The Effects Of Corporate Social Responsibility On Service Recovery Evaluations In Casual Dining Restaurants.

2012

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THE EFFECTS OF CORPORATE SOCIAL RESPONSIBILITY ON SERVICE RECOVERY EVALUATIONS IN CASUAL DINING RESTAURANTS.

by

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B.S.B.A. University of Central Florida, 2006

A thesis submitted in partial fulfillment of the requirements for the degree of Master of Science in the Rosen College of Hospitality Management at the University of Central Florida Orlando, Florida

Summer Term
2012
ABSTRACT

This study examined the effects of Corporate Social Responsibility (CSR) on service recovery in terms of customer satisfaction, repeat patronage, word of mouth, and consumer trust in casual dining restaurants. More specifically, this study proposed that CSR will have a halo effect on negative service recovery incidents and mitigate the adverse effects of the poor recovery. An experimental study consisting of a 3x2 between subjects factorial design was used. Three CSR conditions (positive, negative, and no CSR) were matched with two service recovery conditions (positive or negative). Four hundred and eighteen subjects were recruited by a reputed marketing research firm. Results of this study showed that CSR and service recovery have a significant effect on customer satisfaction, repeat patronage, word of mouth, and consumer trust in casual dining restaurants. Furthermore, the results showed that CSR enhances the positive effects of good service recovery.
ACKNOWLEDGEMENTS

This thesis would not have been possible without the guidance, help, and support of several individuals who in one way or another contributed and extended their valuable assistance in the preparation and completion of this study.

First and foremost, I would like to express my deepest gratitude to my committee chair, Dr. HeeJung Ro, for her exceptional guidance, patience, care, and for providing me with the proper learning and research atmosphere. Besides my committee chair, I would also like to thank my thesis committee members, Dr. H.G. Parsa and Dr. D. Kwun, for their encouragement, insightful comments, and hard questions.

A special thank you goes to my colleagues and staff of the Rosen College Library, who have supported me with their constant encouragement, care, and knowledge.

I am grateful for the unconditional love, support, and constant inspiration of my parents, and family. Their faith in me is what kept me going through this process.

I would also like to thank my best friend and partner, Bryan Sevinger, who was always there cheering me up and reassuring me that I can do this.

Last but not least, I would like to thank God Almighty, for giving me the strength and determination to complete this process successfully.
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CHAPTER ONE: INTRODUCTION

Consumers are becoming more aware of environmental problems and ethical operations of organizations (Rudež, 2010). Their expectation is that companies will act as good corporate citizens (Crane & Smith, 1992; Sparks, 2002), whose daily operations are targeted at generating profit, as well as serving the community (Crook, 2005). Companies have been addressing this growing consumer need in the form of Corporate Social Responsibility (CSR) activities, where CSR has become an essential component of companies’ business models and strategic planning (Franklin, 2008).

CSR, as defined by McWilliams and Siegel (2001), is a company’s voluntary activities “that appear to further do some social good, beyond the interests of the firm and that which is required by law” (p. 117). Such activities usually include the adoption of advanced human resource management programs, reduction of environmentally hazardous substances, humanitarian activities, and support for local businesses (Barnett, 2007; McWilliams & Siegel, 2001).

Research on CSR has shown that CSR can increase customers’ positive attitudes and identification with a company (e.g., Berens, Van Riel, & Van Bruggen 2005; Bhattacharya & Sen 2003; Luo & Bhattacharya 2006). A 2005 survey by the National Consumers League has reported that the majority of U.S. adult consumers choose “being socially responsible” as the factor most likely to make them loyal followers of a particular brand or company (www.nclnet.org). Other studies have shown that consumers may positively evaluate a company based on its corporate social responsibility initiatives (Marin et al. 2008; Sen et al. 2006).
For a company, these findings are important considerations, especially because statistics shows that 60% of U.S. consumers are more likely to buy a company's products and services if they know that the company emphasizes the importance of being socially responsible (Hein, 2007), 57% of U.S. consumers are more loyal to firms that are socially responsible (Hein, 2007), and 82% of U.S. consumers are willing to pay more for products that are environmentally friendly (Gustin & Weaver, 1996; Reich et al., 2010). Although there has been growing research interest in CSR and consumer attitudes and behavioral intentions toward a company, there is still a lack of research on how CSR influences customer service encounter evaluations.

In the service marketing and management literature, the importance of service recovery has been emphasized for customer satisfaction and loyalty (Kelly & Davis, 1994; Tax et al., 1998). It is important to focus on effective service recovery in the hospitality industry because mistakes are unavoidable. This is due to the complicated nature of the service delivery process. Customer expectations are constantly changing, production and consumption happens simultaneously, and different aspects of the service delivery process still is dependent of humans. It is difficult to be in total control of the service delivery process and customer interactions (Duffy, Miller, & Bexley, 2006; Lewis & Spyarakopoulos, 2001; Miller, Craighead, & Karwan, 2000; Patterson, Cowley, & Prasongsukarn, 2006). Previous studies have consistently shown that complaint handling and service recovery strongly affects customer retention, prevents negative word-of-mouth, and reduces customer switching behavior (Keaveney, 1995; McColl-Kennedy & Sparks, 2003; Tse, 2001; Zhang et al. 2005, 2006).
Problem Statement

CSR has become part of the contemporary business world and it serves as an indication of society’s attitude change in the last decade (Bohdanowicz & Zientara, 2008). Previous studies have shown that social responsible activities helps an organization create a desirable image (Health & Ryan, 1989; Lee, 2004) and a pro-social image protects an organization from consequences resulting from negative events or crises (Caruana, 1997; Ulmer, 2001). Although past research has advocated CSR with positive outcomes, its impact on customers’ service evaluations is not clear. CSR is often used as a strategic planning tool to promote a company’s positive image and increase attraction from current and potential customers (Reich et al., 2010), whereas service recovery is one of the main customer retention strategies that restore trust and fairness to dissatisfied customers (Ok et al., 2005). Extending the role of CSR to customer retention strategies, this study proposes that CSR can be useful in customer retention by influencing customer service recovery evaluations after a service failure.

Purpose of Research

This study focuses on the halo effect of consumers’ perceptions about a company’s CSR practices, and how these perceptions might spill over onto their evaluation of service recovery. The purpose of this research is to examine if a company’s CSR practices affect customers’ service recovery evaluation in terms of customer satisfaction and behavioral intentions. More specifically, this research seeks to examine customers’ service recovery evaluations in casual restaurant settings by using the company’s green practices as CSR.
Significance of Research

The findings of this study will provide empirical evidence regarding the effects of CSR on service recovery. Thus, this study can add to the existing service recovery literature concerning the effects of CSR on customer evaluation of service encounters. These findings not only will provide managers with a better understanding of CSR and the positive influence it has on customer evaluation and behavioral intentions, but it will also help service organizations develop effective CSR programs that will increase customer satisfaction and their repeat customers.

Organization

The following sections consist of chapter two to five. Chapter two provides an extensive literature review on CSR, service failure and recovery, and CSR and halo effect. Next, the hypotheses and the rationale for reaching each hypothesis are presented. Chapter three provides detailed information concerning the methodology and the results of this study’s pretest. Chapter four discusses the main study results. Finally, this paper concludes with chapter five providing theoretical and managerial implications, limitations, and future research recommendations.
CHAPTER TWO: LITERATURE REVIEW

This chapter provides a review of relevant literature. First, CSR, its related benefits and concerns, and its relationship to consumer behavior are discussed. Next this chapter presents information on service failure and service recovery. This chapter also goes over the existing research concerning halo effect and CSR. Finally, this chapter provides this study’s hypotheses formation, and rationalization for the recovery main effect, CSR main effect, and interaction effect hypotheses.

Corporate Social Responsibility (CSR)

The hospitality industry started to pay attention to CSR during the 1990s (Bohdanowicz & Zientara, 2008; Kay, 1997). Hospitality companies have been using CSR in various forms targeting community involvement, environmental management, and customer and employee relations (Holcomb et al., 2007). Businesses of all size and industry are recognizing the many benefits of incorporating CSR in their strategic planning. According to KPMG’s 2005 International Survey of Corporate Responsibility report, 52 percent of Fortune 250 organizations are using some form of CSR initiative (KPMG, 2005). The service industry has also capitalized on this business practice. Service companies are offering countless types of “eco-friendly” services and products; for example, car rental companies are providing hybrid vehicles for rent, hotel chains are introducing power management systems and green programs, and restaurants are focusing on waste reduction and recycling practices (Parker, 2011).

CSR is not a new concept, and many researchers have discussed its conceptualization, effects, and benefits to the hospitality and tourism industry. One of the earliest publications on
CSR is from Bowen’s (1953) book about “Social Responsibilities of Businessman.” Since then, CSR has known a wide variety of conceptualization terms focusing on actions that are beyond the interest of the organization (Carroll, 1999) to maximizing investors’ wealth (Goodpaster, 1991; McWilliams & Siegel, 2001, p. 117).

Pirsch et al. (2006) categorized CSR into institutional and promotional CSR. Institutional CSR is described as firms being socially responsible through their policies and procedures, while promotional CSR refers to activities (e.g., fundraisings and donations) that drive sales. Their findings suggest that consumers prefer institutional CSR programs over promotional programs because consumers are more skeptical of CSR activities when they are occasional, compared to when they are defined by the company’s policies and procedures.

**CSR Related Benefits**

CSR positively affects different areas of a firm’s competitiveness by providing organizations with the ability to charge higher prices, increase their attractiveness to their customers and potential employees, grow their market share, and improve their company image (Bansal & Roth, 2000; Descano & Gentry, 1999; Rivera 2001, Turban & Greening, 1996).

One of the early studies that presented CSR as a benefit was by Turban and Greening (1996), who found that firms with higher Corporate Social Performance (CSP) have a more positive reputation and are more attractive as an employer than firms with lower CSP. These findings were further supported by Peterson (2004), who conducted a survey of business professionals to examine how a company's reputation on social issues impacts employee attitude. The results demonstrated that the relationship between corporate citizenship and organizational commitment was stronger for those workers who highly believed in corporate social
responsibility. Similarly, Brammer and Millington (2005) found that companies who make higher charitable expenditures generated positive impressions to their customers.

CSR has also been demonstrated to have financial benefits for a company. Inoue et al. (2011) researched the effects of CSR on different corporate financial performance dimensions. They examined how five CSR dimensions (employee relations, product quality, community relations, environmental issues, and diversity issues) affected the financial performance of four tourism related industries (airlines, casinos, hotels, and restaurants). The results show that each dimension has a different effect on both short-term and future profitability. The findings indicate that CSR activities targeted towards the community significantly decrease short-term profitability for the airline industry, but increase both short-term and future profitability for the hotel and restaurant industries. When it comes to diversity issues, CSR activities were found to positively affect future profitability for the hotel industry, but had no effect on the other three industries. In addition, Luo and Bhattacharya (2006) found that CSR practices have a positive influence on consumer satisfaction. The results of their study showed that customer satisfaction partially mediates the relationship between CSR and a firm’s market value.

**CSR Related Concerns**

CSR has been criticized by researchers for several reasons. One of the criticisms concerning CSR was by Friedman (1970), who argued the need for CSR. According to Friedman (1970), it is wrong to believe that profit-seeking alone goes against the public interest. He argued that the sole purpose of doing business is to maximize profit. He further argued that any contribution besides the firm’s daily operations exceeds the normal process of business. Friedman’s argument implies that companies do not need to engage in CSR as a means of
enhancing the quality of life of the environment in which they operate, and that CSR is not among an organization’s responsibilities. Similarly, Andrews (1989) questioned CSR’s legitimacy. Andrews (1989) defined CSR as “sensibility to the social costs of economic activity and the opportunity to focus corporate power on objectives that are possible, but sometimes less economically alternative than socially desirable” (p. 257-258). This definition also questions whether CSR is still required if there is no legal or financial purpose for it.

CSR has also been criticized from an ethical point of view. Cogman and Oppenheim (2002) argued that the ethical reasons for addressing CSR and social responsibility concerns may interfere with essential business operations such as capitalizing on evolving business opportunities and profitable activities. Activities such as the use of legally contestable markets (e.g. tobacco, gambling, alcohol, and sex), development of new technology, entry to third world markets, and activities concerning the move from public to private sector may be against CSR ethical standards.

Finally, CSR has been criticized in terms of its true purpose. Researchers such as L’Etang (1994), Bowen (2004), and Bohdanowicz and Zientara (2008) questioned the reasons why companies engage in CSR practices. L’Etang (1994) pointed out that the true reason why corporations engage in CSR practices is to address external pressures imposed by environmental activists rather than to integrate long-term CSR policies that will benefit the community. Bowen (2004) and Bohdanowicz and Zientara (2008) also questioned the use of CSR merely as a marketing tool rather than an aiding source for the community in which they operate. They argued that companies use CSR activities as a promotion gimmick to enhance their market presence, and brand and image awareness.
CSR and Consumer Behavior

When it comes to CSR and how it influences consumer behavior, Sen et al. (2006) examined if and how the knowledge of a company’s CSR initiatives affected stakeholders’ overall belief, attitudes, employment intentions, product consumption, and stock acquisition. The results of this study showed that those individuals who were aware of the CSR initiatives had more positive company-related connotations. These individuals also exhibited a greater intent to purchase products, seek employment, and invest in the company than those individuals who were unaware of the CSR initiatives. Overall, this research demonstrated that sufficient awareness of CSR initiatives affects both internal outcomes and behavioral intentions of stakeholders.

Marin et al. (2008) found that CSR initiatives influences consumer behavior through company evaluation and consumer-company identification. Based on the social identity theory, they examined the effect of CSR on customer loyalty and their results demonstrated that the higher the level of a company’s CSR initiatives, the stronger the company identification, loyalty, and positive company evaluation.

Rudež et al. (2010) examined the use of CSR in customer loyalty programs. They proposed three forms of CSR-based loyalty programs. The first form concerns the customers’ involvement through a joint donation program where part of the hospitality product/service purchase is donated. The second form concerns investments from tourism organizations into environmental friendly and energy saving activities. The third form concerns the use of eco-labels into loyalty programs to increase environmental and social responsible behavior awareness. If used properly, these proposed loyalty programs can promote customer loyalty and improve the image of hospitality suppliers.
Eisingerich et al. (2011) studied the role of CSR in terms of consumer resistance to negative information about an organization. The results of this study showed that CSR only protects firms from negative information associated with their CSR practices, but not from information related to their core service offerings. Their findings indicated that resistance to negative information has a positive effect on loyalty. This underlines the importance of managing consumer resistance to negative information.

Previous research suggests that consumers have more positive attitudes towards a company when they perceive a brand as having a high CSR reputation (Lii & Lee, 2012). Reich et al. (2010) studied the influence of a company’s social responsibility image as it relates to brand loyalty. They found that brand social responsibility image has a positive impact on brand loyalty, product quality, and service quality.

CSR has been examined from many aspects, such as its effect on company image and reputation, its financial benefits, and its effect on consumer behavior. CSR has also been criticized in terms of its necessity, its true purpose, and from an ethical point of view. However, there has been little research concerning service failure evaluations and CSR. The following subjects provide information concerning service failure, service recovery, and the CSR halo effect.

**Service Failure and Service Recovery**

Service failure occurs when there is a problem with the service delivery, service product, service facility, employee behavior, other customers’ behavior, or a combination of these (Bitner, Booms, & Tetreault, 1990). In other words, it is the outcome that occurs when a service organization fails to fulfill the basic service needs of the customer or the core service
performance (Smith et al. 1999). In studying the loss that customers suffer during a service failure, Smith et al. (1999) discovered that customers prefer an exchange from the service provider that matches the loss that they have experienced. This exchange is called service recovery.

Service recovery refers to the actions taken by the service provider to rectify a service failure and to convert negative attitudes of dissatisfied customers to positive ones (Miller, Craighead & Karwan, 2000). Research in the hospitality industry concerning recovery strategies identified apology and rectification as the most commonly used and effective service recovery strategies (Lewis & McCann 2004; Ok et al. 2005). Compensation has also been found to have a positive effect on customer satisfaction when used as a service recovery tool (Matilla, 2001), especially for handling service failures in the restaurant industry (Dutta, Venkatesh, & Parsa, 2007).

Numerous study results have shown that the consequences of service failure and unsatisfactory service recovery lead to customer dissatisfaction and compliant behavior, and in turn cause negative word-of-mouth and switching behavior (Keaveney, 1995; McColl-Kennedy & Sparks, 2003, Tse, 2001, Zhang et al. 2005, 2006). Therefore, it is important to use satisfactory service recovery efforts not only to diminish the negative impacts of service failure, but also to retain customer loyalty and repeat patronage.

**Recovery Satisfaction and Behavioral Intentions**

When predicting overall customer satisfaction, the dominant theory is the disconfirmation of expectations model (Szymanski & Henard, 2001, Oliver et al. 1999). This model implies that overall satisfaction results from a comparison between perceived service/product performance
and some type of comparison standard, generally customer expectation. According to the disconfirmation of expectations model, dissatisfied customers will experience recovery satisfaction if the organization’s response to a service failure positively contradicts their expectations. In other words, customers will be satisfied when their expectations are exceeded by the organization’s recovery performance (Menon & Dube´, 2000).

Appropriate service recovery is necessary to lessen the negative effects of the service failure and to increase post-recovery satisfaction (Tax et al. 1998). If the service recovery effort is exceptional, the customer’s overall satisfaction level will be high, and can even be higher than that of a customer who has not experienced any problems in the service transaction (Maxham & Netemeyer, 2002; McCollough & Bharadwaj, 1992; Smith & Bolton, 1999). However, Hart et al. (1990) found that 43% of unsatisfied customers are due to inappropriate service recovery efforts instead of the service failure itself. Bitner et al. (1990) also showed that a quarter of service failure encounters resulted in increased satisfaction due to appropriate service recovery efforts.

Maxham and Netemeyer (2002) found that satisfaction with service recovery has a strong influence on purchase intent. This suggests that customers who are satisfied with service recovery efforts are more likely to return to the service provider and engage in repurchase behaviors. This finding is important because service failure is the major cause of customer switching behavior in the service industry (Keaveney, 1995), and as previous studies have shown loyal customers are more profitable for a company than acquiring new ones (Reichheld & Sasser, 1990). Therefore, successful service recovery is important for a service provider because it can improve customer satisfaction; promote positive word-of-mouth, and increase customer loyalty.
and profits (Bitner et al., 1990; Hart et al., 1990; Michel, 2001; Spreng, Harrell, & Mackoy, 1995; Susskind, 2005).

**Halo Effect and CSR**

Halo effect refers to the “tendency in rating an object on a particular attribute to be influenced by a general impression” (Beckwith, Kassarjian, & Lehmann, 1978, p. 465). Thorndike (1920) defined halo effect in simpler terms as the preconception of one measure that spill over to another measure (as cited in Beckwith et al., 1978). This effect has been researched extensively in the marketing literature in regards to pre-choice evaluation (Holbrook, 1983), consumer satisfaction (Wirtz & Bateson, 1995), and consumer behavior (Klein & Dawar, 2004). Coombs & Holladay (2001) also examined reputation as a halo effect and showed that as companies create a positive image with stakeholders, these stakeholders may be more likely to reduce or disregard negative information about the company.

Klein and Dawar (2004) found that CSR has a halo effect on unrelated routine customer judgment such as evaluations of new products. Their findings suggest that CSR associations have a strong and direct impact on consumers’ attributions, and consequently their evaluations of a company. Cho and Kim (2010) found that CSR activity is a significant factor in mitigating customers’ negative reactions towards a company. In other words, they found that CSR works as a shield in protecting companies when managing customer related problems.

As previous literature shows, positive service recovery and CSR activities are of great influence on customer satisfaction and behavioral intentions. Customer satisfaction is essential for a company because of the influence it has on customer retention and loyalty (Karatepe, 2006; Maxham & Netemeyer, 2002; Szymanski & Henard, 2001). Positive CSR practices also create a
halo effect and influences customer evaluation of a company by mitigating negative publicity and enhancing customer perceptions. This study combines the two aspects of service recovery and CSR, and examines them in terms of satisfaction and behavioral intention. Based on the review of relevant literature, hypotheses are developed in the following section.

**Hypotheses**

*Service Recovery Main Effect: Successful versus Poor Recovery*

As discussed earlier and documented extensively in the literature, service recovery affects customer satisfaction and behavioral intentions (e.g. repeat patronage) towards a company (Keaveney, 1995; McColl-Kennedy & Sparks, 2003; Tse, 2001; Zhang et al., 2005 & 2006). Consistent with past research, this study posits that customer satisfaction and behavioral intention will be higher when service recovery is positive and consequently lower when service recovery is negative. Although this hypothesis has been tested in previous research, it is included for the completeness of this study to test all effects in the study design. Hence the first hypothesis:

*H1a: Positive service recovery will have higher customer recovery satisfaction than negative service recovery.*

*H1b: Positive service recovery will have higher post-recovery behavioral intentions than negative service recovery.*
**CSR Main Effect: Positive versus Negative CSR**

Environmentally friendly practices are important for the tourism and hospitality industry. Not only because they provide financial benefits for the organization, but because they can be a source of competitive advantage as well (Porter & Kramer, 2006). Previous research has shown that CSR positively affects companies’ performance and reputation (Brammer & Millington, 2005; Turban & Greening, 1996), consumer satisfaction (Luo & Bhattacharya, 2006), and improves customer attitudes and behavioral intentions (Creyer & Ross, 1996; Joyner & Payne, 2002; Mohr & Webb, 2005; Molina-Azorín et al, 2009).

Smith et al. (2010) suggested that consumers may make implications about an organization’s CSR practices based on limited information. Their findings suggest that consumer awareness of one type of CSR action (e.g. recycling) influences their perception of other types of CSR actions (e.g. community involvement) which they have little or no information.

Based on the past research, this study posits that customer satisfaction and behavioral intention will be higher when a company has positive CSR practices, as opposed to negative CSR or no CSR. Positive CSR refers to exemplary green practices, negative CSR refers to poor green practices, and no CSR refers to no information about the company’s CSR practices. Hence the second hypothesis:

*H2a: Positive CSR will have a higher customer recovery satisfaction than negative CSR and no CSR.*
**H2b: Positive CSR will have a higher post-recovery behavioral intention than negative CSR and no CSR.**

*Interaction Effect: CSR as a Buffer for Negative Service Recovery*

As proposed in H2, CSR will have a halo effect that will increase customers’ perception of the company more favorably and will lead to higher recovery satisfaction and behavioral intention. In addition, this study predicts that CSR will interact with the service recovery effect and serve as a moderator in the relationship between the service recovery and the outcomes (customer satisfaction and behavioral intention). More specifically, this study posits that the effect of CSR practices will be more pronounced in negative service recovery than in positive service recovery.

Klein and Dawar (2004) found that CSR mitigates the negative impact that product abuse has on consumer brand evaluations. Similarly, Lin et al.’s (2011) study of consumer purchase intentions during product-harm crises showed that perceived CSR has an important moderating effect on the relationship between perceived negative publicity and trust. Customer’s trust can be hurt easily by negative publicity when there is a lack of CSR initiative, but a company with good CSR is in better shape to resist negative publicity. In addition, CSR serves as a buffer in the relationship between negative publicity and emotional identification with a company (Lin et al., 2011).

According to the literature, CSR is known for acting as a buffer and lessens negative effects. Therefore, this study posits that the CSR effect will be stronger in negative service recovery than it would be in positive service recovery. When customers receive negative service
recovery, their customer satisfaction and behavioral intentions will be higher for positive CSR than for negative CSR. When customers receive positive service recovery, satisfaction and behavioral intentions are already high due to good service recovery, and positive CSR will not add much incremental effect on increasing satisfaction and behavioral intentions. However, when a customer receives negative service recovery, positive CSR acts as a buffer and effectively reduces the negative service recovery effects on satisfaction and behavioral intention. In other words, the CSR effect will be more pronounced in negative service recovery. Hence the third hypothesis:

\[ \textit{H3a: The effect of CSR on customer recovery satisfaction will be stronger for negative service recovery than for positive service recovery.} \]

\[ \textit{H3b: The effect of CSR on post-recovery behavioral intentions will be stronger for negative service recovery than for positive service recovery.} \]
CHAPTER THREE: METHODOLOGY

An experiment was designed to test the hypotheses concerning the effects of CSR and service recovery on customer satisfaction and behavioral intentions. Participants were provided with information concerning the company’s CSR practices and were each asked to role-play a customer who had experienced a service failure and recovery situation through the use of written scenarios.

Procedure

An experimental study consisting of a 3x2 between subjects factorial design was used. Three CSR conditions (positive, negative, and no CSR) were matched with two service recovery conditions (positive or negative). First, participants were presented with an opening scenario developed based on Sen and Bhattacharya’s (2001) study containing either positive, negative, or no CSR company information. Positive CSR was represented by positive green practices, negative CSR was represented by poor and lack of green CSR practices, and no CSR was represented by no company CSR information. No CSR is used as the control group to manipulate the difference between CSR and no CSR.

Following this CSR scenario, participants were asked questions regarding the company’s CSR practices (manipulation check), their personal environmental belief, and scenario believability.

The second part of the survey asked participants to role-play casual restaurant customers who experience a service failure and a recovery described by a written scenario developed based on Smith et al. (1999) and Ok et al. (2007). A restaurant setting was used in this study because of
customers’ familiarity with dining at restaurants and the growing green trend in the restaurant industry. Statistics by NPD Group (2009) showed that the restaurant consumption rate among U.S. consumers is high. Whereas, a previous study on restaurant green practices showed that customers are willing to pay more for restaurants that care about the environment (Schubert et al., 2010)

After reading the second scenario, participants answered questions that were designed to measure their perception of the service recovery (manipulation check), this study’s dependent constructs (overall satisfaction and behavioral intentions) and scenario realism. The outcome failure scenario involved poor service by the waiter while the service recovery scenario involved either a combination of apology and compensation (positive) or no apology nor compensation (negative). See Appendix 3 for the scenarios.

Measures

Manipulation Checks

For the CSR scenario manipulation check, three items adopted from Berens, Van Riel, and Van Bruggen (2005) and Lichtenstein, Drumwright, and Braig (2004) were used. Service recovery evaluation was measured via a seven-item justice scale adopted from Blodgett et al. (1997). In addition, participants were asked the following question “Please indicate what you think about the company description presented above,” to assess how believable and convincible the CSR scenario was (r=.80) (1=unbelievable/inconvincible; 7=believable/convincible). For service failure and recovery scenario, realism was also assessed by asking participants, “How realistic was this scenario to you?” (1=highly unrealistic; 7=highly realistic) and “how
difficult/easy was it to imagine yourself as a customer in the scenario?” (r=.51). The CSR and service recovery manipulation checks are intended to test the participant’s perception of the CSR and service recovery scenarios.

The evaluation of *customer satisfaction* was assessed by five items adopted from Olorunniwo, Hsu, and Udo (2006), and *behavioral intention* was measured via four items adopted from Blodgett et al. (1997) and Keillor, Hult, and Kandemir (2004). In addition, participants’ *general environmental belief* was measured by eight items adopted from Dunlap, Van Liere, Mertig, and Jones (2000) and Schubert, Kandampully, Solnet, and Kralj (2010). This construct was added to this study as a control variable. Table 1 shows the scales used for the study.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Items</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR Perception</td>
<td>• This restaurant supports good causes.</td>
<td>Berens, Van Riel, &amp; Van Bruggen (2005)</td>
</tr>
<tr>
<td></td>
<td>• This restaurant behaves responsibly regarding the environment.</td>
<td>(first 2), Lichtenstein, Drumwright, &amp; Braig (2004)</td>
</tr>
<tr>
<td></td>
<td>• This restaurant has a strong record on environmental friendly practices.</td>
<td></td>
</tr>
<tr>
<td>Service Recovery Evaluation</td>
<td>• The outcome I received was fair.</td>
<td>Blodgett et al. (1997)</td>
</tr>
<tr>
<td></td>
<td>• In resolving the problem, the restaurant gave me what I needed.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• With respect to its policies and procedures, the restaurant handled the problem in a fair manner.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The restaurant responded quickly to my needs.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• The manager put the proper effort into resolving my problem</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• In dealing with my needs, the manager treated me in a courteous manner.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• I was treated fairly during my interactions with the manager.</td>
<td></td>
</tr>
<tr>
<td>Variable</td>
<td>Items</td>
<td>Source</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>----------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| Personal Environmental Belief  | • Humans have the right to modify the natural environment to suit their needs.  
• When humans interfere with nature it often produces disastrous consequences. | Dunlap, Van Liere, Mertig, & Jones (2000) (first 5)                     |
|                                | • Humans are severely abusing the environment.                         | Schubert, Kandampully, Solnet, & Kralj (2010) (last 3)                  |
|                                | • The so-called “ecological crisis” facing humankind has been greatly exaggerated. |                                                                        |
|                                | • The balance of nature is strong enough to cope with the impacts of modern industrial nations. |                                                                        |
|                                | • It is important to engage in energy and waste reduction.             |                                                                        |
|                                | • It is important to use biodegradable or recycled products.           |                                                                        |
|                                | • It is important to donate to environmental friendly projects.        |                                                                        |
| Customer Recovery Satisfaction | • I am satisfied with my overall experience with this restaurant.     | Olorunniwo, Hsu, & Udo (2006)                                          |
|                                | • I am pleased with my overall service experience at this restaurant. |                                                                        |
|                                | • My experience at this restaurant was enjoyable.                     |                                                                        |
|                                | • Choosing this restaurant was a wise decision                        |                                                                        |
| Post-Recovery Behavioral       | • I would eat at this restaurant again.                               | Blodgett et al. (1997) (first 2)                                       |
| Intention                      | • I would never eat at this restaurant again.                         | Keillor, Hult, & Kandemir (2004) (last 2)                              |
|                                | • I would recommend this restaurant to others.                        |                                                                        |
|                                | • I would say good things about this restaurant.                      |                                                                        |

Note: All items are measured via a 7-point Likert scale (1 = disagree completely; 7 = agree completely)

Pretest

In order to assess the scenario manipulation and questionnaire design, a pretest was conducted. Two hundred Rosen College undergraduate students were assigned to one of the six experimental conditions. One survey was excluded from the data set due to inadequate answering pattern, thus resulting in a total of 199 samples for the analysis. Participants were randomly assigned one of the six conditions, resulting in a 32-34 sample size per condition. Construct
reliabilities (Cronbach’s α) were high, .75 for personal environmental belief, .95 for customer satisfaction, and .85 for behavioral intention. Based on the results, the scenario manipulation was evaluated successful. After reviewing the results, several questions (i.e. word of mouth and trust) were added to the main study. The detailed results of the pretest are followed.

A one-way ANOVA test was performed as the manipulation check for the CSR scenario. The results show that there is significant difference between the means of the three CSR scenarios (f-value=283.29, p =.000). As expected, the mean CSR score was the highest for positive CSR (mean=6.44), followed by no CSR (mean =3.61), and negative CSR (mean =1.78). The post hoc test, Tukey provided further confirmation of the significant mean differences at an alpha=.05 level. An independent T-test was used to perform the manipulation check for the service recovery scenario. The results showed that there is significant difference between the mean of the positive (mean =4.21) and negative scenario (mean =1.39) (t-value = 18.75, p < .000). Thus the service recovery scenario manipulation check was successful. Finally, regarding realism, participants perceived the scenario descriptions as believable (mean = 4.86) and realistic (mean = 5.33). Taken together, the results indicated that the manipulations were effective.

First the main and interaction effect of the two independent variables on customer satisfaction and behavioral intention was examined. Multivariate results indicated there is a significant main effect of recovery (Hotelling’s Trace = .20, = 12.52, p =.000), but no significant main effect of CSR (Hotelling’s Trace = .05, = 1.65, p=.13). There was no significant interaction effect between CSR and service recovery either (Hotelling’s Trace = .04, = 1.15, p =.33). The covariate participants’ general environmental beliefs when included in the model were also not
significant (Hotelling’s Trace = .01, = .44, p = .85). Therefore the covariate is excluded from further analysis.

Although multivariate results were not statistically significant, univariate analyses results were examined to gain insight for patterns. A univariate analysis of the dependent variable 

*customer satisfaction* indicated that CSR has no effect on customer satisfaction (f-value = .15, p-value = .86). Recovery does have a significant effect on customer satisfaction (f-value = 34.80, p-value = .000), and as for the interaction effect of CSR and service recovery on customer satisfaction, the results show that there is no significant interaction effect (f-value = .05, p-value = .95). In terms of customer satisfaction, positive recovery had a significant higher mean (mean = 2.22) than negative recovery (mean = 1.39).

A univariate analysis of the dependent variable *behavioral intention* also indicated that CSR has no effect on behavioral intentions (f-value = 2.25, p-value = .11). Recovery does have a significant effect on behavioral intentions (f-value = 26.01, p-value = .000), and positive recovery had a significant higher mean (mean = 3.11) than negative recovery (mean = 2.25). As for the interaction effect of CSR and service recovery on behavioral intentions, the results show that there is no significant interaction effect (f-value = .06, p-value = .94).

Next, in order to gain further understanding of the CSR effect on behavioral intention, the dependent variable repeat patronage was divided into (1) repeat patronage (2) positive word of mouth (WOM). A univariate analysis indicated that CSR has no effect on *repeat patronage* (f-value = 1.07, p-value = .34) but has a significant effect on *positive WOM* (f-value = 3.31, p-value = .04). Recovery also has a significant effect on repeat patronage (f-value = 18.04, p-value = .000) and positive WOM (f-value = 27.24, p-value = .000). Finally, results show that there is no
significant interaction effect on repeat patronage (f-value = .74, p-value = .48) and positive WOM (f-value = .06, p-value = .94).

**Discussion and Modification for the Main Study**

The pretest results show that service recovery has a significant effect on customer satisfaction, repeat patronage and word of mouth. Initially, CSR did not have statistically significant evidence of its effect on customer satisfaction and behavioral intentions. However, when dividing behavioral intention into repeat patronage and word of mouth, CSR showed to have a significant effect on word of mouth.

The results also show that the proposed interaction effect between CSR and service recovery on customer satisfaction and behavioral intentions is not significant effect. Although a previous study by Lin et al. (2011) found that perceived CSR has a moderating effect on perceived negative publicity and trust, this study’s pretest results show that when it comes to customer satisfaction and behavioral intentions CSR is not a moderator.

In summary, H1 concerning service recovery’s main effect has been supported. Service recovery has proved to have significant effect on both customer satisfaction and behavioral intentions (repeat patronage and WOM). H2, CSR’s main effect was supported only for WOM, but not for repeat patronage and customer satisfaction. H3, interaction effect of CSR and service recovery has not been supported by the findings of this study’s pretest. CSR does not appear to serve as a buffer for negative service recovery. In an effort to strengthen the study in observing the CSR effect, an additional construct was sought to incorporate in the main study. The following discussion introduces trust as an additional construct.
Trust

Consumer trust has been widely examined in terms of relationship marketing, where studies have demonstrated that trust is a key antecedent to customer loyalty (Garbarino & Johnson, 1999; Morgan & Hunt, 1994; Reichheld & Scheffler, 2000; Sun & Lin, 2010). Over the years, trust has been conceptualized by many researchers, but for the purpose of this paper, the conceptualization by Coulter and Coulter (2002) will be used. Coulter and Coulter (2002) defined trust towards a service provider as the perception of a service provider’s confidentiality, honesty, integrity, and high ethical standards. Consumer trust is affected by the values (e.g. behaviors, goals and policies) that a company and its customers share (Morgan & Hunt, 1994).

Consumer trust has also been researched in terms of service failure and service recovery. Previous research has shown that successful service recovery is an important determinant in increasing customer loyalty (Karatepe, 2006). Recently, La & Choi (2012) also found that the renewal of customer loyalty after a service failure and recovery depends primarily on the regaining of trust. In terms of CSR, Swean and Chumpitaz (2008) found that consumers’ perceptions of CSR activities have a positive influence on their trust toward the company. Research by Marin et al. (2008) and Rudež et al. (2010) also shows that the higher the level of a company’s CSR initiatives, the stronger the customer loyalty to the company is as well.

Both CSR and successful service recovery contributes to the increase of customer loyalty. With trust being a key element to customer loyalty, this paper proposes that a company’s positive CSR practices might increase consumer trust in the company. Since this study’s pretest shows that CSR has no effect on customer satisfaction nor repeat patronage, this study posits a fourth
hypothesis that consumer trust will be higher when a company has positive CSR practices, as oppose to negative CSR or no CSR.

**H4: Positive CSR will have a higher consumer trust than negative CSR and no CSR.**

As was discussed earlier for Hypothesis 3, positive service recovery will result in high trust, but it will not have much incremental influence on increasing consumer trust. On the contrary, when customers receive negative service recovery, positive CSR acts as a buffer and effectively reduce negative service recovery effects on trust. Thus, the effect of positive CSR on trust will be greater in negative service recovery than positive recovery. Hence the fifth hypothesis:

**H5: The effect of CSR on consumer trust will be stronger for negative service recovery than positive service recovery.**

**Main Study**

To test the hypotheses, a 3(positive, negative, and no CSR) x 2 (positive or negative service recovery) between subjects factorial design was used. The same six condition questionnaires used for the pretest were used for the main study as well. The main study expanded on the pretest by adding the new construct trust, and separating behavioral intentions into repeat patronage and positive word of mouth. Newly added measurement items are described in the following section.
**Additional Measures**

*Repeat patronage* was assessed by a three items scale adopted from Blodgett et al. (1997), and Leong & Kim (2002). *Positive word of mouth* was measured by a four items scale adopted from Blodgett et al. (1997) and Keillor, Hult, & Kandemir (2004). Finally, *trust* was measured via a four-item scale adopted from Sirdeshmukh et al. (2002). Table 2 shows the revised scales with added items and construct for the main study and Table 3 shows the reliability coefficients of all constructs.

### TABLE 2: ADDITIONAL MEASUREMENT ITEMS

<table>
<thead>
<tr>
<th>Variable</th>
<th>Items</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repeat Patronage</td>
<td>• I would eat at this restaurant again.</td>
<td>Blodgett et al. (1997)</td>
</tr>
<tr>
<td></td>
<td>• I would never eat at this restaurant again.</td>
<td>Leong &amp; Kim (2002)</td>
</tr>
<tr>
<td></td>
<td>• I plan to return to this restaurant.*</td>
<td></td>
</tr>
<tr>
<td>Positive Word of Mouth</td>
<td>• I would recommend this restaurant to others.</td>
<td>Keillor, Hult, &amp; Kandemir, (2004)</td>
</tr>
<tr>
<td></td>
<td>• I would say good things about this restaurant.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• I would complain to others about this restaurant.*</td>
<td>Blodgett et al. (1997)</td>
</tr>
<tr>
<td></td>
<td>• I would warn others about this restaurant.*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• I believe that this company is concerned about my interest.*</td>
<td>Sirdeshmukh et al. (2002).</td>
</tr>
<tr>
<td></td>
<td>• I feel that this company is trustworthy.*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• I have confidence in the products and services of this restaurant.*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• I feel that this restaurant has the ability to provide good products and services.*</td>
<td></td>
</tr>
</tbody>
</table>

Note: * denotes the added items and construct.
TABLE 3: CONSTRUCT RELIABILITY

<table>
<thead>
<tr>
<th>Variable Type</th>
<th>Variable Name</th>
<th>Number of Items</th>
<th>$\alpha$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manipulation Check</td>
<td>CSR Perception</td>
<td>3</td>
<td>.97</td>
</tr>
<tr>
<td></td>
<td>Service Recovery Evaluation</td>
<td>7</td>
<td>.97</td>
</tr>
<tr>
<td>Covariate</td>
<td>Personal Environmental Belief</td>
<td>8</td>
<td>.79</td>
</tr>
<tr>
<td>Dependent Construct</td>
<td>Customer Recovery Satisfaction</td>
<td>4</td>
<td>.96</td>
</tr>
<tr>
<td></td>
<td>Repeat Patronage</td>
<td>3</td>
<td>.79</td>
</tr>
<tr>
<td></td>
<td>Positive Word of Mouth</td>
<td>4</td>
<td>.80</td>
</tr>
<tr>
<td></td>
<td>Trust</td>
<td>4</td>
<td>.96</td>
</tr>
</tbody>
</table>

Sample

Four hundred and eighteen restaurant patrons over the age of 18 years who have had a dining experience at a casual restaurant were recruited by Qualtrics, a reputed online marketing research firm. An online survey was developed and distributed to the Qualtrics Panel. Participants were randomly assigned to one of the six experimental conditions.

Of the 418 participants, 40.0% dines three to five times a month at a casual dining restaurant, 35.0% dines one to two times, and 6% did not eat at a casual dining restaurant in the past month. The majority of the sample population was female (66.0%), and the average age of the participants was 37 years (minimum=18, maximum=70). For ethnicity, the majority of the participants were White/Caucasian (81.6%), followed by Hispanic/Latin (5.7%), Black/African American (5.5%), Asian (5.5%), and Other accounting for about 1.7% of the sample. As for the participants’ marital status, 57.7% was married. The education and income level of the
participants was much dispersed, but the highest percentage for these categories were 26.8% for college degree and 22.2% for an income level of $20,000 to $39,999. Table 4 provides detailed information of this study’s sample demographics.

<table>
<thead>
<tr>
<th>TABLE 4: SAMPLE CHARACTERISTICS (N = 418)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency of casual dining patronage (past month)</td>
</tr>
<tr>
<td>Never</td>
</tr>
<tr>
<td>1-2 times</td>
</tr>
<tr>
<td>3-5 times</td>
</tr>
<tr>
<td>6-12 times</td>
</tr>
<tr>
<td>Over 12 times</td>
</tr>
<tr>
<td>Gender</td>
</tr>
<tr>
<td>Male</td>
</tr>
<tr>
<td>Female</td>
</tr>
<tr>
<td>Age</td>
</tr>
<tr>
<td>Ethnicity</td>
</tr>
<tr>
<td>White/Caucasian</td>
</tr>
<tr>
<td>Black/African American</td>
</tr>
<tr>
<td>Asian</td>
</tr>
<tr>
<td>Hispanic/Latino</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Marital Status</td>
</tr>
<tr>
<td>Single</td>
</tr>
<tr>
<td>Married</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td>Some high school</td>
</tr>
<tr>
<td>High school degree</td>
</tr>
<tr>
<td>Associate degree</td>
</tr>
<tr>
<td>College credits, no degree</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
<td>College degree</td>
</tr>
<tr>
<td>Graduate school</td>
</tr>
<tr>
<td><strong>Income Level</strong></td>
</tr>
<tr>
<td>Less than $20,000</td>
</tr>
<tr>
<td>$20,000 - $39,999</td>
</tr>
<tr>
<td>$40,000 - $59,999</td>
</tr>
<tr>
<td>$60,000 - $79,999</td>
</tr>
<tr>
<td>$80,000 - $99,999</td>
</tr>
<tr>
<td>$100,000 or more</td>
</tr>
</tbody>
</table>
CHAPTER FOUR: RESULTS AND DISCUSSION

Results

Manipulation Check

A one-way ANOVA was performed to check the manipulations of the CSR scenarios. The results show that there is significant difference between the means of the three CSR scenarios (F=195.06, p < .000). As expected the mean CSR score was the highest for positive CSR (M=6.10), followed by no CSR (M=4.26), and negative CSR (M=2.62). The post hoc test, Tukey provided further confirmation of the significant mean differences at an alpha=.05 level.

An independent T-test was used to perform the manipulation check for the service recovery scenario. The results showed that there is significant difference between the mean of the positive (M=4.54) and negative scenario (M=2.31) (t-value = 14.02, p < .000).

Finally, regarding realism, study participants perceived the CSR scenario description as believable and convincible (M= 5.32; r = .75) and the service recovery scenario as realistic and easy to understand (M= 5.29; r = .63). Taken together, the results indicated that the manipulations were effective.

Hypotheses Testing

The main and interaction effects of the two independent variables on customer satisfaction, repeat patronage, word of mouth, and trust were examined. First, Multivariate Analysis of Variance (MANOVA) results indicated there is a significant main effect of recovery (Hotelling’s Trace = .24, = 23.66, p =.000) and CSR (Hotelling’s Trace = .07, = 3.29, p=.001), and a marginally significant effect when these two are combined (CSR*Recovery: Hotelling’s
Trace = .40, = 1.95, p=.051). When including participants’ general environmental beliefs as a covariate in the model, the interaction effects becomes significant, indicating that the covariate was effective (Hotelling’s Trace = .10, = 9.60, p =.000). Thus, the MANCOVA results including personal environmental belief showed that there is a significant recovery main effect (Recovery: Hotelling’s Trace = .27, = 25.78, p =.000), CSR main effect (CSR: Hotelling’s Trace = .08, = 3.71, p=.000), and interaction effect of these two (CSR*Recovery: Hotelling’s Trace = .04, = 2.05, p=.039).

Since multivariate results suggest that all main and interaction effects are significant, the univariate analyses results are examined. Table 5 provides the summarization of the results and Table 6 shows all means by condition for each dependent variable. Discussions on the univariate analyses results are followed.
TABLE 5: MAIN STUDY UNIVARIATE ANALYSIS RESULTS

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Source</th>
<th>df</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Recovery Satisfaction</td>
<td>CSR</td>
<td>2</td>
<td>5.26</td>
<td>.006</td>
</tr>
<tr>
<td>Repeat Patronage</td>
<td>CSR</td>
<td>2</td>
<td>5.72</td>
<td>.004</td>
</tr>
<tr>
<td>Positive WOM</td>
<td>CSR</td>
<td>2</td>
<td>6.06</td>
<td>.003</td>
</tr>
<tr>
<td>Trust</td>
<td>CSR</td>
<td>2</td>
<td>8.65</td>
<td>.000</td>
</tr>
</tbody>
</table>

Note: Analysis performed at $\alpha = 0.05$

TABLE 6: MEANS BY CONDITIONS (MAIN STUDY)

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Recovery</th>
<th>Positive CSR</th>
<th>Negative CSR</th>
<th>No CSR</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Recovery Satisfaction</td>
<td>Positive</td>
<td>3.82</td>
<td>3.10</td>
<td>3.13</td>
<td>3.35</td>
</tr>
<tr>
<td>Repeat Patronage</td>
<td>Positive</td>
<td>4.24</td>
<td>3.32</td>
<td>3.93</td>
<td>3.83</td>
</tr>
<tr>
<td>Positive WOM</td>
<td>Positive</td>
<td>3.89</td>
<td>2.98</td>
<td>3.55</td>
<td>3.47</td>
</tr>
<tr>
<td>Trust</td>
<td>Positive</td>
<td>4.81</td>
<td>3.61</td>
<td>4.11</td>
<td>4.18</td>
</tr>
<tr>
<td></td>
<td>Negative</td>
<td>3.03</td>
<td>2.74</td>
<td>2.25</td>
<td>2.67</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>3.92</td>
<td>3.18</td>
<td>3.18</td>
<td></td>
</tr>
</tbody>
</table>
Satisfaction. A univariate analysis indicated that CSR had an effect on customer satisfaction (f-value = 5.26, p-value = .006). Of the CSR scenarios, positive CSR had the highest mean (mean = 3.25) followed by negative CSR (mean = 2.79) and no CSR respectively (mean = 2.53). A simple contrast analysis further indicated that there is a significant mean difference between positive and no CSR (mean difference = .72, p-value = .000), and positive and negative CSR (mean difference = -.46, p-value = .027), but no significant mean difference between negative and no CSR (mean difference = .26, p-value = .198). Recovery also had a significant effect on customer satisfaction (f-value = 29.15, p-value = .000). Positive recovery had a higher mean (mean =3.35) compared to negative recovery (mean = 2.37). As for the interaction effect of CSR and service recovery on customer satisfaction, the results show that there is no significant interaction effect (f-value = 1.06, p-value = .349).

Repeat patronage. A univariate analysis indicated that CSR has a significant effect on repeat patronage (f-value = 5.72, p-value = .004). Of the CSR scenarios, positive CSR had the highest mean (mean = 3.61) followed by no CSR (mean = 3.15) and negative CSR respectively (mean = 2.99). A simple contrast analysis further indicated that there is a significant mean difference between positive and no CSR (mean difference = .46, p-value = .008), and positive and negative CSR (mean difference = -.92, p-value = .001), but no significant mean difference between negative and no CSR (mean difference = -.16, p-value = .360). Recovery also has a significant effect on repeat patronage (f-value = 58.98, p-value = .000). Positive recovery had a higher mean (mean =3.83) compared to negative recovery (mean = 2.67). As for the interaction effect of CSR and service recovery on repeat patronage, the results show that there is a
significant interaction effect (f-value = 3.25, p-value = .040). Positive CSR combined with positive recovery had the highest mean (mean = 4.24) and no CSR combined with negative recovery had the lowest (mean = 2.37) (Table 5). This effect is further illustrated in Figure 1, where in terms of positive service recovery, repeat patronage was the highest for positive CSR and lowest for negative CSR. For negative recovery, repeat patronage was again the highest for positive CSR, followed by negative CSR and no CSR.

**FIGURE 1: INTERACTION EFFECT REPEAT PATRONAGE**

*Positive Word of Mouth* (WOM). A univariate analysis indicated that CSR has a significant effect on positive WOM (f-value = 6.06, p-value = .003). Of the CSR scenarios, positive CSR had the highest mean (mean = 3.35) followed by no CSR (mean = 2.85) and
negative CSR respectively (mean = 2.81). A simple contrast analysis further indicated that there is a significant mean difference between positive and no CSR (mean difference = -.54, p-value = .001), and positive and negative CSR (mean difference = -.92, p-value = .001), but no significant mean difference between negative and no CSR (mean difference = -.04, p-value = .785).

Recovery also has a significant effect on WOM (f-value = 47.21, p-value = .000) and positive recovery had a higher mean (mean =3.47) compared to negative recovery (mean = 2.81). Also there is a significant interaction effect of CSR and service recovery on WOM (f-value = 5.47, p-value = .005). Positive CSR combined with positive recovery had the highest mean (mean = 3.89) of the six conditions and no CSR combined with negative recovery had the lowest (mean = 2.15) (Table 5). This effect is further illustrated in Figure 2, where in terms of positive service recovery, WOM was the highest for positive CSR and lowest for negative CSR. For negative recovery, WOM was again the highest for positive CSR, followed by negative CSR and no CSR (See Figure 2).
Trust. A univariate analysis indicated that CSR has a significant effect on trust (f-value = 8.65, p-value = .000). Of the CSR scenarios, positive CSR had the highest mean (mean = 3.92) followed by no CSR (mean = 3.18) and negative CSR (mean = 3.18). Recovery also has a significant effect on trust (f-value = 83.25, p-value = .000). A simple contrast analysis further indicated that there is a significant mean difference between positive and no CSR (mean difference = .74, p-value = .001), and positive and negative CSR (mean difference = -.74, p-value = .000), but no significant mean difference between negative and no CSR (mean difference = -.00, p-value = .986). Positive recovery had a higher mean (mean =4.18) compared to negative recovery (mean = 2.68). As for the interaction effect of CSR and service recovery on trust, the
results show that there is a significant interaction effect (f-value = 3.65, p-value = .027). Positive CSR combined with positive recovery had the highest mean (mean = 4.81) of the six conditions and no CSR combined with negative service recovery had the lowest (mean = 2.25) (Table 5). This effect is further illustrated in Figure 3, where in terms of positive service recovery, trust was the highest for positive CSR and lowest for negative CSR. For negative recovery, trust was again the highest for positive CSR, followed by negative CSR and no CSR.

![Figure 3: Interaction Effect Consumer Trust](image)

In summary, the main study’s results show that service recovery as well as CSR has a significant effect on customer satisfaction, repeat patronage, WOM, and consumer trust. The
results indicate that positive CSR displayed a significant positive effect on the dependent variables compared to negative CSR and no CSR. Yet, there was no significant difference between negative CSR and no CSR.

The results also provided empirical findings in regards to the interaction effect of service recovery and CSR. Positive CSR combined with positive service recovery had the highest means for repeat patronage, WOM and trust. The effect of positive service recovery was enhanced by positive CSR but sharply reduced by negative CSR. However, when there was a negative service recovery, the effect was less influenced by CSR. There was an increase from negative CSR to positive CSR in the negative service recovery condition, but this increase was smaller than the increase in the positive service recovery. Overall, the magnifying effect of CSR combined with positive service recovery was stronger than the buffering effect of CSR combined with negative service recovery.

Discussion

One of the significant findings of this study concerns the effect of CSR on customer satisfaction, repeat patronage, word of mouth, and consumer trust. Although the pretest results showed that CSR has an effect only on word of mouth, the main study’s results showed that CSR does have a significant effect on all four dependent variables. Positive CSR showed significantly higher means for the four dependent variables compared to negative and no CSR. These findings provide supporting evidence for Hypothesis 2 and Hypothesis 4, which state that the positive CSR effect on customer satisfaction, behavioral intentions, and trust. These results support previous research by Sen et al. (2006) who found that CSR initiatives influences patrons’ internal
outcomes and behavioral intentions. Marin et al. (2008) also found that the higher the level of a company’s CSR initiatives is, the stronger the customers loyalty and positive company evaluation are.

The results also show that negative CSR is more harmful to a company than no CSR in terms of positive service recovery. This means that even though service recovery is satisfactory, the company’s negative CSR practices lowers its effectiveness. However, when the service recovery is negative, the result of this study shows a different pattern. Repeat patronage, positive WOM, and trust are already lowered by poor service recovery and the different types of CSR only made minor differences. These differential effects of CSR depending on service recovery indicate that CSR interacts with service recovery perceptions and generates different outcomes. Although the interaction effects of CSR and service recovery are significant, the results illustrate an opposite pattern from the prediction. Past research suggested that CSR mitigates negative effects (e.g., Cho & Kim, 2010; Lin et al., 2011; Luo & Bhattacharya, 2006) and Hypotheses 3 and 5 conceptualize a stronger positive CSR effect when there is a negative service recovery than a positive service recovery. The results suggest the opposite pattern, that positive CSR magnifies the positive effects of service recovery. The difference between positive and negative CSR was larger for all four dependent variables when there was positive service recovery than when there was negative service recovery. This means that the positive CSR effect is more pronounced in positive service recovery, compared to negative service recovery. Thus, Hypothesis 3 and 5 are not supported.

Finally, the results show that service recovery has a significant effect on customer satisfaction, repeat patronage, and word of mouth with the addition of trust. In other words,
Hypothesis 1 which states that positive service recovery will have higher customer satisfaction and intend to return than negative service recovery is supported. This finding further supports existing literature concerning the importance of using satisfactory service recovery efforts to diminish negative consequences of service failure such as customer dissatisfaction and compliant behavior, which in turn may lead to negative word of mouth and switching behavior (McColl-Kennedy & Sparks, 2003, Tse, 2001, Zhang et al. 2005, 2006, Keaveney, 1995).

In summary, all hypotheses have been supported by this study’s results except for the interaction effect hypothesis. The main service recovery and CSR effect have been supported, showing that positive service recovery and positive CSR have a higher customer satisfaction, repeat patronage, word of mouth, and consumer trust compared to negative service recovery, and negative CSR. The results do indicate that there is a significant interaction effect for service recovery and CSR, but does not support this study’s interaction effect hypothesis. Positive CSR does serve as a buffer in mitigating the adverse effects of negative service recovery, but the interaction plot patterns suggest that the difference between positive and negative CSR in negative service recovery is smaller than the difference for positive service recovery.

There are some discrepancies in the results from the pretest and the main study. These are mainly related to CSR. The pretest failed to find statistical significance while the main study was able to find both the CSR main effect and its interaction effect with service recovery. The difference between the pretest and main study results might be due to the sample size and sample demographics. The main study sample size was twice the size of the presets sample. Furthermore, the average age of the main study participants was fifteen years older than the average age of the undergraduate student pretest participants. A larger sample size increases the
statistical power to detect statistical significance (Norusis, 2012). Also, the pretest student sample may not have been ideal for the CSR subject. This is because in general relatively young college students, compared to adults, may not have fully formed attitudes toward CSR issues, which may have diminished the effect of CSR in the pretest.
CHAPTER FIVE: IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH

This last chapter concludes this paper by providing theoretical and managerial implications based on this study’s findings. Furthermore, this chapter presents this study’s limitations and offers recommendations for future research concerning CSR.

Theoretical Implications

The result of this research has at least three valuable contributions for the existing CSR and service recovery literature. First, this study’s findings add to the limited existing literature concerning the CSR halo effect on customers’ service evaluations. This study shows that customer satisfaction, repeat patronage, word of mouth, and trust are higher when a company has positive CSR practices compared to negative and no CSR. These findings also supports previous research by Klein and Dawar (2004) and Cho and Kim (2010) who researched CSR as a halo effect on unrelated routine customer judgment and CSR as a mitigating factor in customers’ negative reactions towards a company.

Second, this study adds new information to the service recovery literature. Service recovery has been mainly studied in regards to its effects on customer satisfaction, word-of-mouth, customer loyalty, and organizational profit (Bitner et al., 1990; Hart et al., 1990; Michel, 2001; Spreng, Harrell, & Mackoy, 1995; Susskind, 2005). Yet, service recovery has not been researched in terms of CSR and the interaction between these two. This study documents the moderating effect of CSR in service evaluations by finding that the service recovery effect is enhanced by positive CSR and diminished by negative CSR.
Finally, this study’s CSR findings strengthen the limited existing literature on CSR and trust. This study not only found that positive CSR has a significant effect on consumer trust, but that the interaction between CSR and service recovery also significantly affects consumer trust during service recovery evaluations. This supports previous research by Swean and Chumpitaz (2008), who found that consumers’ perceptions of CSR activities have a positive influence on their trust towards a company.

**Managerial Implications**

This study’s findings also have meaningful implications for restaurant managers and marketers. Companies often use CSR to differentiate themselves from competitors by creating a unique image, product and experience that is not offered by competitors. For example, Wyndham has set itself apart from competitors by employing an extensive institutional CSR program. As an additional benefit, this study demonstrated that positive CSR serves as a synergy that magnifies positive service recovery and as a buffer that mitigates negative service recovery. That is why it is in restaurateurs’ best interest to incorporate positive CSR practices in their company policies and procedures, and to make sure consumers are aware of their CSR practices. The CSR halo effect plays an important role in customers’ service encounter evaluations. Restaurant marketers should use the company’s CSR practices to portray the company image they want their customers to have of them.

This study also demonstrated that CSR has a positive effect on trust, repeat patronage, and word-of-mouth. CSR is not only a company promotion tool to attract customers, but also a good way to build long-term relationship with customers through consumer trust and loyalty (Du
et. al, 2007). As previous studies have shown, loyal customers are more profitable than acquiring new ones (Reichheld & Sasser, 1990), and it is in restaurant managers’ best interest to implement CSR to increase customer loyalty and encourage positive word of mouth. An example of this would be to incorporate CSR into loyalty programs as a means to increase customer awareness of a company’s CSR behavior, encourage their participations, and in turn increase customer loyalty through repeat patronage.

This study’s results also suggest that customers weigh service recovery more than CSR in their evaluation of a restaurant’s recovery efforts. Even though CSR helps customers’ perception during the service failure and recovery, managers should make sure they employ positive service recovery strategies and do not rely solely on the CSR halo effect to do the job.

**Limitations and Future Research**

The present study is not without limitations. This study is conducted in a casual dining restaurant context and green CSR practices. Therefore, the findings may not be generalizable to other hospitality industry sectors and other forms of CSR.

First, this paper examined CSR only from a green practices perspective. There are many different forms of CSR and future research should expand to other forms of CSR such as fundraisings for a cause, community involvement and company ethical behavior, and how these affect service recovery evaluation in the hospitality industry. Different forms of CSR might have a stronger or weaker effect in different hospitality sectors. Future research is encouraged to investigate which type of CSR has a better fit with the type of business.
Second, this study also examined the effect of CSR on service recovery evaluation within a casual dining context. Future research should look at the different dining sectors such as fast food and upscale dining, and examine how customers weigh the importance of CSR in these dining settings. Personal environmental belief was a significant covariate for this study, yet this might not be the case for other dining segments and restaurants types. Upscale dining patrons might have a different perception concerning CSR than fast food diners. Future research should focus on the effect of CSR on service recovery evaluations in restaurant settings other than casual dining.

Finally, although this study treated customer satisfaction and behavioral intentions as two independent variables, previous studies have shown that there is a relationship among customer satisfaction and behavioral intentions (Chen, 2008), and that satisfaction is a direct antecedent of the latter (Cronin et al., 2000; Dodds et al., 1991, Petrick & Backman, 2002). Future research is suggested to extend the CSR and service recovery interaction effect on these constructs by examining interrelations among the dependent constructs,
APPENDIX A:
IRB APPROVAL LETTER PRETEST
Approval of Exempt Human Research

From: UCF Institutional Review Board #1
FWA0000351, IRB0000138

To: Heidi Y. Albus and Co-PI: Hee Jung Ro

Date: March 19, 2012

Dear Researcher:

On 3/19/2012, the IRB approved the following activity as human participant research that is exempt from regulation:

Type of Review: Exempt Determination
Project Title: The Effects of Corporate Social Responsibility and Service Recovery on Customer Satisfaction and Intend to Return
Investigator: Heidi Y Albus
IRB Number: SBE-12-08291
Funding Agency:
Grant Title:
Research ID: NA

This determination applies only to the activities described in the IRB submission and does not apply should any changes be made. If changes are made and there are questions about whether these changes affect the exempt status of the human research, please contact the IRB. When you have completed your research, please submit a Study Closure request in iRIS so that IRB records will be accurate.

In the conduct of this research, you are responsible to follow the requirements of the Investigator Manual.

On behalf of Sophia Dziegielewski, Ph.D., L.C.S.W., UCF IRB Chair, this letter is signed by:

Signature applied by Joanne Muratori on 03/19/2012 02:34:15 PM EST

IRB Coordinator
APPENDIX B:
IRB APPROVAL LETTER MAIN STUDY
Approval of Exempt Human Research

From: UCF Institutional Review Board #1
FWA00000351, IRB00001138
To: Heidi Y. Abus and Co-PI: Hee Jung Ro
Date: April 16, 2012

Dear Researcher:

On 4/16/2012, the IRB approved the following minor modifications to human participant research that is exempt from regulation:

Type of Review: Exempt Determination
Modification Type: The Behavioral Intentions question set has been modified and another variable “Trust” has been added to the survey. These changes bring the total number of survey items from 35 to 42. A revised consent document (that reflects these changes, as well as a new total survey time of 10 – 15 minutes and a change in date collection from Rosen College students (pretest) to Qualtrics panel individuals who choose to participate) has been approved for use.

Project Title: The Effects of Corporate Social Responsibility and Service Recovery on Customer Satisfaction and Intend to Return
Investigator: Heidi Y. Abus
IRB Number: SBE-12-08291
Funding Agency: NA
Grant Title: NA
Research ID: NA

This determination applies only to the activities described in the IRB submission and does not apply should any changes be made. If changes are made and there are questions about whether these changes affect the exempt status of the human research, please contact the IRB. When you have completed your research, please submit a Study Closure request in irIS so that IRB records will be accurate.

In the conduct of this research, you are responsible to follow the requirements of the Investigator Manual.

On behalf of Sophia Dziegielewski, Ph.D., L.C.S.W., UCF IRB Chair, this letter is signed by:

Signature applied by Joanne Muratori on 04/16/2012 04:59:32 PM EDT

IRB Coordinator
APPENDIX C:
CSR SCENARIO
Positive CSR

Marina Pier Restaurant is a seafood restaurant chain in the Central Florida area. The restaurant has a 150 seating capacity and has been serving its clients in the Central Florida area since 2005. It is a family style casual dining restaurant chain and the food is moderately priced.

Recently, this restaurant chain has been acclaimed by the local media for their environmental responsible practices. This company has been voted the best performing restaurant in green practices from 2009 to 2011 by the Corporate Social Responsibility Observer, a well-known organization who focuses on the promotion and recognition of environmental friendly businesses.

Marina Pier Restaurant supports local environmental projects and buys products from local farmers whenever possible. They use energy efficient lamps, low flow water faucets, and recyclable products in all their restaurants. Marina Pier Restaurant also conducts waste assessment at all their locations, and has a local company that pulps and composts their food waste on a weekly basis.

Negative CSR

Marina Pier Restaurant is a seafood restaurant chain in the Central Florida area. The restaurant has a 150 seating capacity and has been serving its clients in the Central Florida area since 2005. It is a family style casual dining restaurant chain and the food is moderately priced.

Recently, this restaurant has been criticized by the local media for their lack of environmental responsible practices. From 2009-2011, this company has been voted one the worst performing restaurant in green practices of Central Florida by the Corporate Social Responsibility Observer, a well-known organization who focuses on the promotion and recognition of environmental friendly businesses.

The Marina Pier Restaurant chain does not support local environmental projects or local farmers. In their restaurants, they do not use energy and water saving equipment such as energy efficient lamps and low flow water faucets, nor do they use recyclable products. They also fail to conduct waste assessments and do not use a local company to pulp and compost their food waste on a weekly basis.

No CSR

Marina Pier Restaurant is a seafood restaurant chain in the Central Florida area. The restaurant has a 150 seating capacity and has been serving its clients in the Central Florida area since 2005. It is a family style casual dining restaurant chain and the food is moderately priced.
APPENDIX D: RECOVERY SCENARIO
Positive Service Recovery

It’s your birthday and you take a few of your friends to Marina Pier Restaurant. As soon as you get there, you are seated at your table, and the waiter comes to take your order. You place your order, and soon afterwards the waiter brings your entrees and leaves without asking if you need anything else. The waiter never brings your beverages, and he doesn't stop back to check on you while you're eating. Finally he comes to your table and drops off the bill without asking if you want anything more.

You decide to complain about the poor service to the manager. After you explained the problem to the manager, he sincerely apologized for the problem. He said that he would address the problem accordingly and apologized again. Finally he offered you and each person in your party a 10% discount and asked if there was anything else that he could do to serve you better.

Negative Service Recovery

It’s your birthday and you take a few of your friends to Marina Pier Restaurant. As soon as you get there, you are seated at your table, and the waiter comes to take your order. You place your order, and soon afterwards the waiter brings your entrees and leaves without asking if you need anything else. The waiter never brings your beverages, and he doesn't stop back to check on you while you're eating. Finally he comes to your table and drops off the bill without asking if you want anything more.

You decide to complain about the poor service to the manager. After waiting for about 20 minutes, the manager finally comes to your assistance. You explain the problem to him, and he responds indifferently by saying that this problem sometimes happens. There was no apology or explanation for the problem, and he did not offer any compensation.
REFERENCES


