

# A CONCEPTUAL DEVELOPMENT ON THE MEDIATING ROLE OF E-SERVICE RECOVERY ON THE RELATIONSHIP BETWEEN CUSTOMER DETERMINANTS AND CUSTOMER RETENTIONS IN THE AIRLINE INDUSTRY IN MALAYSIA (A STRUCTURAL EQUATION MODELLING APPROACH)

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## ABSTRACT

*As Internet become a vital element in everyday life and as the rate of using the e-context as a marketing tool by companies is growing, customer retention becomes an essential element in firm's survival. Hence, losing customers in e-context is a continuance threat for companies that need to be addressed. The current study is aiming at examining the effect of five customer determinants, namely; E-Trust, Prior Experience, Customer's Perception of Feedback, E-Loyalty and Digital Awareness on Customer Retention. In addition, the study will investigate the role of E-Service Recovery Satisfaction (E-SRS) as a mediating variable in these relations in the context of Airline Industry in Malaysia. The data collection tool is a self-administrate questionnaire. The sample is Malaysian passengers who used the faced a service failure during using local Airlines. Structural Equation Modelling is utilized to analyze the collected data.*

**Keywords:** *E-Trust, Prior Experience, Customer's Perception of Feedback, E-Loyalty, Digital Awareness, Customer Retention, E-Service Recovery Satisfaction.*

## Introduction:

Internet has become a very essential part of the daily life in most parts of the world. The number of Internet users have increased from (360,985,492) in 2000 to reach (2,802,478,934) at the end of 2013 with a growth rate of 676.3 percent. Asia alone contributes to 45.1 percent of the world internet usage, equivalent to (1,265,143,702) Internet users as in 31 of December 2013 (Internet World Stats, 2014). With this excessive use of internet, it become a valuable tool for both firms and also for consumers who enjoy surfing various companies' websites that demonstrate huge variety of goods and services, which facilitate the way to customers to check types, prices and quality with a click of a mouse, 24 hours throughout the year (Ogungbure, 2009).

Online purchase for goods and services is a growing phenomenon during the last two decades and it will keep growing (Internet World Stats, 2014). E-

commerce provided huge opportunities in addition; it added new challenges (Zhou and Amin, 2014). Because the world has become like worldwide market, the notion of switching to competitors become easier as it only takes a click that will lead to loosing consumers. This phenomenon constitutes a source of continuance concern for firms (Shankar, Smith and Rangaswamy, 2003). This situation has pushed most companies' to exert more efforts in to improving the quality of their goods and services in order to achieve the competitive advantage; notwithstanding, service failures are unavoidable. On the other hand and as a result of the fast technological developments, many changes occurred in consumer purchasing power, thinking patterns and their behavior (De Mooij, 2010). In case of a failure occurs when delivering a service, providers will act fast to control the negative effects of the failure. Hence, companies have to implement effective recovery strategies in order to

minimize the negative impacts of the service failure and also to turn the dissatisfied customer into a satisfied one (Tsai, Yang and Cheng, 2014). It is a vital issue for firms in order to survive is to keep and retain the existing customers (Adebiyi and Adeola, 2014). Conducting a successful service recovery will assist in satisfying the existing customers and retaining them (McCullough, 2009).

Although the aim of providers is to secure providing good service to their customers, there is always a possibility of occasional failure; in such situation, the provider should be prepared to recover such encounter (Shaw and Craighead, 2003). Service recovery is attracting more attention from companies and scholars. This is because of the fact that service industries are witnessing a growing competitive pressure in recent years (Sousa and Voss, 2009). A lot of customers had an unfavorable service experience and also experienced a poor recovery leading to a double failure that worsens the situation more (Edvardsson, Tronvoll and Gruber, 2011). A well-executed service recovery by the provider may restore the dissatisfied customer and turn him/her into a satisfied one (Arokiasamy, 2014). The current study aims at; first; investigating the effect of five customer factors, namely; E-Trust, Prior Experience, Customer's Perception of Feedback, E-Loyalty and Digital Awareness on Customer Retention. The second aim is to examine the role of E-Service Recovery Satisfaction in achieving customer retention and whether E-Service Recovery Satisfaction can mediate the relation between Customer Retention and the five factors; E-Trust, Prior Experience, Customer's Perception of Feedback, E-Loyalty and Digital Awareness. The study field is Airlines Industry in Malaysia and the sample is Malaysian passengers who travel with the local Airlines and had faced a service failure.

## Literature Review:

### *E-Trust:*

The Trust concept has been investigated by many scholars in marketing literature. Trust in Brick-and-Mortar market (traditional market) was used after the Internet revolution to indicate to the online trust with the term E-Trust. A study by Shukla (2014) has emphasized that E-trust is a key factor in establishing and maintaining the relationship between customers and service providers. Ha and Akamavi (2009), mention that using internet for a long time will influence customer's e-trust in the provider's web. In the same stream, a study by Kim and Prabhakar (2000) stated that consumer's level of trust propensity in online usage behaviour had a significant influence on the length of internet usage. Chen and Dubinsky (2003) mention that in online context, to continue purchasing online will develop customers experience leading to changing their perceptions regarding online

context. Another study conducted by Flavián and Guinalú (2006), has analyzed and proved the effect of privacy and perceived security on the degree of trust in internet.

### *Previous Experience:*

Prior experiences give a strong indication for customers to decide on whether to continue with the same provider or switch to another provider (Kim, Jin and Swinney, 2008). In order to prove the importance of internet experience, there has been investigations to identify the effect of Internet experience (usage frequency) and how it influences trust of the online environment (Rose, Hair and Clark, 2011) and the antecedents of the customer's intentions to use the online purchase (George, 2004). In supporting for this view, Bart, Shankar, Sultan and Urban (2005) have posited that customer expertise with the Internet might impact website trust. As consumers are using online transactions for a long time, they will become experts in using internet, hence, this experience will produce higher confidence in websites. This will encourage customers who are new users to Internet. Moreover, the level of customer experience will affect his behaviour on the real web site (Hoffman and Novak, 2009).

### *Customer's Perception of Feedback:*

The variable Customer's Perception of Feedback refers to how customer will perceive provider's feedback regarding the service failure. Broderick and Vachirapornpuk (2002) mention that service must be related to quality standards. Once service failure occurs it indicates that the service did not meet customer expectation (Bitner, Booms and Tetreault, 1990). Smith, Bolton and Wagner (1999) stated that such failure incident is the result of not delivering the service that meets customer expectation. In the post service failure, Berry and Parasuraman (2004) suggested that customer satisfaction and happiness will happen when the recovery exceeds the expectations. The concept customer's perception of feedback is suggested by this study is to create a new concept that represents customer evaluation for the provider feedback regarding the service encounter. The evaluation of the feedback is a crucial variable in meeting customer's perception and to what they think they should receive as an e-service recovery that will impact customer satisfaction. In addition, studies identified that the effective responsiveness can indicate to the fast and sharp respond to customer's requests and suggestions to the provider, and it also indicates to the provider ability to provide assistance in case of failures (Zeithaml, Parasuraman and Malhotra (2000).

### *Loyalty:*

Loyalty is a central concept in marketing research, for it has been investigated by many scholars. Oliver

(1997) defined customer loyalty as: high commitment to re-buy a preferred product/service in future purchasing which leads to repetitive purchasing for the same-brand despite the “situational influences and marketing efforts” that might result into switching behavior. According to Allagui and Temessek (2005), the theoretical foundations for loyalty for a specific firm which uses internet in the transaction is similar to traditional loyalty for Brick and Mortar firms. E-loyalty defined by Kim, Jin Swinny (2008), in retailer context, as the “customer’s favourable attitude and commitment towards the online retailer that results in repeat purchase behavior”. E-loyalty is a critical factor in online business due to the fact that the long term relationship with the provider can secure increasing profitability (Alonso-Almeida, Bernardo, Llach and Marimon, 2014). Based on literature review, E-Loyalty is a more crucial element for any provider in e-context because of the fact that customers can easily switch to another provider and with less switching cost (Wang, Hsu and Chih, 2014). It only requires a click of a mouse (Ogunburgh, 2009).

#### ***Digital Awareness:***

The concept of Awareness is considered one of the essential determinants of adopting and utilizing a new product (Velmurugan and Velmurugan, 2014). Social scientists believe that knowledge (about a product) is linked to attitude and that attitude is further connected to behavior (Flamm, 2006). Hoffman and Novak (2009) emphasize that customers who keep surfing the internet will be gaining more experience in how to find products that will satisfy their needs in the cyber environment which will impact their attitudes and behaviours regarding e-context. Previous studies mentioned that prior experience has influence on the perceived risk, future intentions and the decision to continue using the online shopping (Holloway, Wang and Perish, 2005). In a study by (Suh and Chang 2006), the scholars emphasised that maintaining the subjective experience, the visual images and stimulations especially for the physical products, might enhance the experience of online shopping and affect attitudes and behaviours.

#### ***Customer Retention:***

Customer retention represents the approaches that firms implement in order to enhance and maintain business relations with the existing customers (Hoffman, Kelley and Chung, 2003). Customer retention is acquiring new important dimensions in Internet era. Due to the fierce competition among competitors in the cyber environment, protecting the existing customer base has become an essential competitive advantage. Tarokh and Ghahremanloo (2007) mentioned that World Wide Web has become an important channel to build business, and that the accelerating IT progress offers valuable

opportunities for firms in order to reach the global market. Adopting IT systems in business will facilitate contacting customers which will help in understanding customer’s needs through analysing their attitudes and behaviours. Conducting a successful service recovery carries the potential of satisfying the customers and also retaining them, and in some cases turning them from the state of satisfaction into being a delighted customer once he/she receives an outstanding recovery (St-James and Taylor, 2004). However, failing in recover the dissatisfied customer, may lead to negative outcomes such as losing customers for competitors, negative WOM/Mouse, and eventually decreased profits (Michel, Bowen and Johnston, 2009).

#### ***Why Customer Retention?***

The importance of customer retention emerges from the fact that it carries huge benefits for the firms. Customer retention can reduce marketing costs, because the existing customers will not need marketing campaigns and promoting materials like the new customers (Kerin, Hartley and Rudelius, 2009). Relating to this fact, studies mention that attracting a new customer will cost the company five times the cost of retaining an existing customer (Segelstrom and Holmlid, 2011; Kotler, Bowen and Makens 2003). For some service companies, reducing customer defection rate by 5 percent may increase their profits by 85 percent (Reichheld and Sasser, 1990). Due to the fact that customer defection can impact firm’s image, revenues and profits, scholars have estimated the cost of service failure, like Rondeau (1994) who stated that a dissatisfied customer will tell another nine people about the negative experience he encountered.

#### ***E-Service Recovery Satisfaction:***

Service recovery indicates to how providers respond to a service failure (Boshoff, 1997). Ok (2004) defined recovery satisfaction as the consumer’s satisfaction resulted from a single transaction or encounter of a specific satisfaction. However, evaluations regarding many transactions will result into continuance satisfaction, which is termed as long-term or overall satisfaction (Oliver, 1997). Researchers have found that customers who faced service encounter and received a well-executed recovery are more satisfied than customers who did not experience a service failure at all (Mattila and Cranage, 2005). Recoveries importance emerges from the fact that customer’s feedback after receiving poor recovery will affect the buyer-seller relationship and future purchase intentions. Ok (2004) emphasized the importance of recovery as it will lead to cost decreasing. In their study, Bashar and Wasiq (2013) confirmed that offering customers a fair treatment is a vital factor in achieving customer satisfaction with the process of complaint handling.

**Methodology:**

With the aim of achieving the study objectives, the current study adopts the quantitative methodology to investigate the suggested relationships. The study utilizes the survey as a measurement instrument. A Likert multi-item scale with five -points response format for all measures will be utilized (Sekaran, 2013). In order to purify the questionnaire and make sure that the questions can be understood by average customers, a pre-test and pilot test will be performed. According to Zikmund (2012) in order to examine the perception of certain group of population, and for this study they will be customers who received e-recoveries after service failure, the convenient sample technique will be the purposive random sampling technique or judgment sampling. The study field is Airlines Industry in Malaysia and the sample is Malaysian passengers who travel with the local Airlines and had faced a service failure.

**Conclusions & Recommendations:**

The current research aims at examining the impact of satisfaction with E-Service recovery on the relation between the five customer determinants and Customer Retention in the context of Airline Industry in Malaysia. The findings are expected to draw the intention of the industry management and marketing practitioners to the importance of incorporating the online technology in their strategies and efforts to retain existing customers which constitute valuable source for future revenues. The findings will also enhance understanding the vital role of E-recoveries in maintaining long-term relations with customers, spreading the positive WOM and preventing customers from switching to competitors and. The study will also open the research on wide scales in the area of e-context, e-recoveries and its e-determinants from both industry and customer perspectives. In addition, scholars can explore more mediating and moderating variables that impact the level of customer retention in the e-context.

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