



# An analysis of the relationship between service failure, service recovery and loyalty for Low Cost Carrier travelers



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## ABSTRACT

The purpose of this study is to analyze the relationship between service failure, service recovery, and loyalty for Low Cost Carrier travelers. This study also examines the mediating effects of service recovery between service failure and loyalty through travelers' perceived satisfaction. The study reveals that service recovery has a positive effect on attitude and behavior loyalty, while service failure has a positive effect on service recovery. The empirical analysis shows that both apology and compensation have only a partial mediating effect between delivery failure, and attitude loyalty and behavior loyalty separately. Practical implications of the findings for Low Cost Carrier services are discussed.

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## 1. Introduction

Low Cost Carriers (LCCs) have rapidly increased market share and changed the airline industry landscape. The special characteristics of LCCs are that they typically use secondary airports, have standardized fleets and do not offer any frequent flyer programs. The no-frill business model, based on providing affordable services to their customers, might include online booking, self check-in, and limitations on both the weight and the number of checked bags. In addition, LCCs may charge extra for food, priority seating and boarding, and in-flight entertainment. In Taiwan, LCCs are a flourishing segment in the airline industry; at the time of this research, there are 12 LCCs stationed there.

Air travelers understand that LCCs provide cheap airline tickets with limited services and they know there is a possibility that problems might arise due to service failures. According to the *Official Gazette Department* (2014), there were 579 documented legal cases concerning consumer disputes over service failures brought by visitors traveling to Japan alone in 2014. The majority of these complaints were related to unclear terms and conditions stated on the LCC's websites. Some examples of the complaints were that there was no contact phone number for customer service, ambiguous baggage shipping terms, unclear refund terms, confusing change or cancellation terms in regards to name changes, and travel dates (*Consumers' Foundation, Chinese Taipei, 2013*). Most travelers choose to deal with issues of service failures

patiently; however, an unsatisfied experience will most likely deter them from flying with that specific LCC or in worst case, LCCs in general.

In reality, not all service failures are avoidable. In such case, service recovery is necessary. The most important procedure is to have LCCs implement the correct service recoveries in order to retain a customer's loyalty (*Hart et al., 1990; Chang and Hsiao, 2008; Chang and Chang, 2010; Hu et al., 2013*). As *Weber and Sparks (2004)* indicated, ineffective service recovery may lead to an LCC's negative word-of-mouth. There are few empirical studies dedicated to examining the relationship between service failure, service recovery and LCC loyalty. This study aims to do so. It will also examine the mediating effects of service recovery on service failure and loyalty.

## 2. Literature review and proposed research hypotheses

The airline industry is a service industry and the product is the complete air travel experience (*Lorenzoni and Lewis, 2004*). Service failures are defined as times when the organization does not meet the customer's expectations during a service encounter (*Steyn et al., 2011*), and they are likely to occur in a number of areas influencing customers' service experiences (*Coye, 2004*). *Hu et al. (2013)* indicated that the occurrence of a service failure during the process of service delivery is very common in many service industries. Airlines are susceptible to service failures due to the

nature of the service process they apply in service delivery (Steyn et al., 2011).

Airline passengers may hold certain expectations prior to their impending travel (Coye, 2004), but as a result of service failures, their actual experience might be different from their expectation. Previous research has indicated a number of causes leading to service failures in the airline industry, including flight cancellations, diversions or delays, attitudes of ground and cabin staff, strikes, reservation problems and overbooking of flights (Bamford and Xystouri, 2005). Taylor (1994) concluded that flight delays, or any instance of waiting for service, can negatively affect customers in numerous ways. Flight delays can increase a passenger's anger, uncertainty and disappointment with the services provided. Steyn et al. (2011) suggested that the main air service failures attributes were flight delays, poor service, and lost luggage. Bamford and Xystouri (2005) suggested that air service failure variables included flight cancellations, diversion of flights or delays, and the attitude of ground staff. Chang and Chang (2010) observed that air service failure included overbooking or flight delays, and used interactional justice, procedural justice, and distributive justice variables to measure these failures. They also reported that these air service failures can be highly costly for firms, as customers often switch to other airlines after such dissatisfactory experiences. Thus, the airlines can thoroughly and effectively learn how to respond to such events by means of service recovery procedures (Chang and Chang, 2010).

Bejou and Palmer (1998) explained that the airline industry is especially prone to service failures due to the service processes employed in service delivery. Thus, service recovery is the most important strategy used by airlines to recover after service failures. Service recovery is defined as the actions organizations take in response to a service failure (Steyn et al., 2011) or a process of handling mistakes (Hu et al., 2013). The implementation of effective service recovery after service failures does not necessarily lead to negative results (Hu et al., 2013). Steyn et al. (2011) suggested that even if organizations cannot completely eliminate service failures, they can implement service recovery efforts and effectively handle these failures to maintain and possibly even enhance customer satisfaction and loyalty in the future. Magnini et al. (2007) and Ngai et al. (2007) suggested that the potential negative consequences of service failures and effective service recovery can lead to a mutually beneficial situation for both the customer and the organization. Many researchers have indicated that organizations can use a number of strategies to recover from service failures, including communicating with customers to provide feedback, offering to explain their failures (Boshoff and Staude, 2003; La and Kandampully, 2004) and apologizing for their failures (Boshoff and Leong, 1998; Smith et al., 1999; Mattila and Cranage, 2005; Mostert et al., 2009). Thus, service failures have a positive relationship with service recovery.

Service recovery also has a positive relationship with customer loyalty. Vázquez-Casielles et al. (2012) suggested that the growing competitive pressure in many service industries, together with the difficulty of constantly delivering a service that is free of failures, has increased the attention received by service recovery as a means to achieve customer retention. Buttle and Burton (2001) considered that if organizations can use the right service recovery strategy, then 82 percent of customers whose problems are resolved will buy again. Mostert et al. (2009) proposed that the effect of the airline's response (or lack thereof) to the service failure resulted in the majority of respondents (66.2%) indicating that in their view, their relationship with the airline was either weakened or broken. Thus, recovery strategies not only aim to offset the dissatisfaction caused by service failure, but also reinforce positive word-of-mouth (Spreng et al., 1995). Steyn et al. (2011) showed that if the airlines

implement service recovery efforts, then travelers will recommend the airline to others. Buttle and Burton (2001) observed that when service failures occur, the service recovery has an impact on customers' attitudinal loyalty. Other researchers have also concluded that well executed service recovery can enhance customer satisfaction and loyalty (Mostert et al., 2009; Steyn et al., 2011; Hu et al., 2013). Effective service recovery can increase customers trust, also enhance customer loyalty and increase their willingness to repurchase in the future (Hu et al., 2013). Therefore, effective service recovery measures will potentially achieve customer satisfaction, positive word-of-mouth, repeat purchase, and loyalty (Blodgett et al., 1997; Boshoff and Leong, 1998; Smith et al., 1999; Weber and Sparks, 2009).

Hoffman et al. (2003) indicated that 55 percent of recovery response strategies involved some forms of compensation. Kelley et al. (1993) identified the top seven recovery strategies to retain customers as discounts, correction, management/employee intervention, correction plus, replacement, apology and refund. Smith et al. (1999) concluded that customers prefer to be recovered in ways that match the failure they experienced, both in the value and the form of recovery. The four attributes of perceived justice proposed by the research are compensation, response speed, apology and recovery initiation. Based on the research of service failure and recovery (Smith et al., 1999; Mattila and Cranage, 2005; Weber and Sparks, 2009), apology and compensation are two key strategies used in service recovery.

Dick and Basu (1994), Buttle and Burton (2001), and Yang and Peterson (2004) state that there is attitude and behavior loyalty. Attitude loyalty is reflected in the willingness to recommend a service provider to other consumers or the commitment to repatronize a preferred service provider. Behavior loyalty is reflected in the frequencies of a customer choosing the same product or service compared to the total number of that specific product or service consumed. Since not all service failures are avoidable, the airlines should try to minimize the possible damaging effects by implementing effective service recovery strategies. Airlines could possibly retain their customers in their competitive industry through effective service recovery strategies (Mostert et al., 2009). Steyn et al. (2011) pointed out that airlines must build relationships with their customers and retain them, as customer retention leads to lower new customer acquisition costs. Based on the above reasoning, this study proposes the following hypotheses:

- H1: Service failure has a significant effect on service recovery in LCC services.
- H2: Service recovery has a significant effect on attitude loyalty in LCC services.
- H3: Service recovery has a significant effect on behavior loyalty in LCC services.

Any service recovery strategies must consider the effects of customers' perception on the implementation and their after-service satisfaction in order to understand the customer's future loyalty intention. Service failure has the potential to have a significant negative impact on organizations. In tourism, negative word-of-mouth may be a particular cause for concern because of the importance of personal recommendations. Effective service recovery can counteract many of the negative outcomes associated with service failure and indeed some researchers have pointed to the existence of a so-called service recovery paradox, which suggests that excellent service recovery can lead to levels of cumulative satisfaction that are higher than those existing prior to the service failure. Bolton et al. (2007) argued that retailers and service providers must understand the effects of an explanation provided and offered compensation on consumer evaluations. Wang et al. (2011)

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