



Asymmetric effects, regulatory focus, and attribute satisfaction—Mixed experimental evidence in airline overbooking recovery

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ABSTRACT

Asymmetric effects and regulatory focus are two fundamental rules behind an individual's judgment and motivation. While recent research on loss aversion presents mixed evidence, the literature on satisfaction studies provides little insight into the influence of regulatory systems on satisfaction. Moreover, literature regarding the potential interactions between asymmetric effects and regulatory focus is missing. In this paper, we examined the inconsistent evidence regarding loss aversion and various asymmetric effects in different types of regulatory focus at the attribute level. We conducted an experimental study in a setting of airline overbooking recovery in the Chinese airline industry. Our evidence shows that regulatory focus influences asymmetric effects. Participants with different types of regulatory focus have different priorities in recovery attributes and exhibit quite different patterns of asymmetric effects. We identify four different asymmetric effects and find one failure to present — an effect in our study. In addition, we present a regulatory focus-based dummy regression model, which is a more general method that nests previous research on attribute-satisfaction as a special case. The results, together with the newly proposed passenger classification (time fixed versus time flexible), underpin a more realistic assumption for future theory building and can thus help airline companies design a better recovery strategy for revenue management.

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1. Introduction

Imagine that you just arrived at the airport dreaming of a wonderful holiday trip just hours away, only to find that your ticket was denied at the airport. Unfortunately, this was a real situation that a passenger encountered at a Southwest Airline check-in counter (Fridman, 2010). Her flight was simply overbooked. The typical recovery of overbooked passengers is by compensation through recovery measures, such as an upgrade, a ticket refund, and so on. These recovery measures are the attributes of a recovery strategy. However, passengers with different time situations and motivations have quite different judgments on the attractiveness of these attributes. Thus, these recovery attributes do not guarantee a re-building of customer satisfaction. This tension between the passenger's perception regarding the attractiveness of recovery attributes and the performance of the attributes leads to a larger and more fundamental challenge—how does an individual's motivation influence his judgment and choice?

Loss aversion, which plays a powerful role in judgment and choice, postulates that a loss influences an individual's judgment more so than a gain of equivalent magnitude (Kahneman and Tversky, 1979). Accordingly, this raises the following question: Are passengers' responses regarding the attractiveness of recovery attributes entirely controlled by the loss aversion principle? Previous studies in loss aversion report mixed empirical evidence when loss aversion presents, partially presents, or fails to present (see Rozin and Royzman, 2001; McGraw et al., 2010). The asymmetry of loss aversion is not consistent. Specifically, in the attribute-satisfaction research area, several studies record very different evidence when loss aversion presents (see Mittal et al., 1998), reversely presents, and so on (see Matzler and Renzl, 2007).

Researchers have discussed the possible influences from the context of judgment and common scale perspectives to explain the different patterns of loss aversion (McGraw et al., 2010). However, the aforementioned discussions cannot completely explain the inconsistencies related to loss aversion, such as the reverse pattern presented in Matzler and Renzl (2007) as well as those shown in this study. Although the investigation of loss aversion inconsistency is important, previous research does not further investigate the reasons behind the mixed evidence of loss aversion with respect to motivation.

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In explaining motivational orientation behind the individual's goal pursuing behavior, regulatory focus theory (Higgins, 1997, 1998) describes two fundamental self-regulatory systems, i.e., promotion focus and prevention focus. Research in regulatory systems shows that the pursuit of a goal, in a manner that fits an individual's regulatory focus, has a broad influence on judgments and decision making, attitude and behavior change, and task performance (e.g., Higgins, 2005; Avnet and Higgins, 2006; Aaker and Lee, 2006; Lee and Higgins, 2009). However, attribute-satisfaction literature provides little insight into the influence of regulatory focus on satisfaction (Trudel and Cotte, 2008). More importantly, as the differences in performance, decision making, and so on can occur as a function of regulatory focus (Higgins, 1997), given the mixed findings in loss aversion, it is interesting to investigate whether the individual's degree of sensitivity to gains and losses is influenced by regulatory focus, and if so, to what extent.

The purpose of this paper is two-fold. First, we investigate the inconsistency of loss aversion based on regulatory focus theory, and second, we ascertain the influence of regulatory focus on recovery satisfaction. In so doing, we establish the background in airline overbooking recovery and conduct the experiment to examine the loss aversion and other asymmetric effects according to different types of regulatory focus. We show the evidence regarding the influence of regulatory focus on the various asymmetric effects by proposing the regulatory focus-based dummy variable regression models that nest previous attribute satisfaction studies as special cases. The study provides a different perspective to explain the inconsistency with respect to the loss aversion and the appearance of other asymmetric effects.

The remainder of this paper is structured as follows. The research background, which identifies the missing links in the literature, is presented in Section 2. The research hypothesis is developed and tested in Section 3 where we also propose different methodologies and present the findings of the mixed evidence regarding loss aversion and other asymmetric effects in different types of regulatory focus. The discussion and conclusions are summarized in Section 4.

2. Research background

2.1. Scenario of overbooking and recovery

Overbooking, one of the most popular revenue management strategies, has been widely used in various industries since the American Civil Aeronautics Board officially published it as a sanctioned practice in 1965 (Talluri and van Ryzin, 2004, p.132). Overbooking is a strategy adopted by airline companies to accept reservations for seats that exceed the constrained physical capacity to fill otherwise empty seats caused by cancellations and no-shows (Talluri and van Ryzin, 2004, p.21). While overbooking can significantly increase a company's revenue if properly designed, it can also cause significantly negative outcomes if the recovery strategy does not take into consideration the overbooked passengers' psychological and behavioral responses.

The recovery of overbooking has two major differences from traditional service recovery. First, the denied boarding in overbooking is deliberately planned by airline companies to achieve a certain revenue target (Talluri and van Ryzin, 2004), whereas in traditional service scenarios, the failure is unexpected or beyond the firm's control due to the nature of the service interaction. Second, the occurrence of overbooking recovery is, to a significant degree, inevitable if the airline company implements the overbooking strategy, whereas the occurrence of traditional service recovery is incidental due to occasional service failure. With these

features, customers often feel deceived by companies. This deception makes the recovery of overbooking very intricate. In fact, managing the negative effects of denying service is one of the biggest challenges of overbooking (Talluri and van Ryzin, 2004, p.130).

The negative reports of overbooking can be traced back to 2002 in China. In a typical overbooking recovery, an airline company has to find a volunteer who is willing to give up his seat in exchange for economic compensation and a confirmed seat on a later flight. However, volunteers are not always available, as evidenced by the involuntary denied boarding rate (Air Travel Consumer Report, 2012). Although the airline company must provide economic compensation to the overbooked passenger, when facing economic compensation, the responses of overbooked passengers vary. While some passengers are satisfied with the compensation, others clearly refuse to accept the compensation offered by the airlines, instead lodging complaints using the media, denying their loyalty to the airline company, and prosecuting the airline companies in courts (Talluri and van Ryzin, 2004; Xiao, 2007). Accordingly, these actions result in severe social influence. In the long term, these behaviors and reactions damage the image of the airline and significantly negatively impact the goal of increasing a company's revenue by implementing the overbooking strategy (Wangenheim and Bayon, 2007).

With the rapid increase in the number of airline passengers and the widespread revenue management strategies, more customers will be subject to react to the overbooking strategy. Hence, for companies using an overbooking strategy, a properly designed recovery strategy is critical for re-building customer satisfaction and company image. The optimization of overbooking is not only subject to the scarce resource constraints on attributes (Talluri and van Ryzin, 2004), but is also subject to the design of a proper recovery strategy that takes into consideration the customer's psychological responses, especially the varying impacts of asymmetric effects and the regulatory focus of customer choice.

2.2. Research on asymmetric impact of attributes

The related research on the asymmetric impact of attributes follows the rationale that an individual is more sensitive to losses than to equivalent gains (Kahneman and Tversky, 1979; Tversky and Kahneman, 1991). This is called loss aversion, which is generally asymmetrically reflected because a loss has a greater influence on choices than a gain of the same magnitude (Kahneman and Tversky, 1979). While loss aversion has been observed in a wide variety of situations (e.g., Kahneman et al., 1990; Novemsky and Kahneman, 2005), studies on attribute satisfaction provide inconsistent research findings. Mittal et al. (1998) empirically investigated the relationship among attributes, overall satisfaction, and repurchase intentions using customer feedback collected in a large health maintenance organization and data from the automotive industry in the US. The study confirmed that the impact of attributes on overall satisfaction reflects the loss aversion effect.

Using Kano's three types of attributes and categorizing customers into low versus high satisfied groups, Matzler et al. (2004) and Matzler and Renzl (2007) assessed the asymmetric effects in the formation of satisfaction. Kano et al. (1984) originally proposed the Kano model based on the two-factor theory (Herzberg et al., 1959) to prioritize product attributes with respect to their impacts on customer satisfaction. Kano et al. (1984) classify product attributes into five categories: attractive, one dimensional, must-be, indifferent, and reverse. A more detailed explanation of the Kano model can be found in Berger et al. (1993) and Anderson and Mittal (2000).

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