	Values	Frequency	Percentage
Person contacted to solve the complaint	Receptionist	205	57
	Waiter/waitress	110	30
	House keeper	26	7
	Other employees	16	4
Complaint solved by person above	Yes	192	53
	No	171	47
Complaint addressed on time	Yes	196	54
	No	167	46

The respondents were also required to rate the level of employee autonomy and empowerment in performing their duties. As shown in Table 4.19, 26 % of the respondents strongly agreed that the employees had authority to solve the complaint; 9% of the respondents moderately agreed and 14% of the respondents mildly agreed. On the other hand 18% of the respondents strongly disagreed, 7% moderately disagreed and 17% mildly disagreed. Another 9% of the respondents remained neutral. This indicates that majority of the respondents agreed that the employees had authority to solve the complaint. In their study on adaptive versus proactive behavior in service recovery, the role of self managing teams, Jong and Ruyter (2004) pointed out that employees must be able to identify service failures and have the authority to solve them when they happen. Being ‘boundary spanners’, frontline employees play a crucial role in service encounters by building and maintaining relationships with customers (Ashill, Rod, & Carruthers, 2008). Empowerment provides an increase on a staff’s aptitude and motivation to improve and make the most structural use of their talents and practice. Empowered front-line service employees are unencumbered, which allows them the freedom to manoeuvre as they attempt to serve customer’ needs (Rapp, Ahearne, Mathieu, & Schillewaert, 2006).

Employees close to the customer are vital to service recovery because they are often the first to know about problems and they must be trained in communication, creative thinking, and decision making skills that allow them to deal with customer complaints (Shapiro & Nieman-Gonder, 2006). Managers must also empower these employees to act by giving them the actual authority, responsibility and incentives to implement successful service recovery. This should be done through enhancing service orientation which is a feature that would have top-down influences on employee service performance and service quality which will ultimately have an impact on customer satisfaction (Yoon, Choi, & Park, 2007). Service-oriented firms consider service skills as sustainable competitive advantages and are more committed to investing in providing service training to front-line service personnel (Luk, Lu, & Liu, 2013).

Slevin and Covin (1990) as cited in Kuratko, Morris and Covin (2011) argues that a company's entrepreneurial behaviour correlates positively with company performance when the organizational structure has the following; managers are allowed to freely vary their operating styles, authority that is assigned is based on the expertise of the individual, free adaptation of the organization changing environment, an emphasis on results rather than processes and procedures, loose and informal controls with an emphasis on a norm of cooperation, flexible on-the-job behaviour, shaped by requirement of situation and personality of the employee, frequent use of participation and group consensus, and open channels of communication with free flow of information.

Entrepreneurial teamwork in organizations is paramount for their success. Reagans, Argote, and Brooks (2005) emphasized that effective teamwork as a function of identifying the most appropriate roles for completing a task, assigning the right people to those roles, and enabling people who occupy distinct roles to coordinate their activity. While entrepreneurial process always involves teams, it typically begins with an individual and is kept alive and nurtured by the individual. The dedicated employee, who champions a concept, persists in overcoming internal and external obstacles, accepts responsibility for failure and in effect, risks his or her job as an outcome of a venture is the single most important ingredient for entrepreneurship to occur (Kuratko, Morris, & Covin, 2011). Entrepreneurial organizations in the hospitality industry therefore need to come up with strategies of enhancing employee's autonomy which will give them a chance to make timeliness decision in addressing customers complains, hence enhancing customer satisfaction and loyalty.

The study also sought information on whether the management allows employees to use their own judgment and whether it trusts the decision making capacity of employees in solving problems. As shown in Table 4.19, 7% of the respondents strongly agreed that the management allows employees to use their own judgement, 12% moderately agreed and another 12% mildly agreed. On the other hand, 29% of the respondents strongly disagreed that the management allows employees to use

their own judgement, 5% moderately disagreed and 20% mildly disagreed. Another 15% of the respondents were neutral. This indicates that majority of the respondents disagreed with that management allows employees to use their own judgement. This indicates that the management was not allowing the employees to use their own judgement in making decisions.

In their study on consumer responses to online retailers service recovery after a service failure, Lin, Wang and Chang (2011) found out that empowering frontline employees is critical, because they are often the first to identify problems and can make initial judgement calls as to how to satisfy the customers. Speed in decision-making and fresh insights are important by-products of the entrepreneurial mindset and, by having this mindset, entrepreneurs are able to effectively deal with a wide array of problems and irregularities inherent in developing new opportunities (Wright, Hoskisson, & Busenitz, 2001).

Organizations in the hospitality industry need to come up with human resource policies that help in recruiting employees with entrepreneurial characteristics that will give the management confidence in allowing the employees to make informed decisions when serving and addressing customers concerns. Schuler and Jackson (2007), indicated that the most appropriate way to approach employee recruitment and selection decisions depends upon whether organizations are pursuing an entrepreneurial-based strategy or an efficiency-based strategy. By creating an entrepreneurial work environment the employees are able to understand the kind of entrepreneurial behaviours sought by the organization, their own innate ability to act in entrepreneurial way and the incentives for acting in an entrepreneurial fashion (Kuratko, Morris, & Covin, 2011).

The study sought to know whether the problem was resolved quickly and if immediate response was employee's priority. As shown in Table 4.19, 21% of the respondents strongly agreed that the problem was resolved quickly, 15% moderately agreed and 8% mildly agreed. On the other hand 19% of the respondents strongly disagreed, 13% moderately disagreed and 14% mildly disagreed. Another 10% of the respondents were neutral. This indicates that majority of the respondents were

not in a hurry to resolve the problem. In addition, 18% of the respondents strongly disagreed that immediate response was employee's priority, 12% moderately disagreed and 22% mildly disagreed. On the other hand 25% of the respondents strongly agreed, 7% moderately agreed and 11% mildly agreed. It was only 5% of the respondents that were neutral. This shows that majority of the respondents disagreed that immediate response was employee's priority. Donovan, Brown and Mowen (2004) also found out that the speed of reaction at which complaints are resolved is also important in dealing with service failure because it enhances the prospect of positive evaluation by the customer on how they are treated by the firm.

Time has commonly been viewed as a significant component of the total cost of a transaction, making consumers acutely aware that their time is a valuable and finite resource (Namkung, Jang, Almanza & Ismail, 2009). Empowerment of front-line service workers must come with knowledge and the ability to effectively deal with service failures (Robinson Jr., Neeley, & Williamson, 2011). They must be able to identify service failures and have the authority to solve them when they happen (Jong & Ruyter, 2004).

Employee empowerment has become especially important for services and hospitality, where "frontline" employees need the authority to respond promptly to the individual needs of the increasingly demanding consumer in increasingly unpredictable service situations (Hartline and Ferrell, 1999). Entrepreneurship leadership is therefore important in nurturing an entrepreneurial culture within the employees so that they can be able to create an organization that values its customers. Entrepreneurial leaders of the organization establish the framework in which employees and customers operate (Crick & Spencer, 2011). Thus in a hotel competitive environment in which organisations must be faster, leaner, provide better service quality, be more efficient, and more profitable, an empowered and proactive service worker is thought to be essential.

Training is a crucial part of the ‘armoury’ of a hospitality industry employer in ensuring sustainable perceived service quality is attained. Training and development practices can promote entrepreneurial behaviour and thus encourage employee participation in organizations activities. The importance of training has been identified as a way to achieve professionalism, improve the levels of service quality, improve consistency and maintain the set standards (Cairncross, Wilde, & Hutchinson, 2008). Changing customer demands calls for continuous, ongoing training to improve employee competencies in handling these customers. Training will also help in increasing the experience of staff, ensure they do it the right way, guarantees standards and systems of work, attain timeliness and reliability, increases communication and stimulates staff while helping deliver the required service quality (Delahaye, 2005).

Table 4. 19: Employee Empowerment

		SD	MOD	MID	N	MIA	MOA	SA	Mean	Std. Dev.
EE2	%	18	7	17	9	14	9	26	4.03	0.708
EE3	%	29	5	20	15	12	12	7	3.99	0.699
EE6	%	19	13	14	10	8	15	21	3.98	2.204
EE7	%	18	12	22	5	11	7	25	3.93	2.219

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA- Mildly agree, MOA-Moderately agree, SA-Strongly agree.

4.11.1 Descriptive Analysis of Procedural Justice in Service Recovery

To determine the mediation influence of procedural justice a seven-point likert scale was used to measure the fairness of procedures used while resolving the complaints. The results are shown in Table 4.20. On whether the respondents were able to express their views during the process of resolving the complaint, 31% of the respondents strongly agreed, 17% moderately agreed and 25% mildly agreed. On the

other hand 11% of the respondents strongly disagreed, 4% moderately disagreed and 6% mildly disagreed. Another 6% of the respondents were neutral. This indicates that majority of the respondents were given a chance to express their views in the process of resolving the complaint.

Information and feedback from customers are generally acknowledged as important factors in achieving a positive marketing outcome (Maxham and Netemeyer, 2003). In their study on the impact of choice on fairness in the context of service recovery, Mattila and Cranage (2005) found out that providing an explanation regarding service failure might backfire if it is deemed by the customer as an attempt to justify the failure rather than take the blame. Helping customers express their views enhances organizational learning which as one of the domains of strategic entrepreneurship. Such knowledge should be used as a key source of creating competitive advantage in an organization.

Exploration and exploitation demand different behaviours that are facilitated by a firm's entrepreneurial culture. The degree of centralization of authority, the standardization of procedures, and formalization of processes are three structural mechanisms an entrepreneurial organization uses to support exploration and exploitation (Ireland & Webb, 2007). Organizational structures characterized by decentralized authority, semi-standardized procedures, and semi-formalized processes support exploration. Decentralization authority patterns yield a large number of occasions throughout a firm for knowledge to be meaningfully acquired and processed (Siggelkow & Levinthal, 2003). Decentralization of authority enhances the potential effectiveness of a firm's exploration behaviours in that it makes it possible for the firm to examine a relatively large number of potentially attractive market-related opportunities (Ireland & Webb, 2007).

On whether the respondents were satisfied with the time taken to resolve the complaint, as shown in Table 4.20, 26% of the respondents strongly agreed that they were satisfied with the time taken to resolve the complaint, 10% moderately agreed and 24% mildly agreed. On the other hand, 14% of the respondents strongly disagreed, 7% moderately disagreed and 10% mildly disagreed. Another 9% of the

respondents were neutral. This indicates that majority of the respondents were satisfied with the time taken to resolve the complaint. In their study on consumer responses to compensation, speed of recovery and apology after a service failure, Wirtz and Mattila (2004) found out that a delayed service recovery prompts the consumer to attribute the cause of the service to be more stable and more controllable, with an immediate recovery reducing such attributions, and that immediate recovery after the failure ensures that the company will have a good image or reputation.

Time has commonly been viewed as a significant component of the total cost of a transaction, making consumers acutely aware that their time is a valuable and finite resource (Namkung, Jang, Almanza & Ismail, 2009). In considering the customer's needs, it is advisable that the service providers and front line officers provide a timely response in managing the service failure situation (Bhandari, Tsarenko & Polonsky, 2007). This indicates that a strategy focusing on an immediate recovery with an apology is likely to satisfy the customer and be cost effective at the same time. Hotels therefore need to adopt policies that aim to encourage employees to respond to service failures quickly, effectively and efficiently which will help in improving the bottom-line performance as a result of enhanced customer loyalty. This can be done through adopting entrepreneurial motivation practices which will be determined by how much a person perceives a direct relationship between their effort and appraisal system, the relationship between performance and rewards, and whether the organization is offering the correct rewards (Kuratko, Morris, & Covin, 2011).

On whether the respondent had some influence over the outcomes arrived at by those procedures, as shown in Table 4.20, 14% of the respondents strongly agreed, 12% moderately agreed and 22% mildly agreed. On the other hand, 23% of the respondents strongly disagreed, 2% moderately disagreed and 14% mildly disagreed. Another 13% of the respondents were neutral. This indicates that majority of the respondents had some influence over the outcomes arrived at by those procedures. In their study on satisfaction with service recovery: perceived justice

and emotional responses, Del Río-Lanza, Vázquez-Casielles, and Díaz-Martín (2009) found out that procedural justice during service recovery has a significant influence on satisfaction with the service recovery. Justice perceptions are the individual subjective assessments of organizational responses and the subjective evaluation of the response of the complainant is crucial because perceptions are the subjective, often biased, interpretation of reality that account for individual behaviour (Gelbrich and Roschk, 2010). Zhu and Chen (2009) pointed out that procedural unfairness occurred when the firm cannot deliver services perceived as free-of-bias, consistent, and accurate by its customers. Hotels should draw from social exchange theory that argues that individuals prefer fair procedures because they are more likely to result in fair outcomes and thus superior customer satisfaction which will enable the hotel to remain competitive.

On whether the procedures were applied consistently, as shown in Table 4.20, 19% of the respondents strongly agreed, 15% moderately agreed and 20% mildly agreed. On the other hand 20% of the respondents strongly disagreed, 7% moderately disagreed and 8% mildly disagreed. It was only 8% of the respondents that were neutral. This indicates that majority of the respondents felt that the procedures were applied consistently in handling their complaints. In their study on attracting and retaining food servers: how internal service quality moderated occupational stigma, Wildes (2005) suggested that a standard approach to service policies and practices can create customer satisfaction through employee knowledge and empowerment for decision making to solve customer complaints. Procedural fairness could be mitigated by a rude, impersonal interactional style through which information is obtained and outcomes are communicated. Therefore, employees have the task of handling customer complaints equitably. In case of “unfair” treatment of the customer, service recovery must re-establish justice (from the customer's perspective). This is because justice during service recovery is determined by the customer (Akbar, Mat Som, Wadood, & Alzaidiyeen, 2010).

To achieve consistency, hotels need to embrace entrepreneurial culture that will entrench innovation and creativity at every stage of customer's service experience. The entrepreneurial culture should be embedded on the employees so that they can possess positive values that will help them in offering service quality and thus enhancing customer loyalty. The organization should also entrench processes that will improve the consistency of offering their services. In the hospitality industry organizations need to embrace an entrepreneurial culture of continuous innovation, risk taking and proactive in order to stay competitive.

Table 4. 20: Procedural Fairness

		SD	MOD	MID	N	MIA	MOA	SA	Mean	Std. Dev.
BJ1	%	11	4	6	6	25	17	31	5.68	1.367
BJ2	%	14	7	10	9	24	10	26	5.53	1.466
BJ3	%	23	1	14	13	22	12	14	5.26	1.516
BJ4	%	20	7	8	11	20	15	19	4.21	2.127

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA- Mildly agree, MOA-Moderately agree, SA-Strongly agree.

4.11.2 Confirmatory Structural Model and Hypothesis Testingfor Employee Empowerment

Objective 2: To establish the influence of employee empowerment in service recovery on customer loyalty in the hospitality industry in Kenya.

Employee empowerment was measured by 7 items (EE1, EE2, EE3, EE4, EE5, EE6 and EE7), as shown in appendix IV. Based on the analysis, one item was dropped at a time and then CFA was re-run on the subsequent model. Following the above

procedures, three items were deleted, that is, item EE1, EE4 and EE5. All the fit indices indicated a perfect fit of the model to the data. Hence, the four indicator model provides evidence of a good fit as shown in Table 4.21.

Table 4. 21: Fit Indices for Employee Empowerment

The fit Index	RMSEA	GFI	AGFI	CFI
Default model	0.042	0.822	0.691	0.900
Saturated Model		1.000		1.000
Independence model	0.355	0.260	0.125	0.000

The study tested the following hypothesis to test the above objective:

H₀: Employee empowerment has no significant influence on customer loyalty in the hospitality industry in Kenya.

The study used Structural Equation Modelling (SEM) path coefficients to determine the direction and strength of the factor. Regression weights were used to test the contribution of different indicators to employee empowerment. As shown in Table 4.22 a unit increase in employee empowerment is associated with 0.94 increases in employee authority to resolve customer complaints. Since CR (16.282) is greater than 1.96, then there is a significant positive relationship between EE2 and employee empowerment construct. Also a unit increase in employee empowerment is associated with 0.847 increases in employee use of own judgement in resolving customer complaints, and since CR (16.378) is greater than 1.96, and then there is a significant positive relationship between EE3 and employee empowerment construct.

The results also show that a unit increase in employee empowerment is associated with 1.172 increases in the speed of resolving the customer complaints, and since CR (22.924) is greater than 1.96, then there is a significant positive relationship between EE6 and employee empowerment construct. Lastly the results also show that a unit increase in employee empowerment is associated with 1.106 increases in immediacy of response to the failure, and since CR (20.623) is greater than 1.96, then there is a significant positive relationship between EE7 and employee empowerment construct. The overall results also show that a unit increase in customer loyalty is associated with 0.527 increases in employee empowerment. Therefore the results show that there was a significant positive relationship between employee empowerment and customer loyalty.

Table 4. 22: Regression Weight and t-values for employee empowerment

			Estimate	S. E	C. R	P
CL	←-----	EE	.527	.054	5.230	***
EE2	←-----	EE	.940	.057	16.382	***
EE3	←-----	EE	.847	.052	16.378	***
EE6	←-----	EE	1.172	.051	22.924	***
EE7	←-----	EE	1.106	.054	20.623	***

As shown in Figure 4.10 the path coefficient beta value was 0.46. This implies that for every 1 unit increase in employee empowerment, customer loyalty is predicted to increase by 0.46 units. The study also used R^2 to determine the proportion of variation in dependent variable explained by the model. Figure 4.10 show that employee empowerment had a coefficient R^2 mean of 0.41, which indicates that 41% of the variations in customer loyalty can be accounted for by employee empowerment.

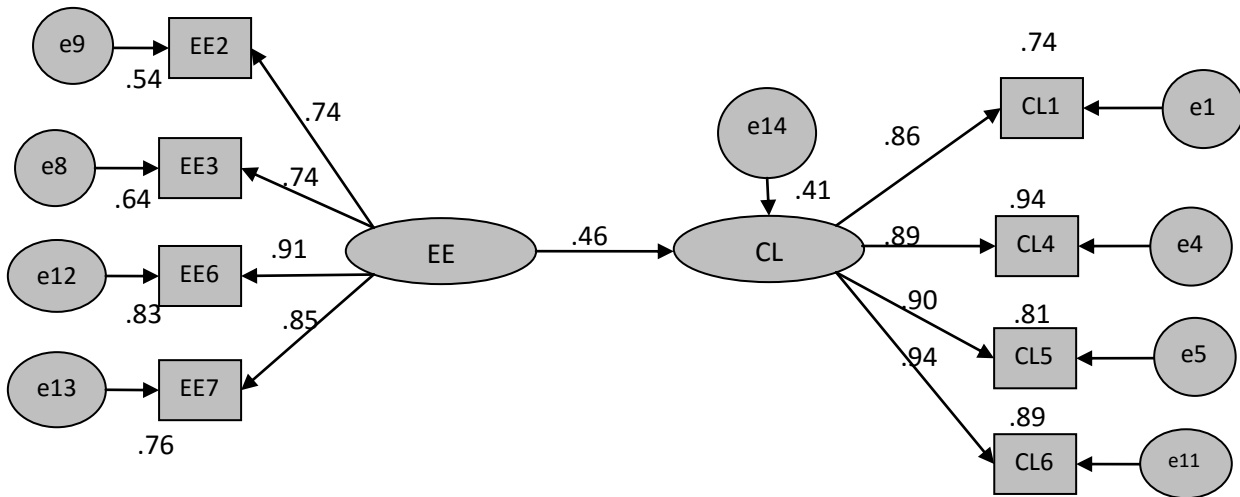


Figure 4. 10: Structural Equation Modeling for Employee Empowerment

T-statistics value (CR) was used to test whether the relationship between employee empowerment and customer loyalty was significant. To determine the level of significance, the Critical Value (CR) should be greater than 1.96 at 0.05 level of significance. Figure 4.11 shows a t-scale of 5.230, which shows that there was a significant relationship between employee empowerment and customer loyalty since CR(5.230) is greater than the critical value of 1.96 at 0.05 significance level ($p < 0.05$)

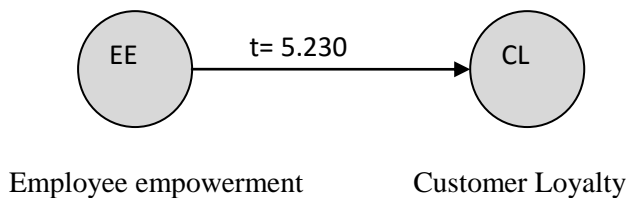


Figure 4. 11: Significance Test of Employee Empowerment on Customer Loyalty

The findings thus reveal that the relationship between employee empowerment and customer loyalty is positive and significant ($t=2.230$, p -value .026). This implies that an increase in the level of employee empowerment in service recovery leads to an increase in customer loyalty in the hospitality industry in Kenya. Therefore, the null hypothesis that employee empowerment has no significant influence on customer loyalty in the hospitality industry in Kenya is rejected at 0.05 level of significance. The alternative hypothesis that employee empowerment has a significant influence on customer loyalty in the hospitality industry in Kenya is accepted. These findings agree with Jong and Ruyter (2004) study on adaptive versus proactive behaviour in service recovery, the role of self managing teams which found out that employee must be able to identify service failures and have the authority to solve them when they happen.

Entrepreneurs in the hospitality industry should enhance service orientation which is a feature that promotes top-down influences on employee service performance and service quality which will ultimately have an impact on customer satisfaction. The innovative firms have capabilities to monitor the market changes and respond quickly, thus capitalizing on emerging opportunities and thus remain ahead of competition. An entrepreneurial organization empowers its people and gives them freedom to decide and act by devolving decision making authority (Wang, 2008).

4.11.3 Testing Mediation Influence of Procedural Justice on the relationship between Employee Empowerment in Service Recovery and Customer Loyalty.

To test for the mediation influence of procedural justice on the relationship between service recovery and customer loyalty in the hospitality industry in Kenya, procedural justice was measured by 8 items (BJ1, BJ2, BJ3, BJ4, BJ5, BJ6, BJ7 and BJ8) as shown in appendix IV. Based on the analysis, one item was dropped at a time and then CFA was re-run on the subsequent model until the perfect fit was obtained. Following the above procedures, four items were deleted, that is, BJ5, BJ6, BJ7 and BJ8. The subsequent model fitted the data well as shown in Table 4.23. All the fit indices indicated a perfect fit of the model to the data. Hence, the four indicator model provides evidence of a good fit as shown in Figure 4.12.

Table 4. 23: Mediating Influence of Procedural Justice on Service Recovery and Customer Loyalty

The fit Index	RMSEA	GFI	AGFI	CFI
Default model	0.041	0.818	0.719	0.898
Saturated Model		1.000		1.000
Independence model	0.832	.189	0.065	0.000

To test the above objective the study tested the following hypothesis:

H₀: Procedural justice does not mediate the relationship between employee empowerment in service recovery and customer loyalty in the hospitality industry in Kenya.

As shown in Figure 4.10, the first regression analysis revealed a significant effect of employee empowerment on customer loyalty ($\beta=0.46$, $t=2.230$, $R^2=0.41$). Thus using Baron and Kenny approach, the study fitted the following three regression models:

$$M = \beta_1 + aX + \varepsilon_1 \quad (\text{Equation 1})$$

$$Y = \beta_2 + cX + \varepsilon_2 \quad (\text{Equation 2})$$

$$Y = \beta_3 + cX + \varepsilon_3 \quad (\text{Equation 3})$$

Where:

β are the intercepts

ε is the model fit errors

a, b, c and c` terms are the regression coefficients capturing the relationships between the three focal variables.

The results of the first regression analysis showed that employee empowerment had a significant effect on the proposed mediator, procedural justice ($\beta=0.81$, $t=13.368$, $R^2= 0.62$). The second regression analysis indicated that procedural justice had a significant influence on customer loyalty ($\beta=.10$, $t=-.99$, $R^2=0.42$). The results of the third regression analysis showed that when procedural justice was entered as the mediating variable, employee empowerment had a significant effects on customer loyalty ($\beta=0.21$, $t=2.120$, $R^2=0.42$). These results confirm that procedural justice partially mediated the effect of employee empowerment on customer loyalty.

Therefore the null hypothesis that procedural justice does not mediate the relationship between service recovery and customer loyalty in the hospitality industry in Kenya is rejected at 0.05 level of significance. The alternative hypothesis that procedural justice mediates the relationship between service recovery and customer loyalty in the hospitality industry in Kenya is accepted. In their study on the influence of service recovery on consumer satisfaction and consumer loyalty, Fan, Wu and Wu (2010) found out that procedural justice has a positive influence on customer satisfaction and customer loyalty.

strategic thinking skills which enhance entrepreneurial mindset, thus able to create a positive customer experience. Skrt and Antonic (2004) noted that strategic thinking has become an important tool for all entrepreneurs. Organizations that continuously focus on finding better solutions maintain competitive advantage and they do so through effective strategic thinking and entrepreneurial thinking throughout the ranks of the organization (Lewis, Goodman, & Fandt, 2001).

It is the behaviours and attitudes of frontline employees which primarily determine the customers' perceptions of service quality and their role is vital for the recovery from failures and critical in creating complaint satisfaction (Kau and Loh, 2006). It is therefore important that once a company has recognized and understood complaining customers' expectations, they can ensure that contact employees are trained to manage their behavior appropriately to match their customers' underlying expectations. Hotels should learn from past failures and use such experiences as a platform for future innovations. Hult, Hurley, and Knight, (2004), indicated that learning may be required to develop marketing orientation which is frequently seen to enhance innovativeness and capacity to understand and adopt new ideas. They indicated that learning orientation and innovativeness are highly correlated. The higher the extent of learning orientation, the stronger is the influence on innovativeness.

To encourage innovativeness organizations in the hospitality industry need to encourage their employees to have an entrepreneurial mindset. This can only be effective if an entrepreneurial culture exists within the firm. Kirzner (1973) pointed out that an entrepreneur is the driving force of the entire market process. Entrepreneurial mindset allows individuals to capitalize on uncertainty, create simplicity where others avoid it, and hold on to the learning that comes from calculated risks (McGrath & MacMillan, 2000). In an organization where leaders employ an entrepreneurial mindset, an entrepreneurial culture which facilitates and accommodates a firm's entrepreneurial activities in the market place, is likely to develop (Dimitratos & Plakoyiannaki, 2003). Organizations in the hospitality industry should therefore embrace entrepreneurial mindset which will help in

entrenching an entrepreneurial culture in the entire organization including how to treat their customers to enhance customer satisfaction and loyalty.

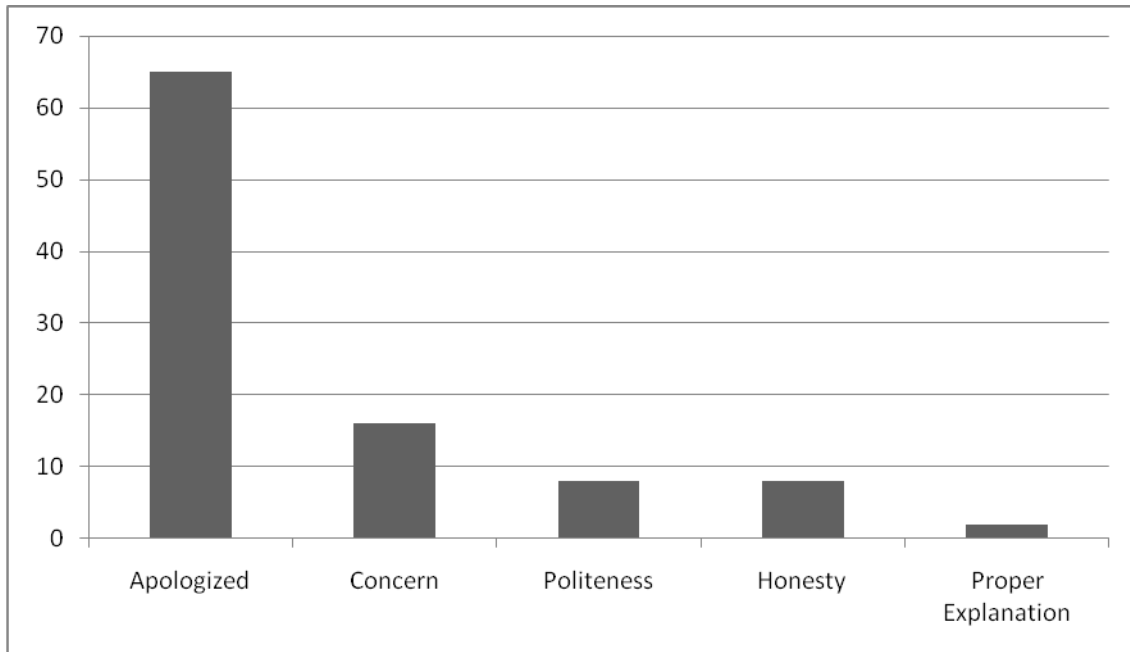


Figure 4. 13: Descriptive Analysis Results of Employee Behaviours in Service Recovery

In order to measure employee’s behaviours in addressing the service failure, a seven-point likert scale was adopted. As shown in Table 4.24, on whether the employees acknowledged the service failure, 34% of the respondents strongly agreed, 10% moderately agreed and 16% mildly agreed. On the other hand 9% of the respondents strongly disagreed, 10% moderately disagreed and 8% mildly disagreed. Another 13% of the respondents were neutral. This indicates that majority of the respondents felt that employees acknowledged the service failure.

The performance of employees in hospitality is seen as a critical dimension of quality, and as far as the customer is concerned the employee’s performance constitutes the service and employees play a significant role in enhancing the guests’ self-image and status involvement and ultimately, their loyalty (Crick & Spencer, 2011). Managers have to be concerned about hiring and retaining those employees

who are motivated to perform the emotional, aesthetic, scripted and voluntary acts that are such an important part of service. For successful resolution of complaints, employees should act expediently to resolve the issue; acknowledging mistakes without being defensive; not arguing with customers; openness in solving the problem; considering the possibility of compensation trying to regain the goodwill of customers (McCole, 2004).

Organizations in the hospitality industry need to nurture their employees to embrace entrepreneurial culture through enhancing organizational capabilities that will enable them to deliver superior customer value consistently (Narver, Slater, & MacLachlan, 2004). Ketchen, Ireland, and Snow (2007) indicated that organizations should embrace the four organizational capabilities, that is, market orientation, entrepreneurship, innovativeness and organization learning. It is important to integrate these capabilities as they support organizations in creating superior value in turbulent markets and contributes to the creation of potential advantage for organizations (Ketchen, Ireland, & Snow, 2007). These capabilities are imperative for organizations if they are to deliver superior value to customers consistently (Slater & Narver, 1995). Hotel employees should therefore be empowered by helping them acquire service skills that every front-line service provider has to learn, such as knowledge of the product, of the service firm and its policies, how to handle failure situations and of competing services and operational skills.

The study also sought information on whether the employee's were sympathetic with the respondent's service failure. As shown in Table 4.24, 21% of the respondents strongly agreed, 26% moderately agreed and 16% mildly agreed. On the other hand 6% of the respondents strongly disagreed, 10% moderately disagreed and 6% mildly disagreed. It was only 6% of the respondents that were neutral. This indicates that majority of the respondents agreed that employee's were sympathetic with the respondent's service failure. In their study on the effect of communication mode in justice-based service recovery, Shapiro and Nieman-Gonder (2006) found out that a high recovery effort in which the organization not only offered refund and discounts, but also showed empathy and apologized to the customer for the service

failure was successful at restoring positive customer attitudes. Consumers feel more negative emotions when they perceive an absence of care or empathy on the part of the service provider during the service recovery (McCull-Kennedy & Sparks, 2003).

Gruber, Szmigin, and Voss (2009) indicated that employee behaviour is described as emphatic, friendly, careful and informative behaviour of the service person. In addition, Gelbrich and Roschk (2010) pointed that favourable employee behaviour is the most powerful determinant of distributive justice. Gruber, Szmigin, and Voss (2009) added that there is a need for employee's competence, friendliness and active listening skills which are particularly important for complainants. It is therefore important that contact employees in the hospitality industry should have sufficient service knowledge and an entrepreneurship culture for successful interactions and know what needs doing to solve the problem at hand. A favourable entrepreneurial culture encourages employees to try out new ideas, even if they fail with the belief that the mistakes can be learned from.

On whether employee's apologized for the service failure, as shown in Table 4.24, 20% of the respondents strongly agreed, 10% moderately agreed and 23% mildly agreed. On the other hand, 10% of the respondents strongly disagreed, 11% moderately disagreed and 18% mildly disagreed. This show that majority of the respondents agreed that the employees apologized for the service failure. In their study Kuo, Yen and Chen (2011) found out that 37% of the buyers felt satisfied with an apology as a recovery strategy, which involved providing verbal expressions of remorse or regret for a mistake made. Richard and Walker (2007) suggested that an apology contains four elements: acknowledgement of the event, expressing of sympathy, expressing of remorse, and admission of fault. They termed apology without admission of fault and a show of sympathy as a partial apology.

Magnini and Ford (2004) noted that hotels train the LEARN process (listen; empathize; apologize; react; notify), with the objective of training being to encourage and enable trainees to provide exceptional and personalized service consistently. The concern here is to instil a mindset in the employees to seek continuous service delivery improvements. Financial capital (tangible resources),

social and human capital (intangible resources) are necessary to engage in strategic entrepreneurship (Ireland, Hitt, & Sirmon, 2003). The firm's social capital is the sum of its internal social capital (relationships between individuals) and its external social capital (relationships between external organizations and individuals in the organization). It facilitates actions taken to access additional resources and to build and leverage capabilities to achieve a competitive advantage (Hitt, Lee, & Yucel, 2002). Individuals' knowledge, skills and abilities, along with their motivation and passion to perform are important for a firm to exploit an opportunity and achieve an advantage as the sources of its long-term success (Gruber, 2011).

While entrepreneurial process always involves teams, it typically begins with an individual and is kept alive and nurtured by individuals. The dedicated employee who champions a concept, persists in overcoming internal and external obstacles, accepts responsibility for failure and in effect risks his/her job on an outcome of a venture is the single most important ingredient for entrepreneurship to occur (Kuratko, Morris, & Covin, 2011). Some employees do not recognize their entrepreneurial potential, while others believe the costs of acting on that potential are greater than the potential benefits. The challenge to management in the hospitality industry becomes one of creating a work environment that helps employees understand the kind of entrepreneurial behaviour sought by the organization, their own innate ability to act in entrepreneurial way and the incentives for acting in an entrepreneurial fashion and the disincentives for failing to do so.

Table 4. 24: Employee Behaviour

		SD	MOD	MID	N	MIA	MOA	SA	Mean	Std. Dev.
EA1	%	9	10	8	13	16	10	34	2.40	0.936
EA2	%	6	10	6	15	16	26	21	2.35	0.970
EA5	%	10	11	18	8	23	10	20	5.58	1.778

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA- Mildly agree, MOA-Moderately agree, SA-Strongly agree.

4.12.1 Descriptive Analysis of Interpersonal Justice in Service Recovery

A seven-point likert scale was used to measure the fairness of the way the respondent was treated during the process of addressing the service failure. On whether the employees were concerned about the respondent's problem, as shown in Table 4.25, 24% of the respondents strongly agreed, 7% moderately agreed and 34% mildly agreed. On the other hand, 8% of the respondents strongly disagreed, 8% moderately disagreed and 9% mildly disagreed. Another 12% of the respondents were neutral. This indicates that majority of the respondents agreed that the employees were concerned about their problems.

In their study on identifying the underlying structure of perceived service fairness in restaurants, Namkung, Jang, Almanza and Ismail (2009) found out that services such as those in the hospitality industry, rely heavily on the service provider's interpersonal skills, thus the quality of interpersonal interaction between the customer and contact employee often influences customer evaluations of services. In another study on the effect of service recovery on consumer satisfaction: a comparison between complainants and non-complainants, Kau and Loh (2006), found out that higher levels of interactional justice will lead to more favorable repatronage intentions and decreased likelihood of negative word of mouth. Hotels therefore need to implement both the human and technical aspects of customer relations management in service recovery, which will enable them to create a competitive advantage by capturing and using much of the service failure information.

On whether the respondent was treated in a polite manner, as shown in Table 4.25, 26% of the respondents strongly agreed, 22% moderately agreed and 31% mildly agreed. On the other hand, 6% of the respondents strongly disagreed, 7% moderately disagreed and 5% mildly disagreed. It was only 3% of the respondents that were neutral. These results indicate that majority of the respondents agreed that they were treated in a polite manner. In their study on how emotions mediate the effects of perceived justice on loyalty in service situations, Chebat and Witold (2005) indicated that politeness plays a predominant role, since it impacts both positive and

negative emotions and the loyalty behavior. A service provider should communicate with customers in more politeness, courtesy, concern, effort, and empathy manners, in order to enhance customers' service evaluations when customers have experienced a service failure (Shapiro & Nteman-Gonder, 2006). Customers who are satisfied with complaint management and service recovery will speak positively about the hotel to other customers, thus acting as a marketing tool for the organization. This leads to lower marketing expenditure and hence greater profitability. Entrepreneurship culture encourages learning through information sharing, commitment and accountability (Kuratko, Morris, & Covin, 2011).

On whether they were treated with respect, as shown in Table 4.25, 33% of the respondents strongly agreed, 12% were moderately agreed and 33% mildly agreed. On the other hand, 6% of the respondents strongly disagreed, 4% moderately disagreed and 7% mildly disagreed. It was only 7% of the respondents that were neutral. These results indicate that majority of the respondents were treated with respect. In their study on the art of service recovery: fact or fiction?, Hocutt, Bowers and Donovan (2006) concluded that higher quality of treatment (showing respect to customer), will result in higher consumer's perception of interpersonal justice, which in turn effect on consumer's satisfaction with the service encounter. Effective complaint handling mechanisms can be applied to retain customers, which requires that customers are handled with respect (Gruber, 2011). In the hotel industry when customers are treated with respect they will perceive fair treatment and a sense of appreciation which will lead to positive word of mouth. Entrepreneurial leadership is therefore important in creating a culture of making the customer the king in order for hotels to achieve their objectives of being the market leader and maximize on profitability.

On whether the apology given was sincere, as shown in table 4.25, 32% of the respondents strongly agreed, 8% moderately agreed, and 28% mildly agreed. On the other hand, 6% of the respondents strongly disagreed, 4% moderately disagreed and 12% mildly disagreed. Another 10% of the respondents were neutral. This indicates that majority of the respondents agreed that the apology given was sincere. In their

study on consumer responses to compensation, speed of recovery and apology after a service failure, Wirtz and Mattila (2004) found out that in the absence of compensation, recovery speed interacted with apology on post-recovery satisfaction. They indicated that an apology is highly effective when combined with an immediate recovery, while offering an apology with a delayed recovery is less powerful. Rio-Lanza et al (2009) found out that interpersonal justice during service recovery has a significant influence on overall satisfaction with the service recovery. De Run and Kusyarnadi (2008) in their study found out that, the most frequently used service recovery strategy is an apology and is seen as the minimum recovery that should be offered by a service provider.

Frontline employees should be genuinely willing to act on behalf of, and be friendly to the complaining customer to create a long-term customer relationship. Thus, an organizational setting is necessary that supports genuine positive emotions among staff and companies should also reward customer contact employees who treat customers with attention, care, and respect, as this is a sure way of sustaining superior performance in the organization.

Table 4. 25: Interpersonal Fairness

		SD	MOD	MID	N	MIA	MOA	SA	Mean	Std. Dev.
IJ1	%	8	6	9	12	34	7	24	3.53	1.332
IJ2	%	6	7	5	3	31	22	26	3.49	1.341
IJ4	%	6	4	7	5	33	12	33	4.28	1.681
IJ5	%	6	4	12	10	28	8	32	4.96	1.819

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA- Mildly agree, MOA-Moderately agree, SA-Strongly agree.

4.12.2 Confirmatory Structural Model and Hypothesis Testing for Employee Behaviours.

Objective 3: To assess the influence of employee behaviours on customer loyalty in the hospitality industry in Kenya.

Employee behaviour was measured by 7 items (EA1, EA2, EA3, EA4, EA5) as shown in appendix IV. To remove poorly fitting items from the hypothesized model, the study examined modification indices of the variables and identified the variables with the largest standard residual. One item was dropped at a time and then CFA was re-run on the subsequent model until a perfect model was obtained. Following the above procedures, two items (EA3 and EA4) were deleted. The goodness-of-fit measures of the subsequent model are as shown in Table 4.26. All the fit indices indicated a perfect fit of the model to the data.

Table 4. 26: Fit Indices for Employee Behaviour

The fit Index	RMSEA	GFI	AGFI	CFI
Default model	0.057	0.827	0.699	0.876
Saturated Model		1.000		1.000
Independence model	0.297	0.263	0.129	0.000

The study tested the following hypothesis to test the above objective:

H₀: Employee behaviours have no significant influence on customer loyalty in the hospitality industry in Kenya.

The study used Structural Equation Modelling (SEM) path coefficients to determine the direction and strength of the factor. Regression weights were used to test the contribution of different indicators to employee behaviours. As shown in Table 4.27 a unit increase in employee behaviour is associated with 0.989 of employee acknowledgement of service failure. Since CR (13.774) is greater than 1.96, then

there is a significant positive relationship between EA1 and employee behaviour construct. Also a unit increase in employee behaviour is associated with 1.058 of employees sympathy with the customer, and since CR (16.366) is greater than 1.96, then there is a significant positive relationship between EA2 and employee behaviour construct. The results also show that a unit increase in employee behaviour is associated with 0.797 of apology given by the employees to the aggrieved customer, and since CR (12.882) is greater than 1.96, then there is a significant positive relationship between EA5 and employee behaviour construct. The overall results also show that a unit increase in customer loyalty is associated with 0.241 increases in employee behaviour. Therefore the results show that there was a significant positive relationship between employee behaviour and customer loyalty.

Table 4. 27 Regression Weights and t-values for employee behaviours

			Estimate	S. E	C. R	P
CL	←----	EA	.241	.061	3.961	***
EA1	←----	EA	.989	.072	13.774	***
EA2	←----	EA	1.058	.065	16.366	***
EA5	←----	EA	.797	.062	12.882	***

As shown in Figure 4.14 the path coefficient beta value was 0.52, which implies that for every 1 unit increase in employee behaviour, customer loyalty is predicted to increase by 0.52 units. The study also used R^2 to determine the proportion of variation in dependent variable explained by the model. Figure 4.14 shows that employee behaviour had a coefficient R^2 mean of 0.45, which indicates that 45% of the variation in customer loyalty can be accounted for by employee behaviour.

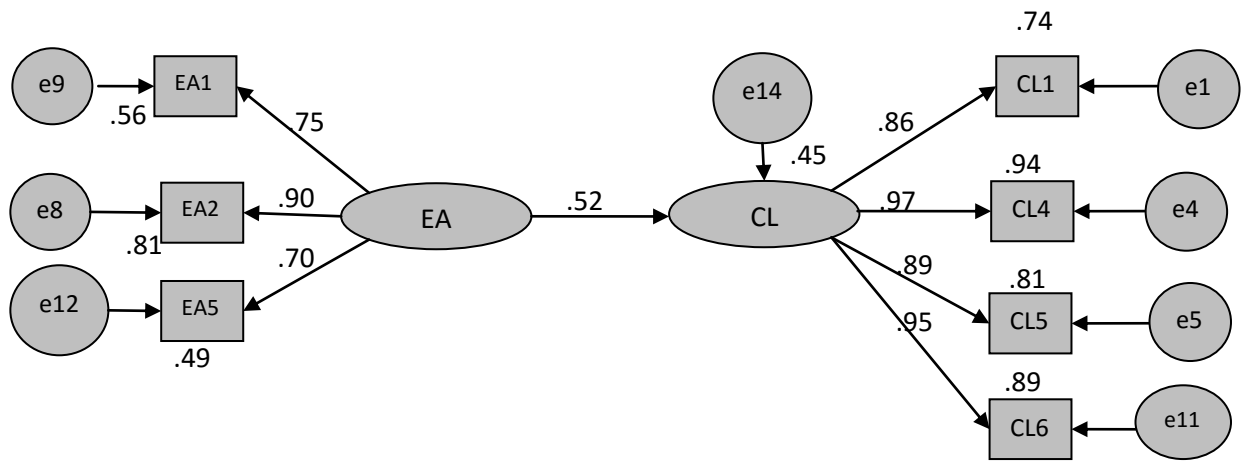


Figure 4. 14: Structural Equation Modeling for Employee Behaviour

T-statistics value (CR) was used to test whether the relationship between employee behaviour and customer loyalty was significant. To determine the level of significance, the critical value (CR) should be greater than 1.96 at 0.05 significance level. Figure 4.15 shows a t-scale of 3.961, which shows that there was a significant relationship between employee behaviour and customer loyalty since CR (3.961) is greater than the critical value of 1.96 at 0.05 significance level ($p < 0.05$).

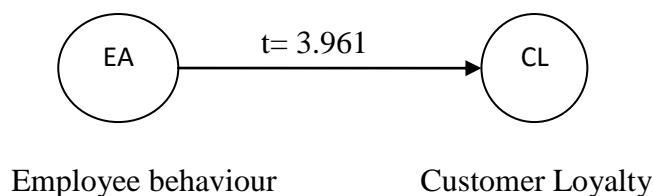


Figure 4. 15: Significance Test of Employee Behaviour on Customer Loyalty

The findings of the study reveals that the relationship between employee behaviour and customer loyalty is positive and significant ($t=3.961$, p -value .000. This implies that an increase in the level of employee behaviour in service recovery leads to an increase in customer loyalty in the hospitality industry in Kenya. Therefore the null

hypothesis that employee behaviour has no significance influence on customer loyalty in the hospitality industry in Kenya is rejected at 0.05 level of significance. The alternative hypothesis that employee behaviour has a significant influence on customer loyalty in the hospitality industry in Kenya is accepted. Similar findings were found in the study on consumer responses to compensation, speed of recovery and apology after a service failure by Wirtz and Mattila (2012) which found out that employee behaviour like offering an apology, showing concern, politeness and being sympathetic contributed significantly to customer satisfaction and loyalty. Hotels should therefore train their employees in the relevant service skills that would enhance positive employee behaviours which will create a superior competitive edge and differentiate the hotel from the competitors, hence creating organizational excellence.

4.12.3 Testing Mediation Influence of Interpersonal Justice on the relationship between Employee Behaviour and Customer Loyalty

Interpersonal justice was measured by 5 items (IJ1, IJ2, IJ3, IJ4, IJ5) as shown in appendix IV. Based on the analysis, one item was dropped at a time and then CFA was re-run on the subsequent model. Following the above procedures, one item was deleted, that is, IJ3. The subsequent model fitted the data well, as shown in Table 4.28. All the fit indices indicated a perfect fit of the model to the data. Hence, the four indicator model provides evidence of a good fit as shown in Figure 4.16.

Table 4. 28: Mediating Influence of Interpersonal Justice on Employee Behaviour and Customer Loyalty

The fit Index	RMSEA	GFI	AGFI	CFI
Default model	0.162	0.048	0.719	0.898
Saturated Model		1.000		1.000
Independence model	0.437	.785	0.065	0.000

To test the above objective the study tested the following hypothesis:

H₀: Interpersonal justice does not mediate the relationship between employee behaviour in service recovery and customer loyalty in the hospitality industry in Kenya.

As shown in Figure 4.14, the regression analysis revealed a significant effect of employee behaviour on customer loyalty ($\beta=0.52$, $t=3.961$, $R^2=0.45$). Thus using Baron and Kenny approach, the study fitted the following three regression models:

$$M = \beta_1 + aX + \varepsilon_1 \quad (\text{Equation 1})$$

$$Y = \beta_2 + cX + \varepsilon_2 \quad (\text{Equation 2})$$

$$Y = \beta_3 + cX + \varepsilon_3 \quad (\text{Equation 3})$$

Where:

β are the intercepts

ε is the model fit errors

a, b, c and c' terms are the regression coefficients capturing the relationships between the three focal variables.

The results of the first regression analysis showed that employee behaviour had a significant effect on the proposed mediator, interpersonal justice ($\beta=0.31$, $t=3.679$, $R^2=0.42$). The second regression analysis indicated that interpersonal justice had a significant influence on customer loyalty ($\beta=.23$, $t=.454$, $R^2=0.38$). The results of the third regression analysis showed that when interpersonal justice was entered as the mediating variable, employee behaviour had a significant effects on customer loyalty ($\beta=0.10$, $t=6.662$, $R^2=0.38$). These results confirm that interpersonal justice partially mediated the effect of employee behaviour on customer loyalty.

Therefore the null hypothesis that interpersonal justice does not mediate the relationship between service recovery and customer loyalty in the hospitality

industry in Kenya is rejected at 0.05 level of significance. The alternative hypothesis that interpersonal justice mediates the relationship between service recovery and customer loyalty in the hospitality industry in Kenya is accepted. This agrees with another study on the effect of service recovery on consumer satisfaction: a comparison between complainants and non-complainants where Kau and Loh (2006) found out that higher level of interpersonal justice enhances the chances of more favourable re-patronage intentions and decreased likelihood of negative word of mouth.

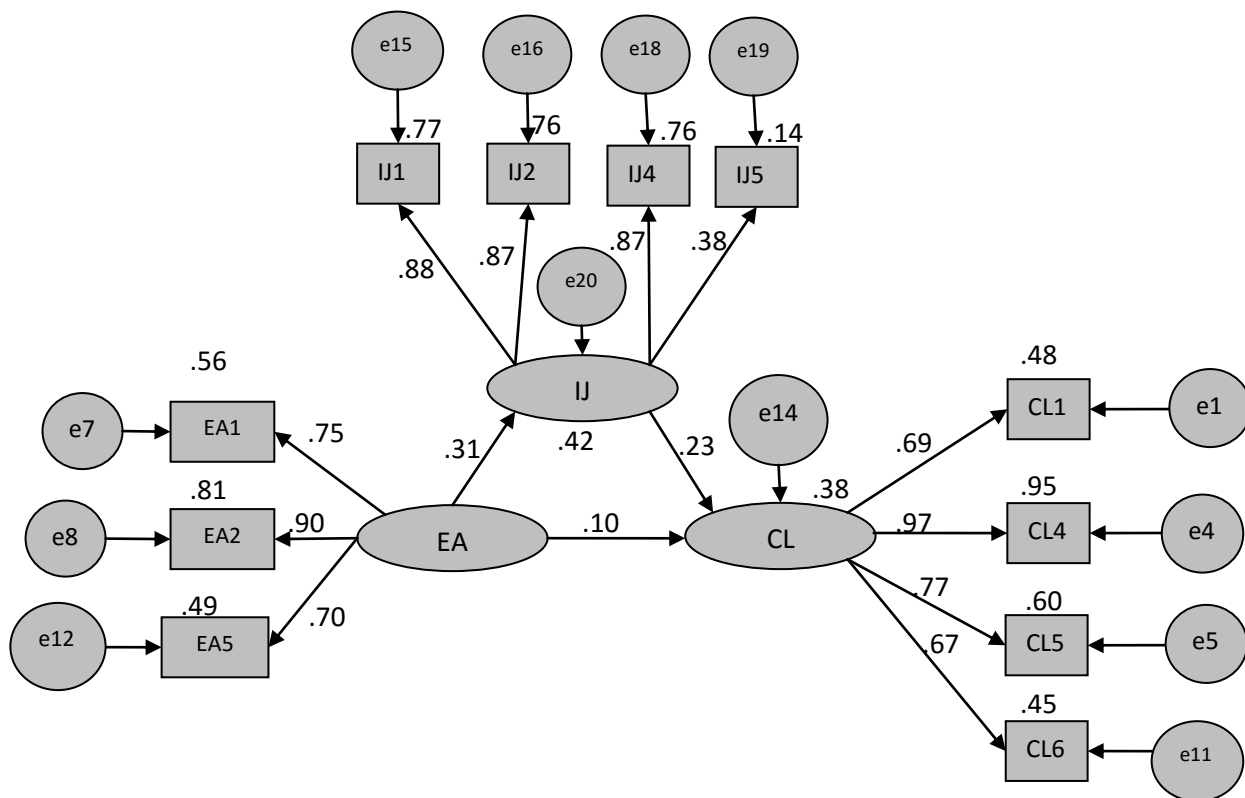


Figure 4. 16: Mediating Influence of Interpersonal Justice on Customer Loyalty

4.13 Descriptive Analysis of Communication in Service Recovery

The study sought the process of communication that was followed in resolving the complaint. As indicated in Table 4.29, majority (72%) of the respondents indicated that the employee communicated back to them in the process of resolving complains, and a few (28%) indicated that they were not communicated back to.

Among those that were communicated back, majority (26%) indicated that the communication was clear, 22% honest, 17% consultative and a few (9%) saying it was reliable. This corroborates a study by Komunda and Osarenkhoe (2012) on the effects of service recovery on customer satisfaction and loyalty, that found out that communication and explanations are the dimensions of importance to consumers when reporting service failure to a service firm.

Michel and Meuter (2008) considered the construct “customer dialogue” as a two way means of communication, which is a useful way to conceptualize communication, which should affect all aspects of the relationship, satisfaction and loyalty. A firm cannot sustain high levels of entrepreneurial performance unless people know their particular roles and how these roles link to entrepreneurial practices and processes occurring throughout the organization. Michel and Meuter (2008) pointed out that good communication should be helpful, positive, timely, useful, easy and pleasant. Reciprocity theory by Gouldner (1960) argues that people will tend to reciprocate the communication behaviours in which their interaction partner engages.

In strategic entrepreneurship exploration typically calls for employees to use novel routines to complete their work instead of continuing to use the patterns of organizational action with which they are familiar and comfortable (Ireland & Webb, 2007). Hotels should therefore leverage on effective communication to achieve effective feedback from their client’s service failure perceptions and collectively distribute and interpret this information, learning closes the loop to enable the system improvement and the development of new innovative services based on the active incorporation of relevant information into the design process. Effective communication builds an entrepreneurial culture that encourages organization innovation.

Table 4. 29: Communication Process

Variable	Values	Frequency	Percentage
Employee communicated back	Yes	261	72
	No	102	28
Communication	Clear	96	26
	Honest	78	22
	Consultative	62	17
	Reliable	31	9

A seven-point likert scale was used to measure the level of communication used by the employee's to address the service failure. On whether the employee's were polite, 41% of the respondents strongly agreed, 16% moderately agreed and 22% mildly agreed. On the other hand, 4% of the respondents strongly disagreed and 6% mildly disagreed. Another 11% of the respondents were neutral. This is as shown in Table 4.30. This indicates that majority of the respondents agrees that the employees were polite. In their study on the impact of choice on fairness in the context of service recovery, Mattila and Cranage (2005) indicated that politeness is an important component of perceived justice framework and the need for the same response format has made politeness a central element in corporate communication. In their study on an analysis of corporate e-mail communication as part of airlines' service recovery strategy, Dickinger and Bauernfeind (2009) considered politeness as an antecedent of quality.

A service provider should communicate with customers with more politeness, courtesy, concern, effort, and empathy manners, in order to enhance customers' service evaluations when customers have experienced a service failure(Shapiro & Nieman-Gonder, 2006). Wirtz and Mattila (2004) further indicated that an apology has a positive effect on perceived fairness of consumers. Organizations should use

the communication process in collecting service failures information that is used for organization learning and hence a launch pad for future innovations. This calls for entrepreneurial leadership to come up with proactive actions such as courtesy acts, honesty and forthrightness demonstrations, and empathic understanding and respect expression made by the frontline service personnel are extremely important to increase customer's satisfaction and hence leading to superior firm's performance. Entrepreneurial leader's expression of passion for the new venture can motivate employees to create new ideas, take risks, and develop personal pride in the firm's goals. Passion contributes to entrepreneurial success because of the commitment and effort generated (Baum & Locke, 2004).

The study sought to know whether the respondent was given an explanation for the failure, and whether the explanation was adequate. As shown in Table 4.30, 16% of the respondents strongly agreed that they were given explanation for the failure, 13% moderately agreed and 18% mildly agreed. On the other hand, 20% of the respondents strongly disagreed, 5% moderately disagreed and 13% mildly disagreed. Another 15% of the respondents were neutral. These results indicates that majority of the respondents agreed that they were given some explanation for the failure. On whether the explanation given was adequate, 15% of the respondents strongly agreed, another 15% moderately agreed and 20% mildly agreed. On the other hand 13% of the respondents strongly disagreed, 7% moderately disagreed and 16% mildly disagreed. Another 14% of the respondents were neutral. This indicates that majority of the respondents agreed that the explanation given was adequate.

In their study on the effect of service recovery on customer satisfaction and loyalty, Komunda and Osarenkhoe (2012) indicated that communication and explanation are important dimensions to consumers when reporting a service failure to a service firm. They also added that successfully recovered customers recommend the company to others or demonstrate a strong propensity to share positive information about their experience with their family and friends. Jo, Duffy, and James (2006) revealed customers' expectations and found that annoyed customers thought the service provider should offer an apology and fix the problem while victimized

customers expected compensation, greater responsiveness, an apology, intervention by higher level managers as well as explanations and assurance the problem would not reoccur.

Firms in the hospitality industry should promote entrepreneurial culture which promotes new ideas and creativity, risk taking is encouraged, failure is tolerated, learning is promoted, product, process and administrative innovations are championed and continuous change is viewed as a conveyor belt of innovative opportunities. To communicate effectively to aggrieved customers employees need to be creative and innovative. Creative abrasion calls for the development of leadership styles that focus on first identifying and then incorporating polarized viewpoints. Entrepreneurial firms are customer oriented. They invest heavily in product and process innovation just to ensure that they create a market niche. By doing this, the firms are able to address customer issues. Internal customers (employees) especially the idea champions are able to be given the necessary support by firm managers. This makes them to feel as part of the firm and it catalyses their ability to be creative and innovative.

Table 4. 30: Level of Communication

		SD	MOD	MIA	N	MIA	MOA	SA	Mean	Std. Dev.
COM1	%	4	-	6	11	22	16	41	2.68	1.018
COM2	%	20	5	13	15	18	13	16	3.25	0.952
COM3	%	13	7	16	14	20	15	15	2.54	1.003

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA- Mildly agree, MOA-Moderately agree, SA-Strongly agree.

4.13.1 Descriptive Analysis of Informational Justice in Service Recovery.

A seven-point likert scale was used to measure the fairness of information availed to the respondent during the process of resolving the service failure. The results are shown in Table 4.31. On whether the information provided was true, 20% of the respondents strongly agreed, 16% moderately agreed and 24% mildly agreed. On the other hand 4% of the respondents strongly disagreed, 9% moderately disagreed and 16% mildly disagreed. Another 11% of the respondents were neutral. These results indicate that majority of the respondents agreed that information provided was true. In their study on service failures in online double deviation scenarios: justice theory approach, Lee & Park (2010) found out that a customer's perception of information justice is threatened by the lack of explanations provided to people about why procedures were used in a certain way or why outcomes were distributed in a certain manner. Hotels should create a conducive environment for customers to express their views and help the employees acquire good communication skills to enhance proper handling of customer's complaints. The hotel should therefore come up with innovative and creative ways of handling different service failure scenarios based on past experiences.

On whether the information given was informative, as shown in Table 4.31, 23% of the respondents strongly agreed, 8% moderately agreed and 24% mildly agreed. On the other hand, 3% of the respondents strongly disagreed, 11% moderately disagreed and 21% mildly disagreed. Another 10% of the respondents were neutral. This indicates that majority of the respondents agreed that the information given was informative. In their study on the impact of choice on fairness in the context of service recovery, Mattila and Cranage (2005) find that offering consumers an informed choice in a service setting (e.g. information regarding the firm's service delivery system) enhances a customer's informational fairness perception following a service failure. Dissatisfied complaining customers expect a good explanation of what has happened; an apology, that the organization empathizes with their situation and that the organization will make an effort in trying to make them happy again (Gruber, 2011).

Customers expect the organization to take responsibility for the situation and to solve it. So when things go wrong, a speedy recovery is important. In case personnel are not able to provide speedy recovery, the organization has to provide customers with updated information on the process. The organization must first appreciate that the customer is honest, and aim at creating good relations through a good recovery process (Komunda, 2013). Hotels should therefore endeavour in instilling entrepreneurial mindset in the employees to enhance continuous learning to keep them informed through past failures and also benchmarking with the competitors.

In seeking opinion on whether the information given was clear and sincere, as shown in Table 4.31, 27% of the respondents strongly agreed, 11% moderately agreed, and 25% mildly agreed. On the other hand 5% of the respondent's strongly disagreed, 9% moderately disagreed and 17% mildly disagreed. Another 6% of the respondents were neutral. In their study on how to repair customer trust after negative publicity, the roles of competence, benevolence and forgiveness, Xie and Peng (2009) suggested that timely information disclosure of unfavourable events is an important approach to remove suspicion, unify expectations, facilitate trust, and minimize harmful consequences.

Prudent communications are more effective in resolving disputes and aligning perceptions and expectations, more so than compensation or apology. In addition, communications make customers aware that the company would try to resolve the problems rather than act opportunistically (Vazquez Casielles, Suarez Alvarez, & Diaz Martin, 2010). Customers often feel initial disappointment or anger after encountering a service failure. However, this initial reaction can be avoided or minimized if the enterprise can effectively explain the reason for the service failure and implement a service recovery strategy in a timely manner (Chang, Lee, & Tseng, 2008).

Hotels should endeavour not only to make a sale but to create a long-term relationship that will only be achieved through trust. Creating a long-term customer relationship will lead to enhanced customer loyalty hence a larger market share due to the competitive advantage of the hotel. Zahra, Nielsen, and Bogner (1999)

believed that the entrepreneurial culture that reinforces communication and sharing of knowledge within the organization is crucial element of success in encouraging and implementing of new ideas. Understanding the key values of these cultures and recognizing the key powerful elements within them can lead to successful innovations. Entrepreneurial firms are more prone to having a market-driven culture by constantly updating, improving and changing business processes, products and services that eventually create more value for customers (Agca, Topal, & Kaya, 2009).

Table 4. 31: Information Fairness

		SD	MOD	MID	N	MIA	MOA	SA	Mean	Std. Dev.
INFOJ1	%	4	9	16	11	24	16	20	2.71	1.582
INFOJ3	%	3	11	21	10	24	8	23	2.29	1.378
INFOJ4	%	5	9	17	6	25	11	27	2.36	1.445

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA- Mildly agree, MOA-Moderately agree, SA-Strongly agree.

4.13.2 Confirmatory Structural Model and Hypothesis Testing for Communication

Objective 4: To determine whether communication has an influence on customer loyalty in the hospitality industry in Kenya.

Communication was measured by 5 items (COM1, COM2, COM3, COM4, COM5) as shown in appendix IV. To remove poorly fitting items from the hypothesized model, the study examined modification indices of the variables and identified the variables with the largest standard residual. One item was dropped at a time and then CFA was re-run on the subsequent model until a perfect model was obtained. Following the above procedures, two items (COM4 and COM5) were dropped. The

goodness-of-fit measures of the subsequent model are as shown in Table 4.32. All the fit indices indicated a perfect fit of the model to the data.

Table 4. 32: Fit Indices for Communication

The fit Index	RMSEA	GFI	AGFI	CFI
Default model	.049	0.854	0.740	0.916
Saturated Model		1.000		1.000
Independence model	.405	0.222	0.066	0.000

The study tested the following hypothesis to test the above objective:

H₀: Communication in service recovery has no significant influence on customer loyalty in the hospitality industry in Kenya.

The study used Structural Equation Modelling (SEM) path coefficients to determine the direction and strength of the factor. Regression weights were used to test the contribution of different indicators to communication. As shown in Table 4.33, a unit increase in communication is associated with 0.888 of employee politeness in service recovery, and since CR (24.056) is greater than 1.96, then there is a significant positive relationship between COM1 and communication construct. Also a unit increase in communication is associated with 0.829 of employees explanation for the failure, and since CR (17.077) is greater than 1.96, then there is a significant positive relationship between COM2 and communication construct. The results also show that a unit increase in communication is associated with 1.018 of the adequacy of the explanation given, and since CR (25.926) is greater than 1.96, then there is a significant positive relationship between COM3 and communication construct. The overall results also show that a unit increase in customer loyalty is associated with 0.415 increases in communication. Therefore the results show that there was a significant positive relationship between communication and customer loyalty.

Table 4. 33 Regression Weights and t-value for Communication

			Estimate	S.E	C.R.	P
CL	← --	COM	.415	.049	8.439	***
COM1	← --	COM	.888	.037	24.056	***
COM2	← --	COM	.829	.049	17.077	***
COM3	← --	COM	1.018	.039	25.926	***

As shown in Figure 4.17 the path coefficient beta value was 0.44, which implies that for every 1 unit increase in communication, customer loyalty is predicted to increase by 0.44. The study also used R^2 to determine the proportion of variation in independent variable explained by the model. Figure 4.17 shows that communication had a coefficient R^2 mean of 0.49, which indicates that 49% of the variations in customer loyalty can be accounted for by communication.

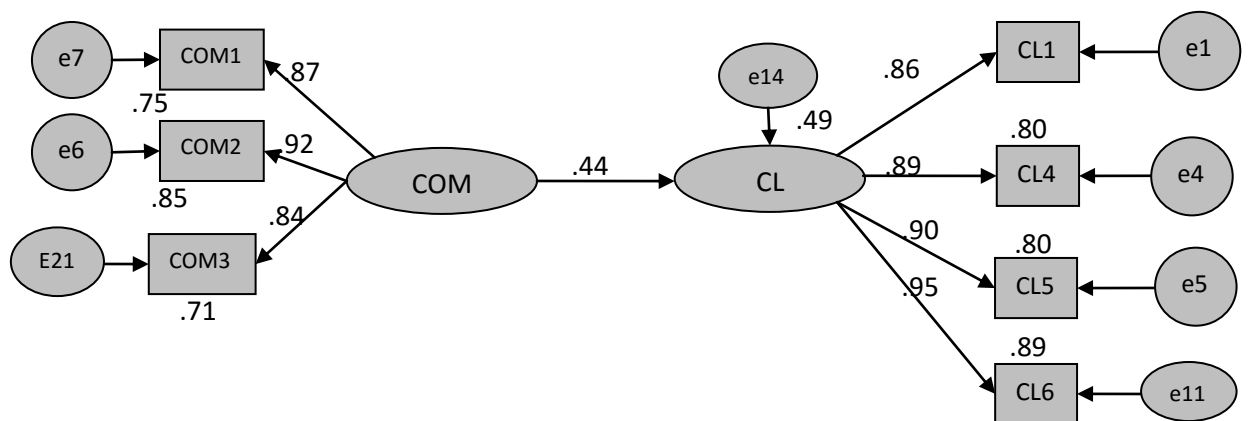


Figure 4. 17: Structural Equation Modeling for Communication

T-statistics value (CR) was used to test whether the relationship between communication and customer loyalty was significant. To determine the level of significance, the critical value (CR) should be greater than 1.96 at 0.05 significance level. Figure 4.18 shows a t-scale of 8.439. These results show that there was a significant relationship between communication and customer loyalty since CR (8.439) is greater than the critical value of 1.96 at 0.05 significant level ($p < 0.05$).

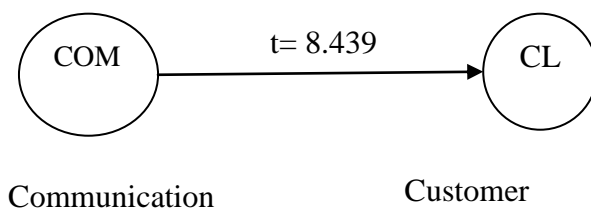


Figure 4. 18: Significance Test for Influence of Communication on Customer Loyalty

The findings of the study reveals that the relationship between communication and customer loyalty is positive and significant ($t=8.439$, p -value .000). This implies that an increase in the level of communication in service recovery leads to an increase in customer loyalty in the hospitality industry in Kenya. Therefore the null hypothesis that communication has no significant influence on customer loyalty in the hospitality industry in Kenya is rejected at 95% significant level. The alternative hypothesis that communication has a significant influence on customer loyalty in the hospitality industry in Kenya is accepted. This corroborates similar findings on the effect of service recovery on customer satisfaction and loyalty, where Komunda and Osarenkhoe (2012) who found out that communication and explanations are important dimensions in enhancing customer satisfaction and loyalty.

4.13.3 Testing Mediation Influence of Informational Justice on the relationship between Communication and Customer Loyalty

The study also determined whether informational justice mediates the relationship between service recovery and customer loyalty in the hospitality industry in Kenya. Interpersonal justice was measured by 5 items (INFOJ1, INFOJ2, INFOJ3, INFOJ4, INFOJ5) as shown in appendix IV. Based on the analysis, one item was dropped at a time and then CFA was re-run on the subsequent model. Following the above procedures, one item (INFOJ2) was dropped. The subsequent model fitted the data well, as shown in Table 4.34. All the fit indices indicated a perfect fit of the model to the data. Hence, the five indicator model provides evidence of a good fit as shown in Figure 4.19.

Table 4. 34: Mediating Influence of Interpersonal Justice on Communication and Customer Loyalty

The fit Index	RMSEA	GFI	AGFI	CFI
Default model	0.031	0.818	0.719	0.898
Saturated Model		1.000		1.000
Independence model	0.627	.189	0.065	0.000

To test the above objective the study tested the following hypothesis:

H₀: Informational justice does not mediate the relationship between communication in service recovery and customer loyalty in the hospitality industry in Kenya.

As shown in Figure 4.17, the regression analysis revealed a significant effect of communication on customer loyalty ($\beta=0.44$, $t=8.439$, $R^2=0.49$). Thus using Baron and Kenny approach, the study fitted the following three regression models:

$$M = \beta_1 + aX + \varepsilon_1 \quad (\text{Equation 1})$$

$$Y = \beta_2 + cX + \varepsilon_2 \quad (\text{Equation 2})$$

$$Y = \beta_3 + c X + \varepsilon_3 \quad (\text{Equation 3})$$

Where:

β are the intercepts

ε is the model fit errors

a, b, c and c` terms are the regression coefficients capturing the relationships between the three focal variables.

The results of the first regression analysis showed that communication had a significant effect on the proposed mediator, informational justice ($\beta=0.60$, $t=12.493$, $R^2=0.36$). The second regression analysis indicated that informational justice had a significant influence on customer loyalty ($\beta=.16$, $t=-1.482$, $R^2=0.20$). The results of the third regression analysis showed that when informational justice was entered as the mediating variable, employee behaviour had a significant effects on customer loyalty ($\beta=0.19$, $t=7.519$, $R^2=0.20$). These results confirm that informational justice partially mediated the effect of employee behaviour on customer loyalty.

Therefore the null hypothesis that informational justice does not mediate the relationship between service recovery and customer loyalty in the hospitality industry in Kenya is rejected at 0.05 level of significance. The alternative hypothesis that informational justice mediates the relationship between service recovery and customer loyalty in the hospitality industry in Kenya is accepted. In their study on the impact of choice on fairness in the context of service recovery, Mattila and Cranage (2005) found out that offering consumers an informed choice in a service setting enhances a customer's informational fairness perception following a service failure.

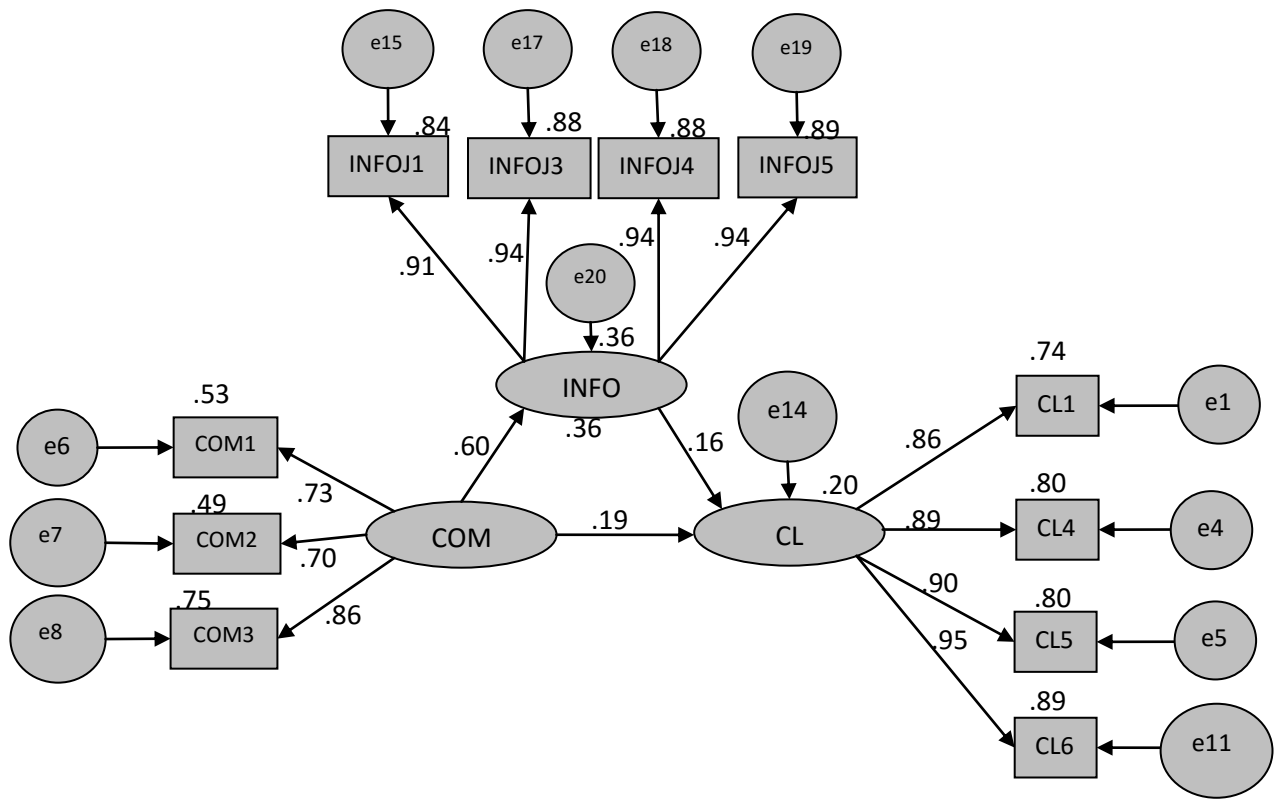


Figure 4. 19: Mediation of Informational Justice on Communication and Customer Loyalty

Table 4. 35: Summary of Mediating Role of Perceived Justice on Service Recovery and Customer Loyalty

	STEP 1	STEP 2		STEP 3
	C-CL	C-DJ	DJ-CL	C-CL
Coefficient	0.69	0.36	0.443	0.54
T-value	9.395	6.083	9.480	8.778
	EE-CL	EE-BJ	BJ-CL	EE-CL
Coefficient	0.46	0.81	0.10	0.21
T-value	2.230	13.368	-0.99	2.120
	EA-CL	EA-IJ	IJ-CL	EA-CL
Coefficient	0.52	0.31	0.23	0.10
T-value	3.961	3.679	-0.454	6.662
	COM-CL	COM-INFOJ	INFOJ-CL	COM-CL
Coefficient	0.44	0.60	0.16	0.19
T-value	8.439	12.493	-1.482	7.519

Table 4. 36: Summary of Hypothesis Testing Results

Hypothesis	Estimate (Z-Score)	T- Statistics	Model Results	Conclusion
H ₀₁ : Compensation in service recovery has no significant influence on customer loyalty in the hospitality industry in Kenya.	0.69	9.395	Positive & Significant	Rejected
H ₀₂ : Employee empowerment in service recovery has no significant influence on customer loyalty in the hospitality industry in Kenya.	0.39	5.230	Positive & Significant	Rejected
H ₀₃ : Employee behaviour has no significant influence on customer loyalty in the hospitality industry in Kenya.	0.22	3.961	Positive & Significant	Rejected
H ₀₄ : Communication has no significant influence on customer loyalty in the hospitality industry in Kenya.	0.44	8.439	Positive & Significant	Rejected
H ₀₅ : Distributive justice does not mediate the relationship between compensation in service recovery and customer loyalty in the hospitality industry in Kenya	0.53	8.778	Partially mediated	Rejected
H ₀₆ : Procedural justice does not mediate the relationship between employee empowerment and customer loyalty in the hospitality industry in Kenya.	0.21	2.120	Partially Mediated	Rejected
H ₀₇ : Interpersonal justice does not mediate the relationship between employee behaviour and customer loyalty in the hospitality industry in Kenya.	0.10	6.662	Partially Mediated	Rejected
H ₀₈ : Informational justice does not mediate the relationship between communication in service recovery and customer loyalty in the hospitality industry in Kenya.	0.19	6.662	Partially Mediated	Rejected

4.14 Optimal Model

Figure 4.20 shows the specified structural equation model was run using the final refined data. Path coefficients were used to determine the direction and strength of the factors. The figure shows a path coefficient beta value of $\beta=0.42$ for compensation, $\beta = 0.47$ for employee empowerment, $\beta = 0.44$ for employee behaviour, and $\beta = 0.28$ for communication. This implies that for every 1 unit increase in compensation, customer loyalty is predicted to increase by 0.42 units. For every 1 unit increase in employee empowerment, customer loyalty is predicted to increase by 0.47 units. For every 1 unit increase in employee behaviour, customer loyalty is predicted to increase by 0.44 units and for every 1 unit increase in communication; customer loyalty is predicted to increase by 0.28 units. This shows the importance of entrepreneurs in the hospitality industry to balance between the various service recovery strategies in order to remain competitive. In their study on consumer responses to online retailer's service recovery after service failure: a perspective of justice theory, Lin, Wang and Chang (2011) found similar results that compensation, employee empowerment, employee behaviour, and communication have a significant positive influence on customer loyalty.

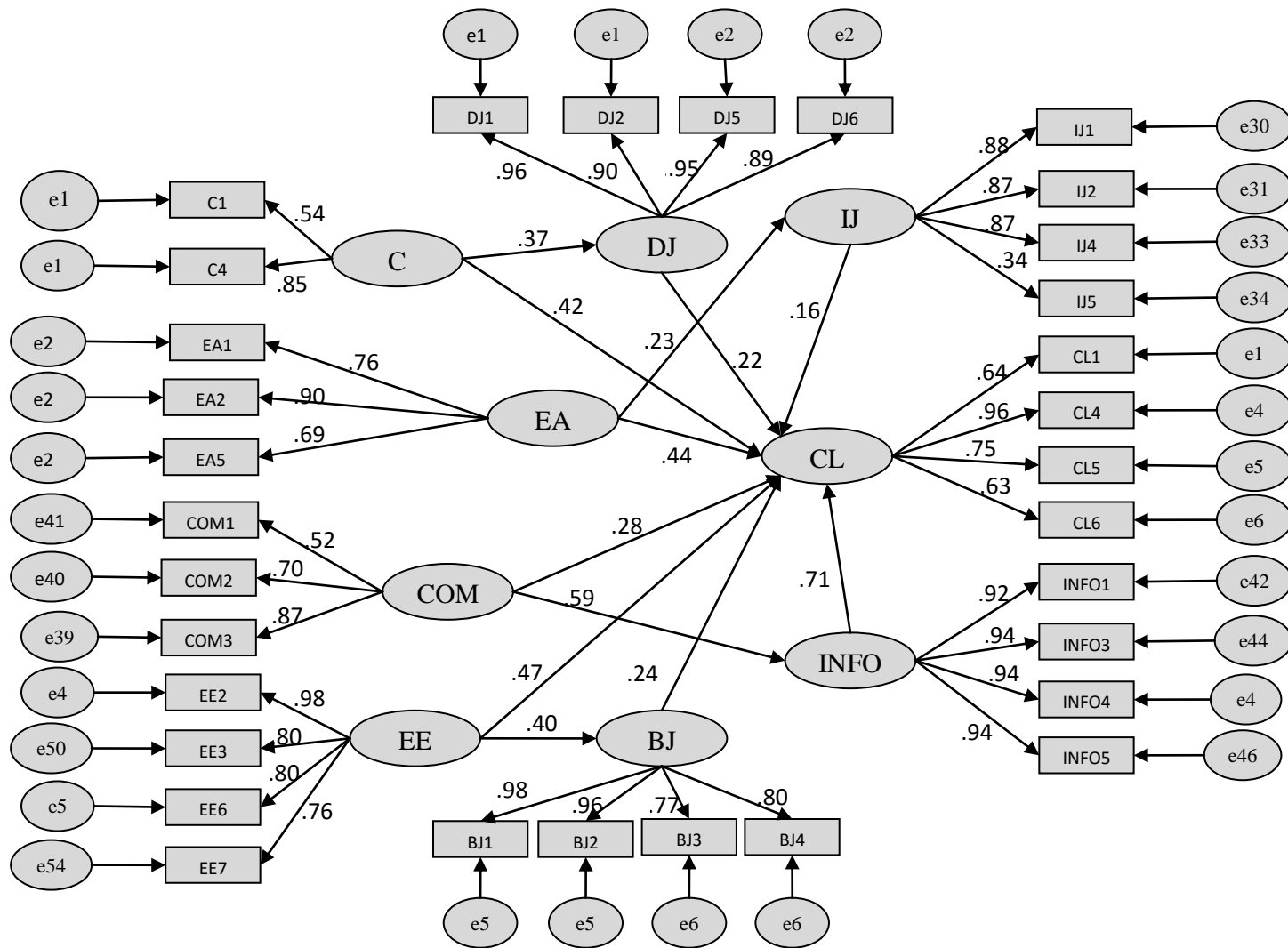


Figure 4. 20: Optimal Model

4.15 Revised Conceptual Framework

Following the hypothesis testing for the optimal model, all the four independent variables were found to have an influence on the relationship between service recovery and customer loyalty in the hospitality industry in Kenya. The four independent variables were compensation, employee empowerment, employee behaviours and communication. When considered separately compensation was found to have a higher influence on the relationship between service recovery and customer loyalty, followed by employee behaviours, employee empowerment and communication. This indicates that in service failure situations the aggrieved customer will be satisfied with compensation as a service recovery strategy. In compensation offering of discounts and the level of compensation were the most preferred by the aggrieved customers rather than an offer for a room upgrade at no additional cost. In their study on a Meta Analysis of Organizational Complaints Handling and Customer Responses, Gelbrich and Roschk (2010) found out that compensation was the most powerful service recovery strategy.

When all the variables were analyzed together it was found that employee behaviour and employee empowerment to be the most important service recovery strategies. This corroborates with a study on consumer responses to compensation, speed of recovery and apology after a service failure where, Wirtz and Mattila (2012) found out that offering compensation might not add value in situations where the recovery process is well implemented, that is, immediate recovery combined with positive employee behaviours.

The study tested the mediation influence of perceived justice on service recovery and customer loyalty. The results indicated that perceived justice serves as a partial mediator of service recovery and customer loyalty. The findings suggest that service recovery and customer loyalty can be enhanced by increasing perceived justice through distributive, procedural, interpersonal and informational justices. This can be done through assigning more resources for compensation, empowering the employees, enhancing positive employee behaviours and the quality of information

provided in service recovery. The revised conceptual framework is as shown in Figure 4.21.

Independent Variables

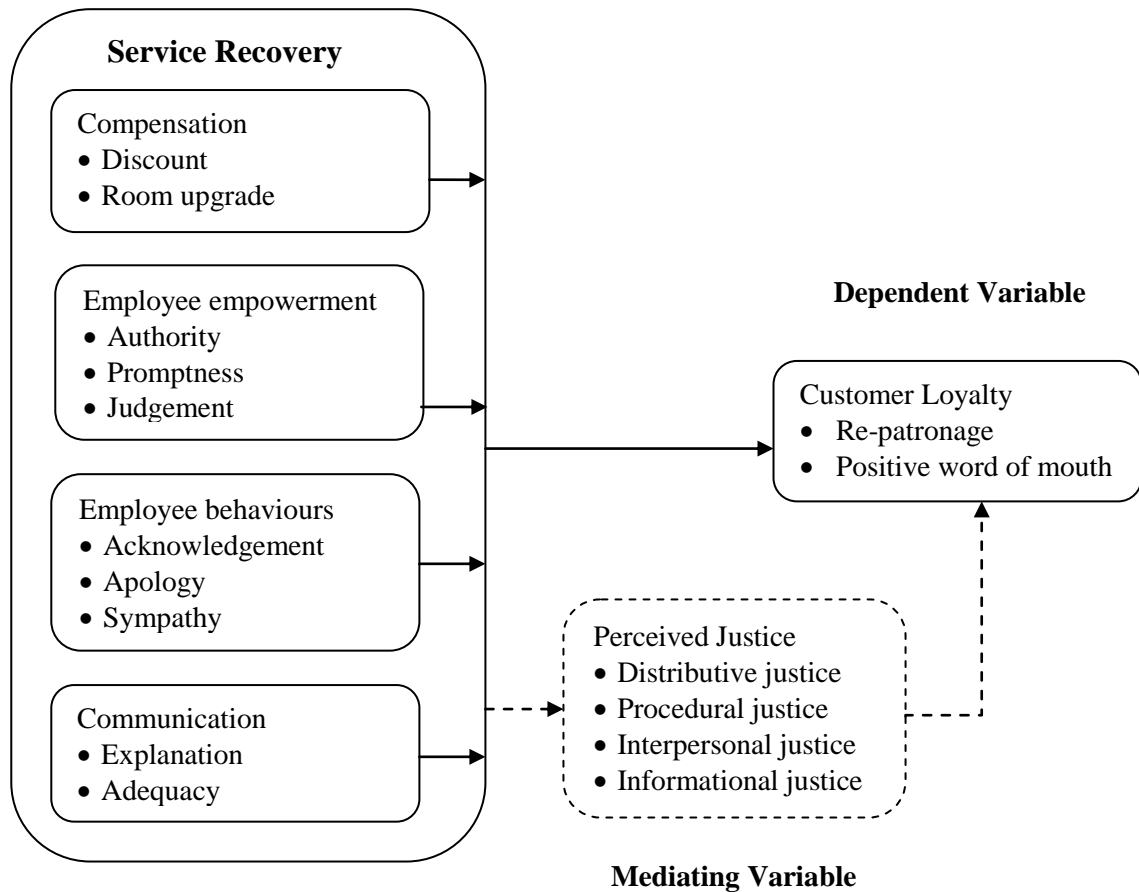


Figure 4. 21: Revised Conceptual Framework

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusions and recommendations of the study on the influence of entrepreneurial service recovery on customer loyalty in the hospitality industry in Kenya. The chapter summarized the collected data and the analysis; discussion with reference to the specific objectives and the interpretation of the results. The conclusions of the study relate to the specific objectives and recommendations based on the conclusion of each specific objective.

5.2 Summary of findings

The general objective of the study was to explore the entrepreneurial influence of service recovery on customer loyalty in the hospitality industry in Kenya. The summary of the study are guided by the specific objectives. The study was guided by compensation, employee behaviours, employee empowerment and communication as the independent variables, perceived justice as the mediating variables and customer loyalty as the dependent variables.

5.2.1 To determine whether compensation has an influence on customer loyalty

The study sought to find out whether compensation in service recovery has an influence on customer loyalty. The study found out that there was a positive influence of compensation on customer loyalty in the hospitality industry in Kenya. The study found out that respondents were satisfied with a discount as a compensation strategy for service failure. Although the respondents were satisfied with compensation, majority indicated that they were not in the same position that they were before the complaint. This indicates that as much as compensation is offered organizations should try to avoid cases of service failures as this might make the customers to start doubting the quality of services offered by the organization.

Compensation in terms of offering a discount and room upgrade was found to be adequate as a remedy to service failure.

The respondents were satisfied with compensation as a service recovery strategy and would consider giving the hotel preference in future patronage. They also indicated that the hotel had won their loyalty and would say positive things about the hotel. Compensation was found to be the most powerful determinant of customer satisfaction and works better because it denotes seriousness on the part of the service providers towards valuing their clients and their eagerness to have them back as repeat customers. It was also clear that offering compensation might not add value in situation where the recovery process is well implemented and that compensation does not make up for poor recovery effort.

5.2.2 To establish the mediation influence of distributive justice on the relationship between compensation and customer loyalty.

The study sought to find out the mediation influence of distributive justice on the relationship between compensation and customer loyalty. The results confirmed that distributive justice partially mediated the influence of compensation on customer loyalty. From the results, in situations of service failure customers feel treated unfairly and feel like they don't get value for what they have paid for. The results show that distributive justice has a significant influence on the overall satisfaction with the service recovery. In Justice Theory, distributive justice focuses on the fairness of an exchange by comparing their inputs to outcomes to form an equity score. An exchange is judged as fair when this equity score is proportional to the scores of a referent point.

The results also show that the compensation offered was adequate, this could be due to the fact that the recovery process was incorporated with other service recovery strategies. The customers seemed to view the action of the hotel to compensate them as a show of concern and empathy to their grievances. In Justice Theory hotels should consider the opportunity cost of foregoing the revenue or any other benefit that would have accrued from the customer at the benefit of unsatisfied customer.

5.2.3 To establish the influence of employee empowerment on customer loyalty.

The study established the influence of employee empowerment in service recovery on customer loyalty in the hospitality industry in Kenya. The results show that the receptionist and waiters/waitress are the first people that are contacted in case of service failure and therefore should be the first people to solve customers' complaints. The study found out that the first person contacted was able to solve the complaint. This helped in increasing the likelihood of successful service recovery since the initial employee contacted was able to solve the complaint in a timely manner. The study found out that employees had the authority to resolve the complaint.

However, the study found out that the management of the organizations do not allow the employees to use their own judgment and do not trust the decision making capacity of employees in addressing service failure situations. This implied that an increase in the level of employee empowerment in service recovery leads to an increase in customer loyalty in the hospitality industry. The frontline employees therefore need to be empowered to be able to solve customer complaints without first referring them to someone else. The likelihood of successful service recovery is increased if the initial contact has the authority and handles customer complaints in a timely manner.

The study also found out that timely response to service failure increases the chances of customer satisfaction and hotels need to give their employees autonomy in order to be able to address customer concerns independent of hotel management. Customers expect that the service quality offered by the hotels should be prompt and timely. Customers become impatient if the promised service is not offered within the acceptable time limit. The results also show that hotels in Kenya do not allow their employees to use their own judgement and decision making capacity in handling customer's complaints. This in effect has led to untimely address to customers complaints. In order for the employees to be able to serve the customers better they should be empowered with the relevant skills that will enable them to make prompt decisions on their own.

5.2.4 To establish the mediation influence of procedural justice on the relationship between employee empowerment and customer loyalty.

These results confirm that procedural justice partially mediated the influence of employee empowerment on customer loyalty. The results show that the customers were able to express their views during the process of resolving the complaints, and had some influence over the outcomes. In reaching for an outcome in service recovery hotels should seek for the input of the aggrieved customers so that they can own and be part of the solution. Hotels should endeavour to use fair procedures in addressing service failures because they are more likely to result in fair outcomes. The results show that the procedures were applied consistently which demonstrates that a standard approach to service policies and practices helps in creating customer satisfaction through employee knowledge and empowerment for decision making in solving customer complaints.

5.2.5 To assess the influence of employee behaviours on customer loyalty.

The study found out that there was a significant relationship between employee behaviour and customer loyalty in the hospitality industry in Kenya. The results show that majority of the hotels in Kenya use apology as a service recovery strategy. A simple gesture of apologizing to the customer without laying blame can have a major impact on the customer's satisfaction with the recovery process. In service failure situations the study found out that employee's acknowledged the service failure which is critical to service recovery process. Kenyan hotels employees were also found to be sympathetic with customer's failure situation, which was found to be a successful strategy of restoring positive customer attitudes.

Acknowledgement of service failure, sympathy and apology were found to be important service recovery strategies. The respondents indicated that they were satisfied with the hotel services and would consider the hotel as their preferred destination in future. They also indicated that the hotel had won their loyalty and would say positive things about the hotel. This could be attributed to the actions of the employees which made the aggrieved customer to feel that the employees cared

about their grievances. Employees should always be ready to address to the emotions of the aggrieved customers as this will make them feel that they are in good hands while patronizing the hotel.

5.2.6 To establish the mediation influence of interpersonal justice on the relationship between employee behaviours and customer loyalty.

The results confirmed that interpersonal justice partially mediates the influence of employee behaviour on customer loyalty. The results show that the hotel employees showed concern to the customers' needs. Service provider's interpersonal skills are important in hospitality industry as they influence customer evaluations of service quality. The hotels employees were also found to treat their customers with respect and politeness in service recovery situations. This was found to result in higher customer perception of interpersonal justice which in turn influenced customer's satisfaction and loyalty in service recovery encounters. The results also show that an apology is highly effective in service recovery in the hospitality industry. Apology is one of the most frequently used service recovery strategy and is seen as the minimum recovery strategy that should be offered by a service provider.

5.2.7 To determine whether communication has an influence on customer loyalty.

The study established that there was a positive influence between communication in service recovery and customer loyalty. The study found out that employees engaged the customer in the process of resolving the complaint. This is important because it will make the customer to be part of the recovery process and thus be in a position to accept the recovery strategy adopted. The results of the study show that employees are able to engage the customers effectively with most of the customers terming the communication as reliable. Effective communication and timely explanations are important dimensions to consumers in a service failure context. Hotel employees should be able to engage the aggrieved customers as this will help in making them vent their anger and frustrations and in effect give the hotel a chance of addressing

the service failure. It also helps in understanding the kind of outcomes expected by the aggrieved customers.

The study also found out that communication during the recovery process was clear, honest, polite and reliable. Addressing the aggrieved customers in a clear, honest, polite and reliable way is essential to maintain customer satisfaction levels. Customers want to feel that they are appreciated and they can trust the information given by an organization. The explanation given should be adequate to help the customer rate the seriousness of the organization in averting similar occurrences in future. The organization should demonstrate to the customer that they regret the failure and the steps taken to avoid the same happening in future. In service failure situations a customer is always concerned that the same problem might recur in future, thus a need for firm assurance of the steps that the organization will take to avoid the same.

5.2.8 To establish the mediation influence of informational justice on the relationship between communication and customer loyalty.

These results show that informational justice partially mediated the influence of employee behaviours on customer loyalty. The results show that the customers perceived the information given by the hotel employees to be true, clear, informative and sincere. Truthfulness of information and explanation given in service recovery is important in service recovery as customers perception of informational justice is threatened by lack of explanations provided to people. Customers will gauge the truthfulness of information provided based on their past experiences in using the hotel services. Employees should not assume that customers are not aware about the kind of services to expect or assume that they are ignorant about some facts. Employees should weigh the facts of the information that they release to the customer otherwise it might turn the complaining customer to feel even more aggrieved if they find that the information provided is not true or reliable.

5.3 Conclusions

Based on the findings of this study it can be concluded that service failure is inevitable in the hotel industry from time to time and if allowed to continue can affect the performance of an enterprise. Hotels must therefore come up with service recovery strategies that will not only leave the aggrieved customers satisfied with the outcome but also create a long-term relationship. They should adopt entrepreneurial oriented behaviours that will help in encouraging the aggrieved customer to openly air out their complaints. Successful recovery strategies were found to not only restore, but also enhance perceptions of the organization's competence and serve to increase customer satisfaction, retention, positive word-of-mouth behaviours, and ultimately long-term profitability.

The study found that compensation is the most powerful determinant of customer satisfaction as it denotes seriousness in the recovery process on the part of the provider. Organizations should assign tangible resources to correct problems and restore the trust of the aggrieved customer by offering discounts and allowing the customer to upgrade the room purchased at no extra cost. It was also clear that offering compensation might not add value in situations where the recovery process is well implemented and that compensation should not replace poor recovery process. Organizations should therefore not assume that compensation is the only remedy in service failure situations. In service recovery customers are more interested in the way the organization handles the situation and more so the assurance that the problem will not recur in future. The organization should also be cautious not to be seen as avoiding to take responsibility for the failure and hiding behind the compensation.

The study found out that employee empowerment is very important in enhancing service quality and more so in the hospitality industry. Giving employee authority to make decisions will enhance the speed with which they remedy for a service failure situations. Aggrieved customers also expect that the first employee to be contacted should be in a position to offer a solution without consulting someone else. In situations where employees are highly empowered, customers are far more likely to

be satisfied with the service recovery process if the first employee whom they complain to demonstrates the willingness and authority to offer a solution on the service failure. Frontline employees should be able to make an informed judgement without consulting the management. The speed with which a decision is reached on the recovery strategy to be adopted enhances the possibility of customer satisfaction and more so customer loyalty. In an organization there should be less formalization of roles and positions within the structure and empowerment efforts should not be treated as token or random, but should be designed to be systematic and consistent, and thus enhance innovation and creativity in service delivery.

Employee behaviours were found to be an important ingredient in service quality and thus influence customer loyalty. The study therefore concludes that organizations in the hospitality industry should embrace positive employee behaviours with the customers who will enable them to create a competitive advantage by capturing and using much of the service failure information. It is the behaviours and attitudes of frontline employees which primarily determine the customer's perceptions of service quality and their role is important for the recovery process in order to win back the customer. Employees should be in a position to perform the emotional, aesthetic, scripted and voluntary acts that are such an important part of the service recovery process.

The behaviours adopted by the employees will make customer to be satisfied with the hotel services, which will make them to speak positively about the hotel to other customers, thus acting as a marketing tool for the organization. Entrepreneurship leadership is required in encouraging employees to adopt positive behaviours which are important in making the customer the king and thus increase the chance of enhancing customer loyalty. Employees should act promptly to resolve a service failure; acknowledging mistakes, without arguing with customers, and showing openness in solving the problem.

The study found out that communication has a positive influence on customer loyalty and thus an important is service failure recovery. The study concludes that hotels should leverage on effective communication to achieve effective feedback

from their client's service failure perceptions and collectively distribute and interpret this information. Politeness was found to be an important component in communication and more so in situations when dealing with an aggrieved customer. In this process learning closes the loop to enable the system improvement and the development of new innovative services. To communicate effectively to the aggrieved customers, employees need to be creative and innovative. Entrepreneurial organizations should therefore invest in product and process innovations that will help in addressing the customer's issues. These organizations should create entrepreneurial culture which encourages learning through information sharing, commitment and accountability.

5.4 Recommendations of the study

The results of the study provide the entrepreneurs in the hospitality industry with some insights in regard to service failure recovery. The study will help them to understand that service failures in the hospitality industry are inevitable and will recur from time to time, and therefore need to come up with service recovery strategies that will help in creating a long-term customer relationship even in situations of service failure. Hotels should not regard service failures as a problem but as an opportunity to enhance customer satisfaction and a chance to learn from such experiences. Such service failure experiences should be used as a learning tool for amending the existing systems and also to create a set of knowledge that will be used for continuous innovation and strategic growth of their enterprises.

Hotels should recognize the need for compensation as one of the most important service recovery strategy in enhancing customer loyalty. They should come up with different forms of compensation that can be used to recover affected customers. Hotels should make use of such compensation strategies like offering discounts, refunds, replacements, coupons and upgrades of the service. They must also realize that compensation should not be used as a compromise to poor service recovery process. Compensation should be used together with other service recovery strategies. These firms should take advantage of their resource base to come up with creative and innovative strategies to enhance customer loyalty in their firms and

create entrepreneurial organizations. They should take advantage of the resource-based and dynamic capabilities view of the firm, which points out that firms in the hospitality industry can strategically practice innovation, utilizing their limited resources to maximum capacity and thus increasing their competitiveness.

The importance of employee empowerment in service recovery should also be taken into consideration. Hotel proprietors should appreciate that front-line employees are the mirror of any organization and the first point for any complaint initiation. Hotels should therefore embark on empowering their employees with skills, knowledge and the ability to deal with service failures. The employees should also be given the autonomy and leeway to make their own judgement as this will determine the speed and authority that they will use in addressing the service failures. Firms in the hospitality industry should engage in human resource practices that will motivate employees to act entrepreneurially by treating the customer as the reason for their existence. This agrees with Herzberg Two-Factor theory that states that employee motivation is achieved when employees are faced with challenging but enjoyable work where one can achieve, grow and demonstrate responsibility and advance in the organization. When employee's efforts are recognized, it brings about job satisfaction and motivation.

There should be less formalization of roles and positions within the structure and empowerment efforts should not be treated as token or random, but should be designed to be systematic and consistent, and thus enhance innovation and creativity in service delivery. This is with the knowledge that the most important ingredient for entrepreneurship to occur is the dedicated employee, who champions a concept, persists in overcoming internal and external obstacles. These organizations should also note that the willingness of an employee to identify the entrepreneurial concept to pursue is directly related to an entrepreneur's personal makeup, this positive feeling by the employees is easily transferred to the customers, thus enhancing customer loyalty.

Organizations in the hospitality industry should create a culture where employees use positive behaviours to win over aggrieved customers. They should therefore be

provided with training necessary to develop strategic thinking skills which enhance entrepreneurial mindset, thus able to create a positive customer experience. Hotels must also recognize that it is the behaviours and attitudes of frontline employees which determine the customer's perceptions of service quality. These organization need to create an entrepreneurial culture of creating a positive experience for the customers. This will be achieved by encouraging employees to embrace entrepreneurial mindset. Entrepreneurial culture will facilitate and accommodate firm's entrepreneurial activities in the market place. Entrepreneurial culture should be embraced through enhancing organizational capabilities that will enable the employees to deliver superior customer value consistently.

Effective communication is also important in any service recovery situation. Organizations in the hospitality industry should use the communication process in collecting service failure information that will be used as an ingredient for organization learning. Hotels should emphasize on the need of their employees communicating effectively during the process of service recovery and also when offering the service. Employees should be able to offer appropriate explanations for the failure and involve the aggrieved customers in reaching the outcome of the service recovery. Hotels should create a conducive environment for customers to express their views and help the employees acquire good communication skills to enhance proper handling of service failure situations.

5.5 Suggested Areas of Further Research

Since the study adopted a cross-sectional design, firm conclusions about the directions of causality implied in the model cannot be drawn. Interpretation of models using structural equation modeling is also not proof of causality. True causal inferences can only be drawn by testing models using longitudinal data. This is especially important for a subject like customer loyalty that is not static but is a developmental process that changes over time. The study concentrated on only four strategies of service recovery, future studies should explore other service recovery strategies which could provide a rich base for researchers to compare the results to determine if they will influence customer loyalty differently. The findings of this

study were drawn from the hotel industry in Kenya and more so in the five star hotels, similar studies should be conducted in the lower levels of hotels. This would guide them in understanding their weak areas in service quality. The research should also be extended to other service industries in Kenya.

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APPENDICES

Appendix I: Questionnaire

SECTION A: GENERAL INFORMATION

This questionnaire is meant to test the influence of entrepreneurial service recovery on customer loyalty in the hospitality industry in Kenya.

PERSONAL DETAILS

1. Gender: Male Female

2. Age:

Below 30

31-40

41-50

Over 50

3. Level of education

i. O-Level

ii. Tertiary Certificate

iii. Diploma

iv. Bachelor's degree

v. Master's Degree

vi. PhD

4. Occupation

5. Citizenship

Kenya

Others

If others, mention

HOTEL SERVICE EXPERIENCE

Think about a hotel that you have visited at least once in the past recent months in Kenya.

7. What is the name of the hotel? _____

8. When did you last visit this hotel? _____

9. How often do you visit this hotel?

More often

Frequently

Once in a while

Rarely

10. Can you recommend this hotel to your friends and relatives?

Yes No

11. Do you prefer this hotel over others?

Yes No

If yes, why do you prefer this hotel over others?

12. Has this hotel won your loyalty?

Yes No

SECTION B: SERVICE FAILURE

13. Have you patronized any hotel in the last three months?

Yes No

14. If yes (above), have you ever experienced any service failure?

Yes No

15. Tick (✓) the kind of service failure and inconvenience you have encountered before while using the services of the hotel mentioned above.

- i. A less enthusiastic clerk at the front desk
- ii. No clean room and other hotel facilities
- iii. The hotel records did not have your name yet you had made a reservation
- iv. The hotel employees were not able to address your issue because they could not help
- v. Management was busy to address your problem
- vi. Employees did not demonstrate courtesy and politeness in addressing your problem

16. Mention any other service failure and inconveniences not listed above

SECTION C: COMPENSATION

17. During this period of the service failure mentioned above, did you complain?

Yes No

18. If yes, please tick kind of complains you expressed among the following.

The room was not clean

The facilities I used in the hotel were in a poor condition

The food offered was not of good quality

The IT services were not effective

Any other complaints _____

19. Were your complaints addressed?

Yes No

20. If yes, indicate how your complaints were addressed by ticking below:

You were changed to another room

The room was cleaned and upgraded

You were offered a discount as compensation

Your money that had used for the services was refunded

Any other _____

21. Were you satisfied with the compensation offered to you by the hotel?

Yes No

22. Tick (✓) to show to what extend you agree with the following statements

SD MOD MID N MIA MOA SA

After receiving compensation mentioned above, I am in the same position like I was before the complaint.

The compensation received is adequate.

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA-Mildly agree, MOA-Moderately agree, SA-Strongly agree

SECTION E: EMPLOYEE EMPOWERMENT

23. In resolving your complain who was the first person you contacted

- i. Front line officer
- ii. waiter/waitress
- iii. House keeper
- iv. Others employees

24. Was your complaint solved by the person mention above?

Yes No

25. Was the complaint attended to in time?

Yes No

26. If no, why was the person unable to attend to the complaint in time?

27. Was the employee you mentioned above had the ability to efficiently deal with service failure you encountered?

Yes No

28. If no, why was the employee unable to deal with the service failure you encountered?

29. During the process of resolving your complaint, to what extent do you agree?

SD MOD MID N MIA MOA SA

The employee had authority to solve
your complain

Management allows employees to

use their own judgment in solving
problems

My problem was resolved quickly

Immediate response to this failure
was a priority

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-
Neither, MIA-Mildly agree, MOA-Moderately agree, SA-Strongly agree

SECTION F: EMPLOYEE BEHAVIOUR

30. While patronizing (visiting) the hotel you mentioned above tick the reaction you received as a customer by the hotel employees in addressing a service failure?

- i. Apologized for the service failure
- ii. Showed politeness while addressing the issue
- iii. The employee showed honesty while responding the failure
- iv. The employee showed concern while addressing the failure in service
- v. Employee gave Proper explanation on addressing the failure in service

31. During the process of resolving your complaint, to what extent do you agree?

SD MOD MID N MIA MOA SA

The employees acknowledged the
service failure

The employees were sympathetic.

The employees apologized to me

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-
Neither, MIA-Mildly agree, MOA-Moderately agree, SA-Strongly agree

SECTION G: COMMUNICATION

32. In the process of resolving the complaint did the employee communicate back to you?

Yes No

33. If Yes, tick where appropriate.

- i. The employee communication was clear
- ii. The employee was honest in addressing the complaint
- iii. The employee asked me questions in the process of resolving my problem to bring clarity
- iv. The employee communication was reliable

34. For the following statements to what extent do you agree?

The service received is what I paid for.

SD MOD MID N MIA MOA SA

The service outcome I received
was fair.

The hotel gave what I needed.

I was satisfied with the outcome
of the service offered

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA-Mildly agree, MOA-Moderately agree, SA-Strongly agree

SECTION I: DISTRIBUTIVE JUSTICE

35. This section will check the fairness of compensation (discount and room upgrade).

During the process of resolving your complaint, to what extent do you agree?

	SD	MOD	MID	N	MIA	MOA	SA
The service received is what I paid for.							
The service outcome I received was fair.							
I was satisfied with the outcome of the service offered							
I feel that the hotel offered adequate compensation in respond to service failure							

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA-Mildly agree, MOA-Moderately agree, SA-Strongly agree

SECTION J: PROCEDURAL JUSTICE

36. This section will check the fairness of procedures used in resolving the complaint. During the process of resolving your complaint, to what extent do you agree?

	SD	MOD	MID	N	MIA	MOA	SA
I was able to express my views during the procedures of resolving the complaint.							
I was satisfied with the length of time taken to resolve my complaint							
I had some influence over the outcomes arrived at by those procedures.							
The procedures were applied consistently							

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA-Mildly agree, MOA-Moderately agree, SA-Strongly agree

SECTION K: INTERPERSONAL JUSTICE

37. During the process of resolving your complaint, to what extent do you agree?

SD MOD MID N MIA MOA SA

The employees were concerned about my problem.

I was treated in a polite manner.

I was treated with respect.

The apology given was sincere.

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither,

MIA-Mildly agree, MOA-Moderately agree, SA-Strongly agree

SECTION L: INFORMATION JUSTICE

38. This section will check the fairness of information that was availed to you by the hotel employee. During the process of resolving your complaint, to what extent do you agree?

SD MOD MID N MIA MOA SA

The information provided was true.

The information given was informative

The information given was clear.

The information given was sincere.

SD-Strongly disagree, MOD-Moderately disagree, MID-Mildly disagree, N-Neither, MIA-Mildly agree, MOA-Moderately agree, SA-Strongly agree

SECTION L: CUSTOMER LOYALTY

39. Based on the above scenarios, to what extent do you agree with the following statements:

SD MOD MID N MIA MOA SA

I am satisfied with the hotel
service

This will be my preferred hotel.

The hotel has earned my loyalty

I will say positive things about
this hotel

Thank you for taking some of your precious time to respond to the questions in this questionnaire.

Appendix II: Sampling Frame

CUSTOMER POPULATION (OCTOBER 2013-MARCH 2014)

	Name of Hotel	Population	Sample Size	Location
1	Hotel Intercontinental	3319	50	Nairobi
2	Grand Regency (Laico)	1672	25	Nairobi
3	Hilton Hotel	1521	23	Nairobi
4	The Norfolk Hotel	1456	22	Nairobi
5	Nairobi Serena Hotel	1228	18	Nairobi
6	The Stanley Hotel	1884	28	Nairobi
7	Safari Park Hotel	1237	19	Nairobi
8	Windsor Hotel & Country Club	1121	17	Nairobi
9	Heming Ways Resort	699	10	Malindi
10	The WhiteSands Hotel	3251	49	Kilifi
11	Sun & Sand Beach Resort	2748	41	Kilifi
12	Mara Simba Lodge	764	11	Narok
13	Mpata Safari Club	208	4	Narok
14	Mt. Kenya Safari Club	1047	16	Nanyuki
15	Mara Serena Lodge	673	10	Narok
16	Amboseli Serena Lodge	828	12	Kajiado
17	Samburu Serena Safari Lodge	1929	29	Samburu
	TOTALS	25,585	384	

Appendix III: Letter of Introduction

Stephen Njuguna,
P.o Box 18415-00100,
Nairobi.
Tel. 0722912574
17th October 2013.

Dear Sir/Madam,

RE: DATA COLLECTION

Thank you for your participation in this research activity. I am a PhD Entrepreneurship candidate at Jomo Kenyatta University of Agriculture and Technology. I am currently conducting a field research on the topic:

“Influence of entrepreneurial service recovery on customer loyalty in the hospitality industry in Kenya”.

You have been identified as a respondent in this study and your responses are very important to this research effort. This is a kind request for your assistance in responding to the attached questions from your point of view as a hotel customer. Please answer each question in the order in which they are presented, and be as objective as possible as there are no right or wrong answers.

I would also like to assure you that all the information collected will be used purely for academic purposes and your assistance will be highly appreciated.

In this study service recovery is defined as the actions adopted by a service provider to remedy service failure incident so as to regain customer loyalty.

Thanks in advance.

Yours faithfully,

Stephen Njuguna.

Appendix IV: Description of Factors of the Study Variables

Item	Description	Constructs
C1	After receiving compensation mentioned above, I am in the same position like I was before the complaint.	
C2	After receiving the compensation, I am in a better position than I was before the complaint.	
C3	Hotel's response left me in a worse situation than I was before the complaint.	Compensation (C)
C4	The compensation received is adequate	
C5	The hotel should have done more than the compensation received.	
EE1	Employees had complete freedom in their work to attend to the complaint	
EE2	The employee had authority to solve your complain	
EE3	Management allows employees to use their own judgement in solving problems	
EE4	Management trusts the decision making capacity of employees to resolve clients problems	Employee Empowerment (EE)
EE5	The hotel employee responded promptly to complaint	
EE6	My problem was resolved quickly	
EE7	Immediate response to this failure was a priority	
EA1	The employees acknowledged the service failure	
EA2	The employees were sympathetic	
EA3	The employees expressed their remorsefulness	Employee Behaviours (EA)
EA4	Employees accepted the fault	
EA5	The employees apologized to me	

EA6	Employee gave elaborate explanation in addressing service failure		
COM1	The employees were polite		
COM2	I was given an explanation for the failure		
COM3	The explanation given was adequate	Communication (COM)	
COM4	The information given was adequate		
COM5	The information given was adequate		
COM6	The information given gave clarity to the complaint		
DJ1	The service received is what I paid for		
DJ2	The service outcome I received was fair		
DJ3	The hotel gave what I needed	Distributive Justice (DJ)	
DJ4	The service I received was what I expected		
DJ5	I was satisfied with the outcome of the service offered		
DJ6	I feel that the hotel offered adequate compensation in response to service failure		
BJ1	I was able to express my views during the procedures of resolving the complaint		
BJ2	I was satisfied with the length of time taken to resolve my complaint.		
BJ3	I had some influence over the outcomes arrived at by those procedures.	Procedural Justice (BJ)	
BJ4	The procedures were applied consistently		
BJ5	The procedures were free of bias		
BJ6	The procedures were based on accurate information		
BJ7	I was able to appeal the outcome arrived at by those procedures		
BJ8	The employee I first approached was able to assist me		

IJ1	The employees were concerned about my problem	
IJ2	I was treated in a polite manner	
IJ3	I was treated with dignity	Interactive Justice (IJ)
IJ4	I was treated with respect	
IJ5	The apology given was sincere	

INFOJ1	The information provided was true	
INFOJ2	The explanation given was adequate	Informational Justice
INFOJ3	The information given was informative	
INFOJ4	The information given was clear	(INFOJ)
INFOJ5	The information given was sincere	

CL1	I am satisfied with the hotel service	
CL2	I will patronize (visit again) this hotel in future	
CL3	I will recommend this hotel to others	Customer Loyalty
CL4	This is my preferred hotel	(CL)
CL5	The hotel has earned my loyalty	
CL6	I will say positive things about this hotel	

Appendix V: Skewness and Kurtosis

	N	Mean	Std. Deviation	Skewness	Std. Error of Skewness	Kurtosis	Std. Error of Kurtosis
EE6	363	3.98	2.204	.044	.128	-1.461	.255
EE7	363	3.93	2.219	.156	.128	-1.425	.255
EA5	363	5.58	1.778	-1.271	.128	.663	.255
BJ1	363	5.68	1.367	-1.298	.128	1.633	.255
BJ2	363	5.53	1.466	-1.209	.128	1.189	.255
BJ3	363	5.26	1.516	-1.014	.128	.737	.255
BJ4	363	4.21	2.127	-.292	.128	-1.256	.255
BJ5	363	4.46	2.105	-.442	.128	-1.045	.255
BJ7	363	4.12	2.094	-.151	.128	-1.215	.255
BJ8	363	4.50	2.010	-.324	.128	-.991	.255
IJ1	363	3.53	1.332	.212	.128	.387	.255
IJ2	363	3.49	1.341	.401	.128	.267	.255
IJ4	363	4.28	1.681	-.082	.128	-.729	.255
IJ5	363	4.96	1.819	-.563	.128	-.586	.255
INFOJ1	363	2.71	1.582	.957	.128	.188	.255
INFOJ2	363	2.80	1.505	.972	.128	.387	.255
INFOJ3	363	2.29	1.378	1.822	.128	3.369	.255
INFOJ4	363	2.36	1.445	1.773	.128	2.959	.255
INFOJ5	363	2.93	1.632	.670	.128	-.382	.255
CL5	363	3.71	2.204	.215	.128	-1.364	.255
CL6	363	4.43	2.141	-.300	.128	-1.251	.255
C1	362	2.84	.985	.040	.128	-.427	.256
C5	363	5.63	1.472	-1.340	.128	1.468	.255
DJ1	363	5.33	1.600	-1.101	.128	.646	.255
DJ2	363	5.32	1.540	-1.085	.128	.683	.255
DJ5	363	5.55	1.505	-1.488	.128	1.946	.255
DJ6	363	4.18	2.423	-.242	.128	-1.543	.255
CL3	363	3.75	.769	-.709	.128	.940	.255
CL1	363	3.88	.741	-.868	.128	1.719	.255
CL2	363	3.88	.756	-.604	.128	.835	.255
CL4	363	3.75	.725	-.673	.128	.998	.255
EA1	363	2.40	.936	.874	.128	.263	.255
EA2	363	2.35	.970	.704	.128	-.087	.255
EE3	363	3.99	.699	-.720	.128	1.417	.255
EE2	363	4.03	.708	-.704	.128	1.000	.255
COM3	363	2.54	1.003	.443	.128	-.409	.255
COM1	363	2.68	1.018	.521	.128	.107	.255
COM2	363	3.25	.952	-.404	.128	-.675	.255
C4	363	4.11	.606	-.728	.128	2.417	.255

Appendix VI: Reliability Test for Study Variables

Variables	Retained factors	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted	Overall Cronbach's Alpha
Compensation	C1	.274	.730	0.761
	C2	.317	.711	
	C3	.357	.701	
	C4	.398	.676	
Employee empowerment	EE2	.583	.804	.816
	EE3	.750	.805	
	EE6	.782	.759	
	EE7	.690	.772	
Employee behaviours	EA1	.606	.680	.751
	EA2	.777	.662	
	EA5	.148	.786	
Communication	COM1	.399	.782	.799
	COM2	.853	.736	
	COM3	.868	.726	
Distributive justice	DJ1	.774	.826	.870
	DJ2	.698	.831	
	DJ5	.822	.821	
	DJ6	.077	.952	
Procedural justice	BJ1	.509	.854	.850
	BJ2	.733	.851	
	BJ3	.687	.857	
	BJ4	.896	.809	
Interpersonal justice	IJ1	.560	.741	.794
	IJ2	.605	.727	
	IJ4	.375	.747	
	IJ5	.165	.846	
Information justice	INFOJ1	.627	.873	.900
	INFOJ2	.571	.885	
	INFOJ3	.817	.868	
	INFOJ4	.815	.869	
	INFOJ5	.474	.894	
Customer loyalty	CL1	.754	.961	.963
	CL4	.825	.956	
	CL5	.819	.956	
	CL6	.866	.952	

Appendix VII: Convergent Validity Test Of Variables

Construct	Item Loading	AVE \geq 0.5
Customer Loyalty		0.592
CL1	.870	
CL2	.887	
CL3	.965	
CL4	.852	
Employee Behaviour		0.652
EA1	.716	
EA2	.949	
EA3	.901	
EA4	.637	
Information Justice		0.629
INFOJ1	.781	
INFOJ2	.672	
INFOJ3	.927	
INFOJ4	.871	
Compensation		0.486
C2	.582	
C3	.684	
C4	.791	
Distributive Justice		0.759
DJ1	.734	
DJ2	.974	
DJ3	.941	
DJ4	.828	
Communication		0.497
COM1	.735	
COM2	.855	
COM3	.576	
Procedural Justice		0.688
BJ1	.592	
BJ2	.971	
BJ3	.893	
Interpersonal Justice		0.680
IJ1	.796	
IJ2	.719	
IJ3	.942	
Employee Empowerment		0.619
EE2	.836	
EE3	.966	
EE4	.837	

Appendix VIII: Communalities of Study Variables

	Initial	Extraction
EE2	.644	.656
EE3	.797	.874
EE4	.799	.835
EA1	.665	.656
EA2	.808	.866
EA3	.824	.858
EA4	.792	.786
COM1	.527	.490
COM2	.874	.948
COM3	.883	.901
BJ1	.622	.617
BJ2	.781	.883
BJ3	.760	.792
IJ1	.621	.652
1J2	.681	.724
1J3	.726	.851
INFOJ1	.661	.680
INFOJ2	.602	.569
INFOJ3	.852	.858
INFOJ4	.865	.835
CL1	.780	.763
CL2	.755	.793
CL3	.869	.932
CL4	.757	.733
C2	.379	.424
C3	.505	.599
C4	.464	.608
DJ1	.791	.786
DJ2	.731	.752
DJ3	.835	.873
DJ4	.777	.787

Appendix IX: Principal Axes Factor Analysis

Total Variance Explained

	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings ^a
	Total	% of Variance	Cum. %	Total	% of Variance	Cumulative %	Total
1	9.793	28.803	28.803	9.577	28.167	28.167	3.376
2	4.020	11.822	40.625	3.775	11.102	39.269	6.444
3	3.243	9.538	50.163	3.028	8.906	48.174	4.746
4	2.829	8.321	58.484	2.477	7.286	55.460	8.021
5	2.165	6.368	64.852	1.911	5.620	61.081	4.979
6	1.615	4.749	69.601	1.375	4.045	65.126	6.519
7	1.158	3.405	73.006	.937	2.755	67.881	2.953
8	1.083	3.184	76.190	.780	2.293	70.175	5.625
9	.917	2.698	78.888	.653	1.922	72.097	1.907
10	.797	2.343	81.231	.519	1.525	73.622	2.891
11	.659	1.938	83.169				
12	.567	1.667	84.836				
13	.493	1.451	86.287				
14	.427	1.256	87.543				
15	.408	1.201	88.743				
16	.376	1.105	89.848				
17	.365	1.075	90.923				
18	.316	.929	91.852				
19	.312	.919	92.771				
20	.280	.824	93.595				
21	.269	.791	94.386				
22	.248	.730	95.116				
23	.219	.644	95.760				
24	.205	.603	96.363				
25	.195	.572	96.935				
26	.176	.517	97.453				
27	.154	.453	97.905				
28	.151	.443	98.348				
29	.129	.380	98.728				
30	.111	.325	99.054				
31	.100	.296	99.349				
32	.089	.262	99.611				
33	.072	.210	99.822				
34	.061	.178	100.00				

Extraction Method: Principal Axis Factoring.

a. When factors are correlated, sums of squared loadings cannot be added to obtain a total variance.

Appendix X: Exploratory Factor Analysis

Variable	Loadings	Eigenvalues	% of variance
Employee Empowerment		9.577	28.167
EE2	0.836		
EE3	0.966		
EE6	0.837		
Employee Behaviours		3.775	11.02
EA1	0.716		
EA2	0.949		
EA5	0.637		
Communication		3.028	8.906
COM1	0.735		
COM3	0.855		
COM4	0.576		
Procedural justice		2.477	7.286
BJ1	0.592		
BJ2	0.971		
BJ3	0.893		
Interactive Justice		1.911	5.260
IJ1	0.796		
IJ2	0.719		
IJ4	0.942		
Information Justice		1.375	4.045
INFOJ1	0.781		
INFOJ2	0.672		
INFOJ3	0.927		
INFOJ4	0.871		
Customer Loyalty		0.780	2.293
CL1	0.870		
CL2	0.887		
CL3	0.965		
CL4	0.852		
Compensation		0.653	1.922
C1	0.582		
C2	0.684		
C4	0.791		
Distributive Justice		0.519	1.525
DJ1	0.734		
DJ2	0.974		
DJ3	0.941		
DJ4	0.828		
Total Variance Explained			73.622