Multidisciplinary Journal of TUM 2(2) 2023 1-9 DOI: https://doi.org/ 10.48039/mjtum.v2i2.62 **Original Article**

Effectiveness of Compensation Recovery Strategies in Enhancing Customer Experience in Star-Rated Hotels in Mombasa County, Kenya

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Abstract

Since today's customers not only purchase goods and services for their utilitarian but also hedonistic benefits, service recovery has become an integral part of any hotel that wishes to remain competitive. In a bid to remain competitive, most hotels have developed service systems. However, none of the systems in place are perfect. Though compensation has been proposed as a means of securing competitive advantage, scant evidence exist suggesting that the same can be used as recovery strategies to enhance customer experience. While using star rated hotels in Mombasa, Kenya, this study sought to adduce the effectiveness of compensation recovery strategies in enhancing customer experience using descriptive research design. Staff from10 front-line sections within the 17 rated hotels in Mombasa County formed the sampling frame. Data were collected by the use of an on-line questionnaire due to COVID-19 pandemic that prevailed during the study period. A pre-test of the questionnaire was done on one of the hotels, and the results were subjected to the Cronbach formula producing a reliability index of 0.989. Data were analysed by the use of inferential and descriptive statistics and the findings presented in tables, bar graphs and pie charts. From the findings, descriptive analysis on customer experience indicated that front line managers agreed and strongly agreed that when customers are pleased with their recovery effort, they receive referrals from them, they spend more money in the establishment, they show eagerness to return on, they become more loyal, they share with others about the good services, and they trust that any offer given to them in the future will go right. Descriptive analysis on the dimensions of the three strategies (compensation, staff actions, and communication strategies) produced high means and low standard deviations, indicating that front-line managers often and always applied the three recovery strategies whenever a failure occurred. The regression analysis of the three hypotheses indicated that the three strategies have a statistically significant influence on the customer experience if used effectively. Other than advancing scholarly work in the field of service recovery, the findings inform Kenya's Ministry of Tourism and hotel stakeholders as a whole by guiding in policy review and formulation so as to help in minimizing service failures.

Key Words: Effectiveness, Compensation, Recovery strategies, Service recovery Paradox model, Customer experience, Rated hotels

Introduction

Though hotel operators continuously work hard to achieve competitive advantages over their rivals, it is extremely hard to offer customers a reliable, first-time, error-free service. This is because of the nature of services (Ali et al., 2021) and the high degree of personal interaction between customers and employees (Ali *et al.*, 2021), thus the need of service recovery. Service recovery involves actions taken by an organization in response to service failure (Zeithaml & Bitner, 2009).

In Kenya, the hospitality industry, one of the top three revenue earners among Kenya's economic sectors, is driven by demand for Accommodation, Food and Beverages, Meetings and Conferencing Space, and Leisure and Entertainment. Though tourism performance declined between 2011 and 2015 due to insecurity, the sector recovered in 2016 with a 13.4% growth in international arrivals and an increase in bed occupancy to 30.3% from 29.1% in 2015 (Cytonn, 2017). Substantial growth was further observed in 2017 and 2018 in both tourism arrivals, domestic tourism performance, and earnings attributed to political stability, improved security, growth in the aviation sector, withdrawal of travel advisories, open border policies, and revitalized marketing efforts. (Tourism Performance Report, 2018). Though the number of tourist travel has increased, Kenya as a country still has the potential of attracting many more tourists but only if hotels can improve on customer service (Nation, 2018). Conversely, Africa's consumer spending on tourism, hospitality, and recreation is projected to reach about $261.77 billion by 2030 (TPR, 2018). This growth is mainly attributed to tourism transformation in countries that were previously considered unattractive tourist destinations due to political instability, violence, or health crises, and their strive to ensure that their customers are satisfied with the services they provide. As such Kenya's growth as a destination has been put on check. As Wamuyu *et al.,* (2015) posits, there is a positive relationship between effective service recovery and customer loyalty in the hotel sector. This suggests that the industry may recoup its faltered growth by using recovery strategies whenever service failure occurs. Though Mombasa, the main tourism hub in Kenya commanding the greatest occupancy rate, has laid out means of effecting service recovery strategies when failure occurs, it was not clear how effective these strategies were.

While empirical studies on service recovery has mainly been on the banking sector (Komunda, 2012; Chepkwony et al., 2012), and mobile money services (Ngahu eta al., 2016), those on hospitality industry have been limited. A study by Wamuyu, et al, (2015) covered employee empowerment as well as the influence of entrepreneurial service recovery on customer loyalty in the hospitality industry in Kenya. The findings from this author focused only on the five-star rated hotels in Kenya, which cover a paltry 11% of the total rated hotels in the country with the respondents being customers who frequent these hotels and thus their results could not represent all other rated hotels. The current study sought to evaluate the relationship between compensation strategies and their effectiveness in enhancing customer experience in star-rated hotels in Mombasa County. To achieve this a null hypothesis was set:

> **H_0** Compensation strategies have no significant effect on the customer experience in star-rated hotels in Mombasa County.

Theory and Literature review

The service recovery model by McCullough and Bharadwaj, (1992) as cited by Roodurmun & Juwaheer, (2010) was adopted to explain the consumer's reaction process when they experience poor services. According to this model a customer thinks more highly of a company after the company has corrected a failed service, compared to how they would regard the company if non-faulty service had been provided. The theory proves that customers can be more loyal to a business after they have experienced a service failure, than if it had never happened in the first place. A successful recovery increases the assurance and confidence from the customers' side (Krishnaet al., 2014).

Handling a problem well and restoring customers' faith in service can improve the overall satisfaction of the customer. When service is disrupted, the customer takes the opportunity to evaluate their relationship with the company. Swift crisis recovery shows that the firm is trustworthy, prepared, and organized to handle crises. If the firm shows concern by providing a quality response and high level of effort, the customer judges the firm favourably and their relationship is deepened. Service Recovery Paradox depends on two factors, the weight the customer puts on the failure and the tolerance level of the customer (Krishna *et al.,* 2014).

Customers with high tolerance levels are believed to have an understanding nature, acceptability, and high empathy. This kind of customer does not attribute the cause of failure to the service provider; instead, they associate it to the inevitable nature of God's plan (Krishna et al., 2014). A customer with a low level of tolerance is said to be stingy, selfish and opportunistic in behaviour. This theory has previously been used in studies that supported service recovery processes as a means of customers rating establishments favourably (Soareset al., 2014; Davidow, 2000; De Matoset al., 2007). This current study sought to understand the process of service compensation recovery strategies undertaken by the hoteliers and their effectiveness in enhancing customer experience.

Compensation is a monetary reimbursement for the inconvenience caused to customers for a failure that cannot be resolved (Bonifield & Cole, 2008; Chuanget al., 2011). After a service failure, customers expect compensation or a reward from the organization which should be fair (Nwokorie, 2016). Another crucial factor that customers will assess when formulating their demand for compensation is the level of additional effort they have to make in order to achieve service recovery that is, having to wait for so long during the recovery process (Kenesei & Bali, 2020). A study by Jung & Seock, (2017) on the effects of service recovery on customer perceived justice, satisfaction and word of mouth intentions on online shoppers posits that the tangibility of compensation strategy makes it easy to be quantified and can adequately explain the satisfaction with the recovery action. More findings by Alhawbani et al., (2021) on The Effect of Service Recovery Strategies on Satisfaction with the Recovery: The Mediating Role of Distributive Justice attests that compensation is a more influencing and productive service recovery solution when a service default occurs. This is because it acts as a powerful source of customer satisfaction and loyalty. It also indicates the seriousness on the part of the service providers towards valuing their customers and their eagerness to have them back as repeat customers (Wanjau & Mung'atu, 2015). When customers are offered compensation, they are able to release anger and this makes their attitude towards the service provider to be less tense (Silbe, 2013). The different magnitude of failure requires different compensation strategies such that for a high magnitude service failure, high compensation is required. However, low magnitude service failure with a high compensation will lead to higher customers repurchase likelihood'. This is according to Yuling (2017) and Kenesei *et al.,* (2020) in their study on how Compensation Affects Customers' Repurchase Decisions after Service Failure.

Discounts, free merchandise, refunds, coupons, gift vouchers, free use of sauna, free of charge amenities in the room or non-alcoholic beverages or food that the organization gives in response to the inconvenience the service failure caused are some of the compensation strategies used by service organization (Silbe, 2013; Schumacher & Komppula, 2016). There is also compensation that generates income whereby a customer is promised a free service when they visit next time and bring with them one or two guests. When customers experience a non-monetary loss, a non-monetary recovery strategy is expected; likewise, when customers experience a minor error, a simple apology can be taken into consideration Xu, et al., 2018). However, when additional compensation, such as a voucher the customer did not anticipate, is offered, the level of satisfaction is increased and can have a favorable impact on the customer perception ultimately leading to the sale (Krishna, 2011; Silbe, 2013). Further, customers who spent more money should be compensated accordingly otherwise; the service provider may risk a negative perception. The degree of failure should be a determinant of the type of compensation to be offered because customers compare recovery outcomes with the degree of inconvenience caused by the service failure to estimate its fairness (Albrechtet al., 2018).

Financial compensation is not imperative. Mostafa et al., (2014), disagree with this finding by attesting that, compensation is not as important in recovery as argued because consumers do not feel satisfied by mere compensation, but instead they want companies to respond to their complaint and explain the cause of the failure. They believe that compensation is insufficient because it does not mean that companies will change the way they do things in the future, but it is only a short-term solution that cannot necessarily prevent the same failure from happening again (Mostafa *et al.,* 2014). Kenesei & Bali, (2020) in their study on Overcompensation as a service recovery strategy: the financial aspect of customers' extra effort also disagrees by saying that customer's expectations when they visit an organization is not compensation but that the service provider offers or re-performs the original service that they have paid for. From the literature, most of the studies evaluated compensation strategies in other service industries with only one study conducted in Kenya with the population of five-star hotels. The current study evaluated compensation strategies used in all-star rated hotels in Mombasa County, Kenya to adduce its effectiveness in relation to customer experience across all hotels and not just 5-star hotels because failure is inevitable and customers in both hotels are likely to experience it.

Methodology

The study adopted a descriptive research design. It was carried out in Mombasa County, the second-largest city in Kenya covering an area of 229.7 km^2 excluding 65 km^2 of water mass and cushioned between Kilifi County to the north, Kwale County to the south-west and the Indian Ocean to the east (KNBS, 2018). In recent years, Mombasa has evolved into a touristic scene offering a variety of touristic attractions including beautiful beaches, historic sites and provides a variety of food tastes and flavours featuring both local and international cuisines (Mombasa CIDP, 2017). The County has over 203 registered hotels with a total bed capacity of about 8,000 beds and average annual bed occupancy of 64% and among these registered hotels, 18 are star rated (Tourism Regulatory Authority, 2019). All the departmental managers of the 18 star-rated hotels in Mombasa County working in the Restaurant, Bar, Front Office, Reservation, Sales and Marketing, Housekeeping, Kitchen, Concierge, Security, Fitness and wellness, Public areas, Animators, Accounts, Laundry, Maintenance, Environment, Purchases, Guest relations and Food and Beverage control were targeted.

Due to COVID-19 pandemic by then, the study adopted a 5 point online Likert scale questionnaire where. 1 = Never, 2 = Rarely, 3 = Sometimes, 4 = Often, 5 = Always was used to measure statements in part B while 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree was used in part C**.** A participating pre-test, whereby front-line managers from one of the 18 hotels that was not included in the actual study was used to test the tool's validity and reliability. Content validity was tested to adduce whether the right information would be gathered and whether respondents understood the questions well. Some of the questions were improved based on the received feedback. The internal reliability was measured using the reliability coefficient Cronbach's alpha which returned an alpha of 0.989. This is considered high implying that the tool was reliable.

Descriptive statistics were used to summarize the data to enable the researcher to meaningfully describe the distribution of scores. The mean which is the average of a set of scores was used to measure the central tendency of the scores and the Standard deviation was used to measure the variability of the scores.

To establish whether compensation strategies affected customer experience in star-rated hotels in Mombasa County, a null hypothesis 'Compensation strategies have no significant effect on customer experience in star-rated hotels in Mombasa County' was set. Linear regression analysis was used to test this hypothesis. Given that the data was on the Likert scale (ordinal data), it was first transformed to interval data by computing composite scores for both the independent (compensation strategies) and dependent variables (customer experience) to meet all the conditions for linear regression analysis to be conducted.

The linear regression analysis was conducted applying the model below: -
$\mathbf{Y}= a+ \beta_1 X_1+e$

Results and Discussion

Out of the 170 on-line questionnaires distributed, 143 were returned (see annex, questionnaire used for data collection). This stood for 84.12% return rate which is considered good (Fowler, 2018). (Table 1).

Table 1. Results of descriptive statistics of compensation strategies from the on-line questionnaire administered during the study

	N	Mean		Std. Deviation
	Statistic	Statistic	Std. Error	Statistic
We refund them a certain amount of money	143	3.53	.114	1.362
We give them free products as a compensation	143	3.88	.095	1.141
We give them free services as a compensation	143	4.27	.074	.888
We offer them financial compensation	143	3.66	.110	1.311
We give them a voucher to exchange of any product they like	143	4.22	.073	.873
We rectify the failure by giving them discounts	143	4.11	.069	.823
We offer compensation that generates income	143	4.20	.087	1.043
Valid N (Leastwise)	143	?	?	?

Most of the variables produced high means and low standard deviations which means that most respondents indicated that they often and always offer compensation that generates income (81.9%; 4.20 ±1.043); rectify the failure by giving them discounts (78.4%; 4.11 ±0.823); give a voucher to exchange of any product they like (77.7%, 4.22 ± 0.873); give them free services as a compensation (77.6%, 4.27 ±0.888); give them free products as a compensation (70.7%, 3.88 ±1.141); offer them financial compensation (58.8%, 3.66 ±1.311) and refund them a certain amount of money (58.8%, 3.53 ±1.362).

Among the seven elements adopted by hotels, compensation that generates income was the most commonly used strategy, rectifying the failure by giving discounts, giving a voucher to customers in exchange for any product, giving free services as compensation, giving customers free products as compensation, financial compensation and refunding a certain amount of money to recover a failed service in that order.

Compensation that generates income was established as the most commonly used approach (81.9%) in service recovery and this can be attributed to the fact that, when a hotel compensates for a service failure with a revenue-generating recovery option to appease the upset guest, both the hotel and the guest are satisfied. This win-win solution may aid in enhancing customer experience and thus the development of the long-term relationship between the hotel and the guest. According to Silbe, (2013), compensation is one of the most important features of efficient and effective service recovery because it acts as a powerful determinant of customer satisfaction and loyalty. It also shows the seriousness on the part of the service providers towards valuing their customers and their eagerness to have them back as repeat customers (Wanjau & Mung'atu, 2015). The findings are also in line with

Silbe, (2013); Schumacher and Komppula, (2016) who found out that, discounts, free merchandise, refunds, coupons, gift vouchers, free use of sauna, free of charge amenities in the room or non-alcoholic beverages or food that the organization gives in response to the inconvenience the service failure caused are some of compensations strategies used by hotels and they play a great role in enhancing customer experience.

The model summary (Table 2) provides the R and R^2 values. The R represents the simple correlation which in this case is 0.747 (the "R" column) which indicates a high degree of correlation between compensation strategies and customer experience. The R^2 value normally indicates how much of the total variation in the dependent variable (which in this case is customer experience) can be explained by the independent variable (compensation strategies).

Table 2. Model summary of compensation strategies: a. predictors (constant), compensation strategies and b. dependent variable, customer experience

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.747[a]	.661	.655	3.58826	.661	9.187	1	141	.003

In this case, 66.1% of variance of customer experience could be explained by compensation strategies which are high and significantly adequate. Moreover, the Analysis of Variance (ANOVA) test was carried out. The ANOVA table normally reports how well the regression equation fits the data (i.e. predicts the dependent variable). This is usually determined by looking at the "regression" row, "sig" column (Table 3).

Table 3. Results of ANOVA test of compensation strategies: a. dependent variable, customer experience; b. predictors/constant, compensation strategies

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	118.288	1	118.288	9.187	**0.003[b]**
Residual	1815.460	141	12.876		
Total	1933.748	142			

The last row (Table 3) shows that "sig" = 0.003 being < 0.05, indicating statistically significant of the regression model that was applied. The value of P = 0.003 implies that the regression model statistically significantly predicted the outcome variable which is customer experience (i.e.it is a good fit for the data).

The coefficients (Table 4) provides necessary information to predict whether compensation strategies statistically contribute to the model (by looking at the "sig" column).

Table 4. Coefficient results for compensation strategies. *a*. dependent variable, customer experience

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	22.406	1.385		16.182	**0.000**	19.669	25.144
Compensation Strategies	0.747	0.049	0.747	3.031	**0.003**	0.051	0.243

From table 4, the regression equation can be presented as: -
Customer experience = 22.406 + 0.747 (compensation strategies)
This regression equation shows that for every additional element of compensation strategies, the customer experiences will be expected to increase as per the values indicated in the "B" column. Further, the low P value (0.003) implies that this finding can be generalized to the population from which the sample was drawn. The findings from the regression analysis imply that compensation strategies have a statistically significant influence on the customer experience. Therefore, the null hypothesis 'Compensation strategies have no significant effect on customer experience in star-rated hotels in Mombasa County' was rejected and the alternative hypothesis 'Compensation strategies have a significant effect on customer experience in star-rated hotels in Mombasa County' accepted.

The study revealed that, there is a significant relationship between compensation strategies and customer experience with a correlation of 0.747 indicating a high degree of correlation between the two variables. These findings concur with the findings of Nwokorie, (2016) who ascertained that, after a service failure, customers will always expect compensation or a reward from the organization which should be fair. Jung et al., (2021), established compensation to be one of the most important features of an efficient and effective service recovery because it acts as a powerful determinant of customer satisfaction and loyalty which are indicators of enhanced customer experience. Compensation is also confirmed to show the seriousness on the part of the service providers towards valuing their customers and their eagerness to have them back as repeat customers (Wanjau & Mung'atu, 2015). When compensation like a voucher is offered to customers, the level of satisfaction is increased and can have a positive influence on the customer experience leading to the spread of positive word of mouth (Silbe, 2013; Alhawbani *et al.*, 2021).

Conclusion

From the findings of this present study it is evident that compensation is a highly used strategy in hotels when it comes to service failure and that there is a significant relationship between compensation strategies used and customer experience. When customers experience a bad service, they expect to be compensated in one way or another which should be done with a lot of considerations and for these reasons, all hotel establishments whether rated or not rated should adopt the various compensation dimensions to eliminate the possibilities of losing customers who feel frustrated due to bad services offered. In addition, the various dimensions of compensation should be standardized across the hotel in that, when a particular failure occurs it receives the same compensation strategy always, this will help reduce further customer complaints as it will bring fair treatment during the recovery process. Standardization will also improve on promptness of the employees when dealing with the problem.

Recommendations

Tourism Regulatory Authority in conjunction with other hospitality and tourism bodies to come up with policies incorporating compensation recovery strategies since this has become an area of great concern in the hospitality industry. This should be stipulated by indicating the specifics to be followed including; the response sequence, clearly defined solutions for the various inevitabilities and predictable service calamities because all these situations are predictable and recurring. Since the study was based on a small sample of rated hotels in Mombasa County, there is room for covering unrated hotels in the future as this group attributes to a higher percentage compared to rated hotels which can give a proper representation. The study also presents limitations with the respondents that were used, further research can be conducted using customers as the main respondents as these are the people who experience the failures. Due to the COVID-19 pandemic by then, the study utilized only one research instrument (an online questionnaire) to collect data, there is room to use more than one research instrument to get more authentic information.

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