

## **Perceived Justice and Perceived Loss Influence toward Customer Satisfaction in Service Recovery: The Impact on Trust and Switching Intention**

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### **ABSTRACT**

This study is an extension of earlier research on the effect of perceived justice and perceived loss on customer satisfaction during service recovery after service failure. Variables that are likely to impact customer behaviour in the future (trust and (non) intention to switch), once a customer is satisfied with the remedy are identified. Data was obtained from 242 respondents who had experienced service failure, from among customers of a prepaid card of the cellular company, PT.X. The approach used are convenience sampling and snowball sampling. Quantitative data analysis was performed using Structural Equation Modeling (SEM) and results showed that all variables had a positive effect; the coefficient of determination was shown in the distributive justice, meaning that distributive justice was the biggest variable with a positive and significant effect compared with other variables in this study. Although the 'perceived loss' variable had a positive value, its weightage was lesser than other variables. The SEM test results showed that the combined variables in this research, distributive justice, procedural justice, interactional justice, and the perceived loss, have a positive and significant impact on customer satisfaction in service recovery. The variables also have an impact on trust and switching intention. Therefore, in order to increase trust and reduce switching intention, it is important to consider the strongest variables that influence customer satisfaction.

*Keywords:* Perceived loss, perceived justice, satisfaction, service recovery, switching intention, trust

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### **INTRODUCTION**

Service is an act, process, or performance that is provided or produced by an entity for another (Zeithaml, Mary, & Dwayne, 2009). Lovelock and Wirtz (2016) emphasise the new perspective on services definition as

“a benefit without ownership”. Service is divided into two: a service as a core of the offering, and a service that complements the other goods being sold. The first form is termed as a core product element and the second one is a supplementary product element (Lovelock & Wirtz, 2016). Classical theories on services define a service as different from goods based on its four main characteristics: intangible, perishable, inseparable, and heterogeneous (Zeithaml et al., 2009). These characteristics make services difficult to evaluate (Lovelock & Wirtz, 2016), and create challenges for marketing managers to develop superior quality offerings acceptable to customers. Customers have two sets of expectations in services: the desired services and the adequate services, with a zone of tolerance in between the two (Zeithaml et al., 2009). Once the services experienced do not meet expectation, the customers will be dissatisfied. On the other hand, if the service exceeds the expectation of the customers, the customers will feel satisfied or even happy (Lovelock & Wirtz, 2016). Customer satisfaction is an important outcome (Kau & Loh, 2006), and is a result of the marketing efforts of a company. Conceptually, a satisfied customer has a bigger possibility to become a loyal customer and refer his/her positive experience to other people through various means, including word-of-mouth communication (Kotler & Armstrong, 2016). Hence, customer satisfaction is a good predictor of consumer behaviour. Customer satisfaction occurs when a company can fulfil customers’ needs by

providing superior quality of goods and/or services (Llusar, Zornoza, & Tena, 2001).

However, when expectation does not match performance, service failure is apparent (Shapiro, Nieman, & Gonder, 2006). Even excellent service providers may find it hard to avoid possibilities of service failure within the service delivery process (del Rio-Lanza, Vazquez, & Diaz, 2009; Huang & Lin, 2011; Nikbin, Ishak, Malliga, & Muhammad, 2010). Service failure might occur due to several reasons, for instance, poor or inefficient service performance, inappropriate behaviour or attitude during the service transaction, or other unwanted actions from the service providers (Bitner, Booms, & Tetreault, 1990). The service failure might hurt a company’s potential customers, affect customer satisfaction and loyalty (Schoefer & Ennew, 2005), or trigger customers to switch to other providers (Bhandari, Tsarenko, & Polonsky, 2007; Neira, Rodolfo, & Victor, 2009). All these, in turn, will affect the source of income for the company (Sabharwal, Harmeen, & Harsandaldeep, 2010). Therefore, it is important for a company to understand the root cause of their service failure, to respond and conduct the right recovery action.

Post failure recovery is essential and should be planned properly to overcome negative effect of service failure. Not all customers experiencing service failure would convey their experience to the company through complaints (Sabharwal et al., 2010), and they might still use their service (Kim, Kim, & Kim, 2009). However, if any other company offers

a better replacement or substitute with minimum switching costs, they may silently switch to other providers (Zeithaml et al., 2009). A proper service recovery plan should include perceived fairness from the customers' point of view, commissioning the recovery at the earliest and as correctly as possible (Sabharwal et al., 2010). Such service recovery action is important, not only to satisfy the affected customers, but also to strengthen the relationship between the company and their customers (Blodgett, Hill, & Tax, 1997; Smith, Bolton, & Wagner, 1999).

Based on empirical evidence, if a service failure occurs, the company that triggers service recovery by applying "perceived justice, namely distributive justice, procedural justice, and interactional justice" has greater likelihood to increase their post-recovery customer satisfaction (Nikbin et al., 2010; Sabharwal, et al., 2010; Smith, Bolton, & Wagner, 1999). Moreover, customers who experience severe service failure (perceived loss), but perceived better service recovery, would increase their rating of satisfaction compared with that of a minor service failure scenario (Sabharwal et al., 2010; Weun, Beatty, & Jones, 2004). This is termed as a "service recovery paradox" (Zeithaml et al., 2009), and it is expected that a satisfied customer (post-service recovery) will create a loyal customer (Astuti & Dharmmesta, 2011).

Based on the above, this research tests the presence of the service recovery process on the specific malpractice of "stolen (phone) credit" through the content

providers programme, for instance, Ring Back Tone (RBT), Quiz, Lifestyle Information, or Gaming, through USSD Code/SMS transactions with telephone credit as a currency. Although at times its transaction involved the third-party content providers, this cellular service provider "X" was sued by its customers for inflicting a hefty financial loss of up to four trillion IDR (US\$52 million). Considering the long-term effect of the failure, this "X" company has initiated several service recovery programmes to compensate the loss of its customers. This study examines the effect of perceived justice and perceived loss on the post-service failure (service recovery) satisfaction of the telecommunication company "X" in Indonesia (specifically on the "stolen credit" case of the prepaid phone connection), as well as its impact on customers' trust and (less) intention to switch to other telecommunication providers.

## METHODS

### Model and Hypotheses Development

Service recovery refers to a specific action to ensure the customer retains services within a reasonable level when a problem occurs, disturbing normal services (Lovelock & Wirtz, 2016). When service providers launch their recovery procedure, they must think whether the recovery is perceived as fair by the customer who expects the company to be just to them (Adams, 1963; Nikbin et al., 2010). A good service recovery plan should be able not only to detect and solve the problem, but also prevent

dissatisfaction and encourage the customers to be positive. Wirtz and Matilla (2004) found that the outcome of the service recovery (compensation, time spent to solve the problem, or asking to apologise) contributes to collective effects of post-service failure satisfaction (Nikbin et al., 2010, p. 49), or switches the dissatisfaction into satisfaction (Zemke, 1993). Justice theory approach is frequently used in such service recovery management.

A justice theory states that customers compare the treatment they receive from the service providers with that of other customers and evaluate whether the treatment they received was fair or unfair (Nikbin et al., 2010). Some researchers have explored the perceived justice from the customer point of view, investigating the relationship between perceived justice and service recovery effectiveness (Blodgett et al., 1997; Goodwin & Ross, 1992; Smith et al., 1999; Tax & Stephen, 1998). There are three points of view on perceived justice. The first view is distributive justice, which refers to the customer's perception on fair/equal allocation of resources, including refund, exchange, gift, coupons, etc., to compensate for the service failure (Blodgett et al., 1997; Homburg & Fürst, 2007; Wang, 2008). The second view is procedural justice, which refers to "customer perception on company's policy, procedure, and availability of the mechanism and tools that are able to support the process of service recovery; it includes flexibility, responsiveness, and efficiency of the recovery procedure" (Blodgett et al., 1997;

Maxham III & Netemeyer, 2002; Wang, 2008). The third view is an interactional justice, which refers to perception of justice on the attitude and behaviour of staff when conducting the service recovery process, including interpersonal actions of staff (empathy, honesty, giving solutions, and communication style) while handling customer complaint (Cropanzano, Bowen, & Gilliland, 2007; Nikbin et al., 2010).

Other important aspects the service provider should consider when planning service recovery is the perceived loss from the customer's point of view. The perceived loss is how customers feel about the severity of the service failure in relation to the cost that they must bear (Bolton, 1998). This perception will lead to dissatisfaction (Nikbin et al., 2010), and will influence their behaviour toward the service provider in the future (Bhandari et al., 2007; Jones, Michael, Valerie, Becherer, & Halstead, 2003; Maxham III & Netemeyer, 2002; Wang, 2008). However, Shabarwal et al. (2010) found that when customers perceive the severity of the service failure (perceived loss) to be high, they are more likely to lodge a complaint. Paradoxically, the more severe the service failure is, the bigger the opportunity for a deeper impact on post-service recovery satisfaction, provided a successful service recovery measure has occurred. In other words, the more severe the service failure is, or the more the customer perceived the loss they would experience, the more significant the influence of a successful service recovery is on the customers' post-service recovery

satisfaction. When the company has a successful service recovery, as expected by the customer, a higher perceived loss on the service failure will lead to more satisfaction compared with lower perceived loss by the customers (Sabharwal et al., 2010; Weun et al., 2004)

Both perceived justice and perceived loss will influence customer satisfaction post-service failure, or, the customer from being dissatisfied (from the failure) will become satisfied (after recovery) (Nikbin et al., 2010; Wirtz & Matilla, 2004), or vice versa. Customer satisfaction is the condition when customer expectation equals or is higher than their perception of the service performance (Fitzsimmons, 2001). In case of service failure, customer satisfaction is evaluated by comparing their expectation prior to service recovery and their perception on the actual service recovery (Karande, Vincent, & Leona, 2007).

Customer satisfaction of service recovery is proposed as a mediator between pre-choice conditions and post-recovery purchase behaviour, such as trust and switching intentions of the customers. Trust is defined as a confident positive expectation with another party's motive containing risks (Boon & Holmes, 1991). Trust from the customer is crucial for any service provider, as it represents the willingness of the former to choose the services offered (Astuti & Dharmmesta, 2011). Based on previous empirical research, trust is important to help a company develop a good relationship with its customer (Crosby, Evans, & Cowles 1990; Dwyer, Schurr, &

Oh, 1987; Morgan & Hunt, 1994). Trust is built when customers believe in a company's reliability and integrity on performing well during transaction (Morgan & Hunt, 1994), and through repeated satisfactions from previous transactions (Ganesan, 1994; Kau & Loh, 2006; Weun et al., 2004).

While trust is the function of repetitive satisfaction, dissatisfaction of the service might trigger customers to switch to other service provider (Burnham et al., 2003). Customer intention to switch to the other provider will be reduced if the customer feels satisfied with the existing service delivery or service recovery (Burnham et al., 2003; Jones et al., 2003).

On the contrary, if the customers feel that the company has failed to recover their failure, they may switch to other providers, or, even worse, spread negative word-of-mouth to other customers (Broderick et al., 2000; Lewis & Spyropoulos, 2001). However, if the post-failure service recovery is successful in creating customer satisfaction, it is expected that the customer's switching intention will be negatively influenced with added weightage. In other words, the customer will not have any intention to switch to the other service provider and would rather be willing to stay with the existing service provider (Bhandari et al., 2007; Jones et al., 2003).

The proposed model is developed to examine the effect of customers' perception on perceived justice and perceived loss on the post-service failure recovery satisfaction, as well as to test whether the level of customer satisfaction on the service recovery will

make them more willing to trust the service providers and whether they will switch. This model will be used to derive theoretical justification on the relationship between each variable. First, the three perceived justices (distributive, procedural, and interactional justice), along with perceived loss, become the antecedent of customer post-recovery satisfaction. Second, the satisfaction becomes the mediator between the previously mentioned antecedents with the post-recovery behaviour, Trust and (non) Switching Intention, as outcomes.

Distributive justice on service recovery, such as reimbursement by cash or coupon, discount, freebies, and apologising (Hoffman & Kelley, 2000; Tax et al., 1998) has a significant role in building customer satisfaction post-service recovery. It will influence customer satisfaction, since it assumes that by choosing to accept the compensation, the customers accept (and forgive) the failure of service (Goodwin & Ross, 1992; McCollough, Berry, & Yadav, 2000; Smith et al., 1999; Tax et al., 1998). Therefore, the first hypothesis is developed:

*H1: Distributive Justice will positively influence post-recovery satisfaction*

Procedural justice is a justice immediately conducted after the service failure and upon reports (lodging complaint) by the customer (Goodwin & Ross, 1992; Tax et al., 1998). The procedural justice is intended to solve the conflict and embrace the productive relationship between the service provider and its customers (Tax et

al., 1998). Some research has found that justice is not only seen in the final result, but is also contained in the process of getting the result, including the ease of lodging a complaint (Goodwin & Ross, 1992; Smith et al., 1999). Researchers have found that procedural justice influences customer satisfaction post-service recovery (Hocutt et al., 2006; Smith et al., 1999; Tax et al., 1998). Therefore, the second hypothesis is:

*H2: Procedural Justice will positively influence customer post-recovery satisfaction*

Interactional justice refers to how fairly the employees treat and personally interact with customers, post-service failure (Maxham III & Netemeyer, 2002). It involves politeness, sincerity, honesty, empathy, and the way employees handle the customers' complaints (Tax et al., 1998). Interactional justice is also proven to influence the satisfaction post-service recovery (McCollough et al., 2000; Tax et al., 1998). Therefore, the third hypothesis is:

*H3: Interactional Justice will positively influence customer post-recovery satisfaction*

The severity of the service failure can be gauged by measuring the spectrum on how big or small the service failure impacts the customer (Hess Jr, Ganesan, & Klein, 2003). In the case of severe service failure, the importance of good service recovery is important (McDougall & Levesque, 2000), and, if successful, will increase satisfaction (Smith et al., 1999). The perceived loss

involves a bill, service, equipment, or miscellaneous factors that directly influence customer satisfaction and is also dependent on situational and individual factors (Hoffman & Kelley, 2000). It is assumed that a bigger service failure coupled with a better service recovery will have a combined multiplying effect on the influence of post-service recovery satisfaction (McDougall & Levesque, 2000; Smith et al., 1999). Therefore, the fourth hypothesis is:

*H4: (bigger) Perceived Loss will positively influence customer post-recovery satisfaction*

Research has shown that there is a positive relationship between service recovery and customer satisfaction. The satisfaction in the recovery action might lead to the development of trust toward the service provider (Astuti & Dharmamesta, 2011; Kau & Lo, 2006). Trust may develop

if the company compensates the service failure in a way that makes the customer feel not only satisfied but also pampered, reinvigorating their confidence in the service provider (Maxham III & Netemeyer, 2002). On the other hand, if a customer feels that service recovery fails to compensate their loss, they may choose to switch to other providers. In cases when the post failure service recovery results in customer satisfaction, the customer will not have any intention to switch to the other service provider/no switching intention (Bhandari et al., 2007; Johnston, 2004; Jones et al., 2003). Therefore, the fifth and sixth hypotheses are:

*H5: Customer satisfaction post-service recovery will positively influence the customer's trust in the service provider*

*H6: Customer satisfaction post-service recovery will positively influence the customer's non-switching intention*

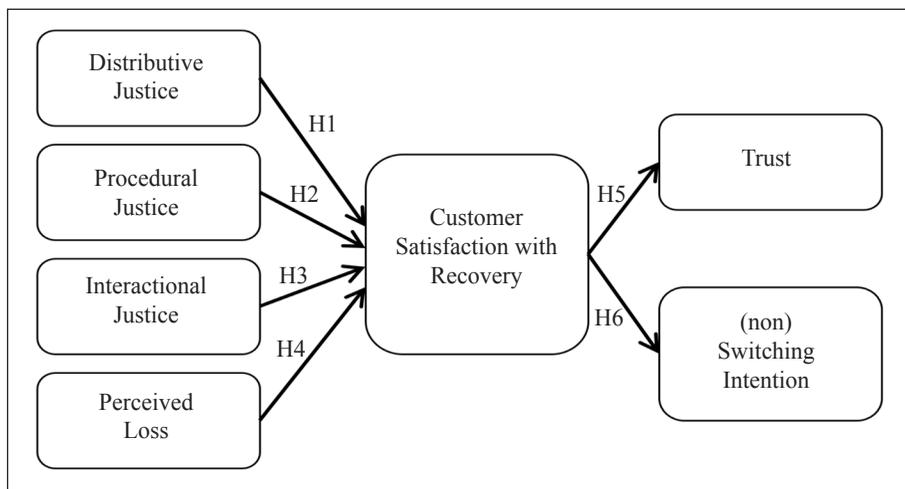


Figure 1. Proposed model

## METHODS

A quantitative research method of 'survey with questionnaire' is used in this study. A pilot test using 30 respondents is conducted before the main survey (Malhotra, Birks & Wills, 2012) to test the questionnaire's potential problem. After the pilot test and questionnaire's face validity is done, the data will be collected from the larger sample. The respondents in this research are the users of the cell phone network PT.X in the Depok area, aged 20-50 years, who have experienced service failure of their cellular company (credit loss/theft) and have received service recovery from their cellular service provider (Hidayat, 2011). The potential respondents were approached using a convenience sampling or snowball sampling (Malhotra, 2009). A total of 242 respondents participated; the data collected has been analysed using Structural Equation Modeling (SEM) with the LISREL 8.8 statistical tool.

Questionnaire items were derived from a variety of sources to ensure sufficient coverage of the variable definitions, and to ascertain the appropriateness within the context of the study. To measure Distributional Justice, five items were used from Blodgett et al. (1997), Wang (2008), and Sabharwal et al. (2010). For Procedural Justice, a total five items were taken from Blodgett et al. (1997), Sabharwal et al. (2010), Maxham III and Netemeyer (2002), and Karatepe (2006). For Interactional Justice, five more items were taken from Cropanzano, David and Stephen (2007),

Nikbin et al. (2010), and Sabharwal et al. (2010). Another set of five items for measuring perceived loss were taken from Hess Jr. et al. (2008), Weun et al. (2004), and Sabharwal et al. (2010). Ten items for measuring customer satisfaction (post-recovery) were taken from Karande et al. (2007), Kim et al. (2009), Neira et al. (2009), Nikbin et al. (2010), and Sabharwal et al. (2010). Five items to measure trust were taken from Astuti and Dharmamesta (2011), Kau and Loh (2006), and Weun et al. (2004). Finally, another set of five items to measure the switching intentions were taken from Bhandari et al. (2007), Broderick, Mack, Mueller and Crofts (2000), Burnham (2003), Jones et al. (2003), and Lewis and Spyropoulos (2001).

## RESULTS

### Demographic Respondent

Approximately 57% of the respondents are male. More than 47% of them were between 20-30 years old. Almost 74% of the respondents are students, with 55% of the total respondents finishing senior high school, and 26% finishing an undergraduate program. More than 50% of the respondents spent Rp20k-50k (approximately USD 2-5) and 36% of the respondents spent Rp50k-100k (approximately USD 5-10) monthly on cellular credits. 61.57% of the respondents used their credits to make phone calls, while 28.93% used their credits for text/picture messaging, and 4.13% used their credits for content quizzes.

### Reliability and Validity

A pilot test was conducted to test the face validity of the questionnaire and the reliability and validity of the items used in the questionnaire. A total of 30 respondents participated in this test. Analysis of validity was calculated using product moment (Sugiyono, 2005) with excel. The results showed that all the items are valid, with the r-calculation ranging from 0.61-0.80, far above the r-table, which is 0.36. For reliability analysis, a *Cronbach's Alpha* test shows that all construct valued  $\geq 0.70$  (Ghozali, 2008) (ranged from 0.71-0.89), hence all constructs used in this research are reliable.

### Hypotheses Analysis

The goodness of fit of the models is as follows: Chi-Square is P:0.138 (or  $> 0.05$ ),  $df=728$ , RSMEA = 0.072, showing a good fit, while the score for CFI and GFI are  $> 0.9$ , a good fit. Hence, all the absolute fit measurements and the data collected fit the model proposed.

In testing the hypotheses, t-test was used to see the relationship between latent variables within the model. The summary of the hypotheses testing is presented in Table 1.

Table 1  
*Hypotheses result*

Hypotheses	$\gamma/\beta$	t-value	Remark
H1 Distributive Justice $\rightarrow$ Customer Satisfaction post <i>service recovery</i> .	0.53	5.82**	Supported
H2 Procedural Justice $\rightarrow$ Satisfaction post <i>service recovery</i> .	0.46	2.71**	Supported
H3 Interactional Justice $\rightarrow$ Satisfaction post <i>service recovery</i> .	0.41	2.05**	Supported
H4 <i>perceived loss</i> $\rightarrow$ Satisfaction post <i>service recovery</i>	0.11	2.20**	Supported
H5 Satisfaction post <i>service recovery</i> $\rightarrow$ trust	0.69	3.63**	Supported
H6 Satisfaction post <i>service recovery</i> $\rightarrow$ <i>switching intention</i>	0.16	2.02**	Supported

Source: Data analysis

### DISCUSSION

The study has shown that first, the three dimensions of perceived justice, which are distributive justice, procedural justice, and interactional justice, positively influence customer satisfaction post-service recovery.

This finding is in line with previous studies, which indicated the possible relationship when service failure occurs, and the company conducts the service recovery with perceived justice. The “perceived justice that positively influences the customer

satisfaction post-service recovery” (Nikbin et al., 2010; Sabharwal et al., 2010; Smith et al., 1999) is also supported.

Secondly, Sabharwal et al. (2010) stated that the severity of the service failure influences customer satisfaction post-service recovery. The severity of service failure in this research is represented by the perceived loss, or the level of loss that the customer should bear due to the service failure (Bolton, 1998; Hess Jr. et al., 2003). In this research, the severity of service failure is perceived as high, since many of the customers lodged complaints against the stolen credit from the content quiz/ programme.

Third, switching intention and trust are the output influenced by customer satisfaction; therefore, if customers felt satisfied with the service recovery they received, their trust toward the service provider increased (Astuti & Dharmamesta, 2011; Kau & Loh, 2006; Weun et al., 2004), and their switching intention will be eliminated (Bhandari et al., 2007; Jones et al., 2003).

In sum, it is concluded that in the presence of good service recovery, the bigger perceived loss and perceived justice proactively influence the post-recovery satisfaction, leading to greater trust in the company and reduces intention to switch to another telecommunication provider. This phenomenon is evident in the case of PT.X.

In general, this research can confirm all paths proposed in the model, and answers the objective of the study, that perceived justice and perceived loss, as antecedents,

influence trust and intention to switch through customer satisfaction post-service recovery. Regarding the antecedents, among the three dimensions of perceived justice, distributive justice has the highest score at 0.53, followed by procedural justice at 0.46, and interactional justice at 0.41. On the other hand, perceived loss, although proactively influences satisfaction, scored 0.11.

For dependent variables, satisfaction toward service recovery influences greater trust (0.69), compared with their non-intention to switch (0.16). In sum, a good service recovery that includes perceived justice and reduces the perceived loss of the customer is indicative of the company’s willingness to maintain a good relationship and boost customer trust in company “X”. It also reduces the customer’s intention to seek other service alternatives/competitors. That implies that the service recovery strategy that company “X” has taken, such as distributive justice, customer education, blocking the content service that creates the customer loss, reimbursing the credit of the customers, etc., offers a warranty to the customer to eliminate the future service failure. In procedural justice, the effectiveness of time spent to recover the failure, responsiveness, readiness, transparency, and the flexibility of the procedure taken during service recovery will influence customer satisfaction. The politeness, kindness, and friendly behaviour of the employee gives comfort and offers a solution during the complaint handling phase, making the customers feel more satisfied. Moreover, if the company can protect customer interests, by minimising

the possibility of fraudulent practices that steal customer phone credits, or by minimising the interruption of the service, such protection might also influence customer satisfaction and increase trust in the company, thus eliminating the possibility of switching to another service provider.

This research leads to some theoretical and managerial implications. First, the results empirically support the previous literature that the perception of justice does influence customer satisfaction, including the post-recovery satisfaction (Martínez-Tur, Peiro, Ramos, & Moliner, 2006). The results are support those of other studies that emphasise the dominant influence of distributional justice on customer satisfaction (Adams, 1963; Clemmer & Schneider, 1996; Martínez-Tur et al., 2006), compared with procedural and interactional justice. This can be explained by the equity theory that underlines the application of the distributive justice, where the customer will tend to maximise the gain and minimise the loss within a service transaction (Martínez-Tur et al., 2006). Another contribution of this research is the adaptation of perceived loss as a proxy to the severity of service failure by Sabharwal et al. (2010) and Weun et al. (2010). Finally, the satisfaction of the service recovery procedure has a predominant role in customer post-purchase behaviour, including trust and loyalty, and indicates support of the service recovery paradox theory (Astuti & Dharmmesta, 2011; Zeithaml et al., 2009). Managerial implications of this research are that cellular phone network providers must maintain

a good service provision in their core business. In addition, they must be ready for service recovery, including this specific case of problems or persistent failures arising out of third party (content provider) involvement. In such failures, the managers should carefully plan and take quick actions to address the service recovery, since their own customers are ultimately harmed. Regarding the most influential variable in this research, distributive justice, cellular network providers should design relevant recovery processes (when needed), as perceived appropriate by their customers.

#### **LIMITATION AND CONCLUSION**

It should be noted that this research is limited to the customers of company “X” in the Depok area only. Hence, the respondents’ demographic characteristics, including education level and age, are not proportional between groups. The pre-conditionality of the respondents’ specific characteristics (experiencing the specific failure and service recovery) makes the sample recruitment challenging. Further research should target broader groups. The present research investigated the behavioural outcomes through two variables only: ‘trust’ and ‘non-intention to switch’. Further research can investigate other post-purchase behavioural variables, such as customer willingness to pay higher rates, repurchase intention, or customer propensity to spread positive word-of-mouth reviews. This information will help companies fully understand the outcome of post-recovery satisfaction on customer post-purchase behaviours, and to

enrich the understanding of the customer service experience (Maxham, 2001). Finally, this research does not specify the type of recovery conducted by the service company. Future research might consider inserting it, to enhance the managerial implication of the research for the service provider.

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