An examination of the nature of service recovery within the airline industry and its impact on customer loyalty

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Expansion of the airline market has resulted in an increase of service failures with a 30% rise in airline complaints in 2015 (Park and Park 2016; Elliott 2016). Airlines across the globe have been facing severe competition from low-cost carriers (Wise Guy Reports 2017) and therefore retaining customer loyalty after service failures has never been more critical in the sector (Johan et al. 2014). There has been limited discussion about how service recovery can be used to rebuild loyalty and improve customer retention in the airline context (Park and Park 2016). This paper aims to address the issue of understanding and implementing service recovery strategies by synthesizing theoretical and empirical knowledge on service recovery into a clear conceptual framework. The paper examines the antecedents of successful service recovery and customer loyalty and applies the proposed framework to the airline industry to explore how firms are currently managing service recovery.

Keywords: Service Recovery, Loyalty, Perceived Justice, WOM, Engagement

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INTRODUCTION

It has been argued that service recovery should be the main tool for maintaining relationships with customers and keeping them satisfied (Hart et al. 1990). Indeed, there is no denying that successful service recovery is critical in safeguarding customer loyalty. So why are so many airlines getting it wrong? In an effort to help companies understand and implement service recovery, this paper proposes a new conceptual framework, examining the antecedents and highlighting good practice in the airline industry.

Service Failure

For companies with service-led consumer offerings, it is inevitable that mistakes will be made and problems will arise. Even the best service companies who focus effort on quality cannot eliminate errors, due largely to the human involvement aspect of services. (Hart et al. 1990; Harrison-Walker 2012; Ma 2012). From a consumer point of view, service failure occurs when the quality and performance of the service does not match
their expectations (Chahal and Devi 2015). This dissatisfaction of a service encounter causes customers to experience a range of strong emotional reactions including anger, frustration, irritation and disappointment (Wetzer et al. 2007).

Many authors agree that a service failure, when left unresolved, is likely to result in customers engaging in negative word-of-mouth, reassessing their loyalty towards a company and developing switching behaviour (Smith et al. 1999; Miller et al. 2000; Choi and Choi 2014). To give weight to the issue, Hocutt et al. (2006) suggested that just one negative experience of a service can potentially reduce a customer’s satisfaction permanently.

Service Recovery

When a service failure occurs, the company has an opportunity to engage a service recovery process and if executed well, can reverse the effects of the failure, returning a dissatisfied customer to a state of satisfaction (Zemke 1993). Service recovery has been defined as “the actions of a service provider to mitigate and repair the damage to a customer that results from the provider’s failure to deliver a service as designed” (Johnston and Hewa 1997, p. 467). However, this definition does not refer to any specific intended outcomes of the ‘repair’ during a service recovery. Therefore, a more comprehensive definition is proposed:

Service recovery is the course of actions by a company designed “to resolve problems, alter negative attitudes of dissatisfied customers and to ultimately retain these customers” by “re-establishing customer satisfaction and loyalty after a service failure” (Miller et al. 2000, p. 38; Michel et al. 2009, p. 253).

It should be noted that this definition is consumer-focused and doesn’t consider the wider implications of service recovery on the company or its employees, however it is appropriate for the objective of this paper. It is evident in the literature that there are various positive outcomes of a successful service recovery. The outcomes most frequently discussed are positive word-of-mouth intentions, strengthened customer relationships, deflection of negative word-of-mouth behaviour and reinforced customer loyalty (Hart et al. 1990; Smith et al. 1999; Hocutt et al. 2006; Michel et al. 2009; Van Vaerenbergh and Orsingher 2016).

In fact, many studies in the literature suggest that customers who experience particularly successful service recoveries may go on to demonstrate a higher level of loyalty towards the company, than if the failure had never occurred (Ha & Jang 2009). This phenomenon is known as the ‘service recovery paradox’ and led Hart et al. (1990, p.148) to refer to service recovery as a “profitable art” in their seminal article.

Conceptual Framework

Although there are a number of encouraging outcomes of successful service recovery, this paper will focus on customer loyalty as an outcome, due to its importance in the airline industry. The framework is based on the Smith et al. (1999) model as one of the seminal articles in the service recovery literature. It is argued that the framework does
not consider several important aspects including the affect of existing relationships, outcomes of recovery satisfaction or the varying strengths of antecedent relationships. The proposed framework (Figure 1) aims to better conceptualise the service recovery process with appropriate adaptations to the Smith et al. (1999) model. Drawing from the proposed framework the paper will argue that perceived justice, perceived failure severity and relationship depth are the key antecedents to gain successful service recovery and customer loyalty.

![Conceptual Framework (Harrison 2017)](image)

**Figure 1: Conceptual Framework (Harrison 2017)**

**Loyalty**

The construct of loyalty is often discussed in the literature in terms of behavioural and attitudinal elements (Chaudhuri and Holbrook 2001). Behavioural loyalty is a customer’s repeat purchase intentions and attitudinal loyalty is the desire of a consumer to remain in a relationship with a firm (Komunda and Osarenkhoe 2012). Particularly in service industries, it is argued that company profitability is largely determined by customer loyalty, which stems from customer satisfaction (Komunda and Osarenkhoe 2012). It is therefore critical for firms to reverse any dissatisfaction that customers feel following a service failure. The literature strongly suggests that achieving satisfaction through service recovery rebuilds and even increases customer loyalty (Harris et al. 2006; Gohary et al. 2016). In fact, it has been proven that companies who have effective service recovery strategies in place obtain higher levels of customer perceived justice, satisfaction, and loyalty (Homburg and Furst 2005).

**Perceived Justice**

It is widely agreed that perceived justice is a key factor in consumer evaluations of service recovery (Tax et al. 1998; Michel et al. 2009) and has been argued to be the crucial factor that determines whether a customer will remain in a relationship with a company (Blodgett 1997). Perceived justice refers to the level of ‘fairness’ that consumers expect to receive following a service failure (Smith et al. 1999; Noone 2012).
Drawn upon in many service recovery studies, perceived justice is a three-dimensional construct encompassing distributive justice, procedural justice and interactional justice (Orsingher et al. 2010).

Distributive justice refers to the level of fairness that a customer perceives in the benefits and actual outcomes they receive after a service failure (Tax & Brown 1998; Smith et al. 1999). Typically, this could be in the form of monetary benefits including refunds, discounts and credits or psychological compensations such as apologies and replacements (Michel et al. 2009; Gelbrich & Roschk 2011). Importantly, distributive justice has been shown to have the strongest influence on satisfaction with service recovery (Kumar and Kumar 2012). The airline industry utilises the full range of distributive justice benefits. For example, a British Airways passenger who complained about bad service was offered Avios points as compensation (Figure 2). A psychological technique used by some airlines is to offer a seat upgrade, with an example being Emirates upgrading a customer who had experienced a service failure (Figure 3).

Figure 2: British Airways passenger who complained about bad service was offered Avios points as compensation.

Figure 3: Emirates upgrading a customer who had experienced a service failure.

Procedural justice is a customer’s perceived fairness of a company's procedures and policies that lead to the outcome of service recovery (Blodgett et al. 1994; Tax et al. 1998). Speed of recovery, flexibility and taking responsibility are important aspects of procedural justice, which affect recovery satisfaction (Tax et al. 1998; Kumar and Kumar 2012). In an example of a customer evaluating an airline's procedural justice highly, a Delta customer experienced a minor issue on-board a flight and was offered a free drink as a gesture of goodwill (Figure 4) and a British Airways customer was satisfied with their service recovery due in part to procedural timeliness (Figure 5). In fact, a study by Boshoff (1997) of airline passengers who experienced delayed flights found that procedural promptness turned dissatisfied customers into loyal customers.
Interactional justice refers to a customer's perception of how they are treated by employees and the company following a service failure (Tax et al. 1998). Favourable interactional behaviours include providing explanations, politeness, honesty and making a genuine effort towards resolution (Gelbrich and Roschk 2011; Choi and Choi 2014). When a consumer perceives they have been treated fairly, there is strong evidence that their satisfaction with the service recovery will increase (Noone 2012) – as Figure 6 demonstrates.

Importantly, firms also have an opportunity to enhance perceptions of interactional justice by being proactive and initiating a recovery, which demonstrates honesty, forthrightness and empathic respect (Smith et al. 1999). Pro-activeness is particularly...
vital because many dissatisfied customers never complain (Hart et al. 1990) but may still engage in negative word-of-mouth or exit the relationship (Priluck 2003). This is even more critical in the airline sector as it has the highest proportion of customers who do not complain (UKSCI 2015). There is limited evidence of pro-activeness in the airline industry, however one airline does appear to demonstrate the practice. When there was a fault with the Wi-Fi on-board a Southwest Airlines flight, not only did the sympathetic flight attendants give free drinks to the customers, but the company’s systems identified the service failure and proactively emailed an apologetic refund to the customers. As a result, one delighted customer claimed that they felt more loyal to the firm (Figure 7). This is a clear example of an airline considering all aspects of justice theory and the posited conceptual framework.

Figure 7: An example of a Southwest Airlines customer who claimed that they felt more loyal to the firm.

Perceived Failure Severity

The degree and type of service failure has increasingly been recognised as a key variable which affects consumers’ response to recovery efforts (Craighead et al. 2004). Indeed, previous research has indicated how the more severe a failure is in terms of monetary value, time lost and overall inconvenience to a customer, the more dissatisfied the customer is with the recovery efforts (Hoffman et al. 1995; Fayos-Gardó et al. 2017). However, the literature discussing service recovery does not reflect that different consumers perceive failures differently and is therefore included as ‘Perceived Failure Severity’ (Nikbin and Hyun 2015). Crucially, companies must recognise the perceived failure severity for each individual customer if the firm is to form effective responses (Craighead et al. 2004). It is also important for companies to understand the link
between perceived failure severity and perceived justice, and outcomes on recovery satisfaction. For example, monetary compensation in a severe service failure has a positive effect on satisfaction whereas for minor failures, monetary compensation can actually be negative as customers can feel guilt due to the inequity of the exchange (Smith 1999).

**Relationship Depth**

Smith et al.’s (1999) model overlooked the role of existing customer-organisation relationships. The wider literature states that a customer's existing relationship with a firm can affect their evaluation of a service failure and subsequent recovery efforts (Hedrick et al. 2007). Priluck (2003) posited that relationships can mitigate service failures, providing a level of insulation for a firm and therefore suggested that relationship marketing can be used as a tool to overcome service failures. Referring to a ‘halo effect’ over a company that relationships form, Priluck (2003) argued that relationships, albeit dependent on strength, give firms an increased chance to recover from a service failure as the customer is more reluctant to defect when they demonstrate trust and commitment towards a firm. This corroborates Morgan and Hunt's (1994) commitment-trust theory that trust and commitment act as mediators in a relationship and produce cooperative behaviours (Hedrick et al. 2007).

However, it has been argued that existing relationships could also exacerbate a service failure. The more committed a consumer is to a company, the higher their expectations are likely to be for the recovery efforts because they expect the equity in the relationship to be maintained (Kelley and Davis 1994; Ma 2012). Conversely, Priluck (2003) argued that consumers who are invested in a relationship with a firm may not deflect even when dissatisfied, because of the strength of their relationship. Figure 8 is an example of an airline customer who demonstrated this. Although the literature is somewhat contradictory, it emphasises the power that relationships can influence on consumer evaluations of service recovery (Kelley and Davis 1994). ‘Relationship Depth’ is therefore an important consideration in the proposed framework.

![Figure 8: An example of a Delta Airlines loyal customer.](image-url)
CONCLUSION

Based on evidence from the wider literature, the conceptual framework articulates how successful service recovery is highly rewarding – companies can rebuild loyalty and even increase loyalty following a service failure. When all three antecedents are fully considered on an individual customer basis following a failure, an effective recovery strategy can be carried out to reduce the change of a dissatisfied customer deflecting or engaging in negative word-of-mouth. The literature confirms that a customer satisfied with a recovery will likely remain behaviourally and attitudinally loyal to a company.

In a highly competitive environment, airlines should put in place outstanding service recovery processes to not only benefit from customer retention but also subsequent positive brand images. Management must recognise and understand that each customer’s perceptions of service failures can differ greatly and thus the response, with the antecedents carefully considered, needs to be proactive, reactive and tailored. Airlines concerned about maintaining efficiency could still ensure a high recovery success rate if they were to offer two different outcomes for each customer to chose from as a resolution.

Although the conceptual framework is evidenced by wide reading in the literature, it is somewhat simplistic in that it views relationship depth as a uni-dimensional construct while consumers are committed to companies in different ways. The model also does not include the wider outcomes of service recovery – additional research should assess how the antecedents impact them. Finally, as the framework is conceptual with no underpinning empirical data, further research needs to be conducted to test the model in the airline industry context to ascertain its applicability.

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