



## The impact of service failure on brand credibility



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### ARTICLE INFO

#### Article history:

Received 2 December 2015

Received in revised form

22 March 2016

Accepted 22 March 2016

Available online 6 April 2016

#### Keywords:

Service branding

Consumer services

Brand credibility

Service recovery

Satisfaction

Airlines

### ABSTRACT

Recent studies have examined the consequences of brand credibility, with the majority of works embedded in physical goods. Despite the growing attention service branding receives, little is known about how service failure and recovery efforts impact on brand credibility in service organisations. The purpose of this study is to examine how brand credibility is affected by service failure and an organisations recovery efforts. An online self-completion survey of airline consumers (n=875) was employed to test the relationships between the focal constructs. The results show that a service firm's effective complaint handling positively impacts satisfaction with complaining, overall satisfaction and service brand credibility. The study also finds that the higher the perceived magnitude of failure, the more difficult it is to satisfy a customer. These results demonstrate that it is possible to maintain service brand credibility during a service failure, provided brand managers develop and implement effective complain handling procedures.

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### 1. Introduction

Globally, businesses like Apple and Google, contribute well over \$100 billion each in brand equity to their respective organisations (Interbrand, 2014). Other than brand equity, effective branding strategies enable businesses to position and reposition themselves in the market, stand apart from competing brands, and simplify and explain consumer choice processes (Berry, 2000; Erdem and Swait, 2004; Keller and Lehmann, 2006). Understanding how brands influence consumers and their choice processes has attracted much research attention in marketing over the past two decades. An important literature stream emerging from this field is *brand credibility* (Erdem and Swait, 2004; Sweeney and Swait, 2008).

*Brand credibility* is a brand characteristic that explains consumer choice processes. The dominant perspective of brand credibility has been emphasised in physical goods (e.g. Erdem and Swait, 1998, 2004), which is surprising given the importance of branding within the consumer service domain (Berry, 2000) and the general acknowledgement that marketing has moved away

from a product dominant to a service dominant focus (Lusch et al., 2007; Merz et al., 2009). While researchers have recently begun to explore the notion of brand credibility in a service domain, these earlier studies have examined the consequences of brand credibility, such as positive 'Word of Mouth' recommendations, purchase intentions or loyalty (Baek and King, 2008, 2011; Ghorban and Tahernejad, 2012; Sweeney and Joffe, 2008). While these works add to our understanding of brand credibility in a service context, each considers brand credibility to be already present and stable, while remaining silent on antecedents like service failure, responses to such failures and overall satisfaction with service recovery outcomes.

This lack of research investigating the influence of the service recovery process and determinants has been recognised in the seminal work of Mostafa, Lages, Shabbit and Thwaites (2015) and others (de Matos et al., 2007, 2013). Mostafa et al. (2015) explored the direct and indirect antecedents that contribute to corporate image formation in a service recovery context. While their work specifically explored the impact on corporate image rather than brand image, sufficient parallels exist, thus offering a useful initial foray into this relatively unexplored domain and a strong base for further enquiry. This current work builds upon the Mostafa et al. (2015) studies and responds to their calls to examine the impact of service failure across new contexts, in our case the airline industry and in relation to the severity of the service failure. In summary, still little is known about how brand credibility functions in a

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service context and research that investigates service brand credibility is both warranted and required (Baek and King, 2011; Sweeney and Swait, 2008).

*Service failure* is a key research theme in services marketing that negatively impacts the relationships between consumers and service providers (Casidy and Shin, 2015) and possibly brand credibility. While it is widely acknowledged that consumers often experience service failure (Patterson et al., 2006; Lopes and da Silva, 2015), how such failures and the complaint handling strategies designed to deal with them, impact a firm's brand credibility remains unknown. Unlike earlier studies that have examined the consequences of brand credibility, this current research contributes to the literature by examining the impact on brand credibility when the firm fails to deliver its promises. This paper uses a nomological network from the complaining behaviour and service recovery literature to explain brand credibility for service firms, while drawing on social exchange, equity and signalling theories to develop a conceptual model that examines how *complaint handling* efforts by a firm, *perceived magnitude of failure*, *customer satisfaction with complaint handling* and *overall satisfaction* with the brand, impact *brand credibility* during a service failure.

The remainder of this paper is presented in the following way. First, the literature review provides a discussion of the constructs and develops the study's conceptual model. Next, the research design outlines the methodologies undertaken to test the conceptual model. The results of the study, which are analysed with Structural Equation Modelling (SEM), are then discussed in both theoretical and practical terms. Finally, the limitations of the study and areas for future research conclude this paper.

## 2. Literature review and hypothesis development

### 2.1. Brand credibility

Based on early research into the credibility of the communicator, or source credibility (e.g. Hovland, 1951; Hovland et al., 1953; Hovland and Weiss, 1951), brand credibility refers to the believability of an organisation's intentions at a particular time and is comprised of two components: *expertise* and *trustworthiness* (Erdem and Swait, 1998). Brand credibility is defined as the believability of product position information in a brand (Swait and Erdem, 2007) and requires a consumer to perceive a brand to have both the ability (i.e., expertise) and willingness (i.e., trustworthiness) to continuously deliver what has been promised (Erdem and Swait, 1998, 2004; Erdem et al., 2006; Swait and Erdem, 2007).

Brand credibility is underpinned by signalling theory, which suggests that the asymmetric information existing between firms and consumers is unsettling for many consumers, who struggle to distinguish between market offerings. Observable signals like brands, however, enable marketing managers to simplify consumer information search by providing information like country of origin and expected price range (Pecotich, Pressley and Roth, 1996). Such information helps consumers make informed choices and enables marketers to better distinguish themselves from competitors (Erdem and Swait, 1998; Wernerfelt, 1988). As such, a credible brand conveys information that consumers see as truthful and reliable and is achieved when a consumer interprets historical accumulation of past marketing mix strategies and forms a judgment about a brand. Brand credibility then, as a signal of product positioning, may be the most important of all brand characteristics to influence consumer choice (Erdem and Swait, 1998, 2004; Spry et al., 2011).

The brand credibility literature is largely based on a study by Erdem and Swait (1998), who developed a framework of brand

effects on consumer choice under consumer uncertainty. Erdem and Swait (1998) found that brand credibility increases perceived quality, decreases consumer risk perceptions and information search and increases consumer expected utility. Subsequent replication and extension studies confirm Erdem and Swait's (1998) framework cross culturally (Erdem et al., 2006) and show that celebratory endorser credibility increases brand credibility (Spry et al., 2011), and that brand credibility affects perceived value for money (Baek and King, 2011) and price sensitivity (Erdem et al., 2002) which is itself effected by brand prestige (Baek et al., 2010).

Erdem and Swait's (1998) framework includes three main brand credibility antecedents that are based on marketing mix strategies: *consistency*, *brand investments*, and *clarity* (Baek et al., 2010; Erdem and Swait 1998, 2004). First, *consistency* explains how well marketing mix components converge, as well as how stable brand attributes are over time (Erdem and Swait 1998). Second, *brand investments* show consumers that organisations are dedicated to their brands and enable brand promises to be delivered (Klein and Leffler, 1981). Third, *clarity* or having a clear brand signal (i.e., the absence of ambiguity in product information) implies credibility as consumers believe that firms that are willing and capable of delivering on their promises will send clear signals (Erdem and Swait, 1998). Thus, in accordance with Erdem and Swait (1998), a high level of consistency, brand investment and clarity increase brand credibility, which in turn improves perceived quality and expected utility while reducing perceived risk and information costs (Baek et al., 2010).

### 2.2. Brand credibility in services

As discussed earlier, brand credibility research has mostly focused on tangible dominant products and overlooked the consumer services domain. Yet, the credibility of a brand is particularly important for service firms, as consumer brand relationships are the result of consumer and firm interactions that are built over time (Sweeney and Swait, 2008). Of the two papers that have addressed service brand credibility (Sweeney and Swait, 2008; Baek and King 2011), both papers model brand credibility in terms of its outcomes. First, Sweeney and Swait (2008) link service brand credibility to a number of customer relationship management tools such as overall customer satisfaction, commitment, word of mouth (WOM) and switching propensity across retail banking and telecoms. Second, Baek and King (2011) replicate the Erdem and Swait (1998) framework across service categories and involvement level and contribute perceived value for money as a brand credibility outcome that moderates the relationship between brand credibility and purchase intentions. Overall, these studies confirm the relevance of brand credibility in the service domain and provide a solid platform for future research.

This paper contributes to the literature that examines brand credibility in consumer services. To the best of our knowledge, no study has examined the impact of service failure and complaint handling on brand credibility in a consumer service context. This is an important gap to address given the significant effort made by managers to build strong brands that enable them to reduce churn, reduce costs (Sweeney and Swait, 2008) and build and sustain long term consumer relationships (Leung et al., 2014; Hasan et al., 2014). The advent of social media allows dissatisfied customers to share their complaints broadly and thus impact the brand's image and presence in the market. When complaints are not handled effectively, consumers vent their frustrations online and this can have severe repercussions with a brand (Bambauer-Sachse and Mangold, 2011). Thus, there has never been a more important time to understand how complaints arising from a service failure can influence brand credibility.

Despite the best intentions, all firms can expect to experience service failure at some point in time; waiting in long queues at a

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