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A Study of the Effect of Service Recovery on Customer Loyalty Based On Marketing Word Of Mouth in Tourism Industry

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Abstract

In the highly competitive business environment, the provision of high-quality service has become the competitive advantage for business managers striving for the market share. The output value and the employed population in tourism industry are the indicators of the modernization of economic development in a country. Nonetheless, when tourism industry is booming, effective recovery measures for service failure would affect all customers' emotion and feeling. Taking consumers of tourism industry in Fujian Province as the research samples, the questionnaire is distributed and collected on site. Total 315 valid copies are retrieved, with the retrieval rate 75%. The research results conclude significantly positive correlations between 1.service recovery and word of mouth, 2.word of mouth and customer loyalty, and 3.service recovery and customer loyalty. According to the conclusion, suggestions are proposed, expecting to help tourism industry start from customers' words of mouth to strive for more customers and enhance revenues through customer loyalty.

Keywords: marketing word of mouth, tourism industry, service recovery, customer loyalty.

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Introduction

In the globally and technologically highly competitive business environment, the provision of high-quality service and the emphasis on differentiated service become the competitive advantage of business managers striving for the market share. The output value and the employed population in tourism industry become the indicators of the modernization of economic development in a country. The approach of economic systems in tourism industry has costs and efficiency emphasized in the past be gradually replaced by service and relationship among people. Going through the change from industrial economy to service economy, the proportion of employment structure and gross national product in tourism industry is increasing. Tourism industry appears the largest proportion in recent industrial structure, and, according to current economic development, the country has entered the service economy era. In regard to the future economic development trend, tourism industry presents certain effects on domestic economy. However, in the booming of tourism industry nowadays, enterprises could achieve customer satisfaction through service recovery for service failure. Improper service recovery could enhance customer dissatisfaction. It is also proposed that the key in effectively adopting recovery measures lies in the frontline service staff being able to rapidly find out and solve problems. Apparently, frontline service staff plays the critical role in the service recovery process to influence all customers' emotion and feeling. However, customer complaints have never been stopped, revealing that the problem-solving process is not satisfactory even though a lot of enterprises establish customer service to handle complaints. Service failure might occur when the provided service does not conform to customer expectation. Service failure could reduce the relationship between customers and businesses to result in negative word of mouth and not consuming again. In this case, proper service recovery is necessary for service failure in tourism industry. Service recovery aims to change dissatisfied customers into satisfied customers and keep the relationship. The advance of information media allows consumers expressing the complaints and discontent through community websites or blogs, and even stops others' consumption. Such situations are common. In addition to bad product quality, service staff's attitude and concerns are the critical factors in discontent. Accordingly, this study, based on marketing word of mouth, intends to discuss the effect of service recovery on customer loyalty in tourism industry, expecting to help tourism industry start from customers' words of mouth to strive for more customers and enhance the revenue through customer loyalty.

Literature review

Service recovery

Fan, Mattila, & Zhao (2015) defined service recovery as any necessary actions to recover customer satisfaction with service failure. Service recovery referred to the action of a service supplier solving customers' service failure complaints (Liu & Mattila, 2015). When the service failure was successfully solved, customers might present stronger loyalty than without service failure. Service recovery aimed to change customer dissatisfaction into satisfied state, and more importantly to establish firm relationship with the customer (Akamavi *et al.*, 2015). Lots researchers showed similar definitions of service recovery, while the mostly applied, simple, and clear definition was referred to Tan, Benbasat, & Cenfetelli (2016) that service recovery was a service provider's action to respond to the failure. The content of service recovery was an enterprise's action to correct failure. Heidenreich *et al.* (2015) pointed out service recovery as an enterprise's action to recover the service failure to customers, regardless the recovery effect. In sum, an enterprise either taking actions for the service failure or not was the service recovery method.

Referring to Chang (2017), service recovery contains following two dimensions in this study.

(1) Substantially: Substantial recovery refers to "true" and "actual" compensation, mainly the cost and convenience loss caused by recovery for service failure.

(2) Psychologically: Psychological recovery measures refer to improving the interaction with customers, including "apology" and "explanation".

Word of mouth

Li, Qiu, & Liu (2016) pointed out word of mouth as the informal communication among consumers, without any business intentions, and mainly talking about specific product, brand, or service content. Oman, Pepur, & Arneric (2016) defined word of mouth as consumer behavior, after using certain products or accepting the specific service, verbally or informally delivering the evaluation or feelings about the product or service and the service staff to other consumers. Baldus, Voorhees, & Calantone (2015) regarded word of mouth as verbal and people-to-people communication between receivers and communicators involving in products, service, or brand, where the receivers actually understood that the communicators were irrelevant to the products, service, or brand. Zhang *et al.* (2015) therefore pointed out word of mouth as the delivery and communication among people about brand, service, or products, where the communicators were not marketers. Gohary, Hamzelu, & Alizadeh (2016) referred word of mouth intention as consumer belief that consumers discussed the occurred or encountered event and experience with others without directly contacting with the service. Van Vaerenbergh & Orsingher

(2016) regarded word of mouth as the overall comment of a brand and the sum of comments among people about specific product, service, or company; different from traditional marketing, word of mouth would change the market point from the relationship between brand and individual customer to the interaction among customers.

Referring to Yang, Chen, & Huang (2017), word of mouth covers the following dimensions in this study: (1) *Internal information*: An individual, when making purchase decisions, would search for relevant information from the long-term memory. Such information is personal experience; (2) *External information*: It refers to credible groups (e.g. Taiwan Visitors Association) announcing information influential to individuals.

Customer loyalty

Guo *et al.* (2015) pointed out customer loyalty as consumers' senses of identification or belongingness to certain products, service, or company staff; such subjective personal perception would directly affect consumers or customer behaviors. In the research on customer loyalty, Boo (2017) defined customer loyalty as the relationship strength between repurchase behavior and personal attitude. Ozuem *et al.* (2016) defined it as consumer tendency to repeatedly purchase the same product or service. In the research on customer loyalty, they further indicated that customer loyalty could not be explained simply by discussing the behavior, while psychological factors should be taken into account for more effective explanations. Varela *et al.* (2015) considered that consumers (customers), when purchasing certain goods (products) or service, would not search for the product or service information of other companies, but directly repurchase the product (goods) or service with the same brand. In other words, loyal consumers (customers) would not change the repurchase commitment and willingness to the favored service or goods (products), in spite of external environmental effects or marketing induction and temptation (Sloan, Bodey, & Gyrd-Jones, 2015).

Referring to Hsu & Lin (2016), loyalty is divided into attitude loyalty and behavior loyalty in this study: (1) *Behavior loyalty*: Customer loyalty could be measured from the emphases on behavior and attitude. Emphasis on behavior stresses on measuring loyalty with purchase behavior and purchase intention; (2) *Attitude loyalty*: Emphasis on attitude measuring loyalty according to consumer preference for brands.

Establishment of research hypothesis and empirical research method design

Research hypothesis

Fan, Mattila, & Zhao (2015) indicated that an enterprise being able to rapidly respond to customer complaints would maintain customer loyalty; besides, rapid and proper service recovery could enhance customer satisfaction and loyalty and establish good word of mouth (Bowen & Chen, 2015). Accordingly, effective recovery strategies could effectively reduce customers' dissatisfactory emotion to the enterprise as well as enhance the satisfaction and brand loyalty to prevent customers from loss (Vyas & Raitani, 2015). Park & Ha (2016) indicated that bad service recovery would result in customers not being willing to continue the relationship with the enterprise to reduce profits and enhance business and management costs of the enterprise, because it required costs to strive for new customers. In this case, effective service recovery measures could promote customer satisfaction, positive word of mouth, and repurchase intention (Chang, 2017). Apparently, service recovery would positively affect word of mouth. The following hypothesis is therefore established in this study.

H1: Service recovery shows significantly positive correlations with word of mouth.

Li, Qiu, & Liu (2016) pointed out the higher customers' (consumers') words of mouth of certain brands, the larger possibility to purchase products of such brands. Casidy & Shin (2015) proved that consumers (customers) with higher positive word of mouth evaluation to certain product brand or service would present better attitudes toward the product brand, i.e. higher purchase intention of the brand. Weber, Sparks, & Hsu (2016) concluded that the evaluation of a product brand could affect customer selection for the product. Rezaei *et al.* (2016) indicated that customers would present good purchase intention and brand attitude on a brand with good word of mouth, but would not show good purchase intention and brand attitude to the brand with bad word of mouth or unfamiliarity. Yang, Chen, & Huang (2017) mentioned that good word of mouth revealed more positive customer loyalty, while bad word of mouth would reduce customer loyalty. Accordingly, the following hypothesis is established in this study.

H2: Word of mouth reveals remarkably positive correlations with customer loyalty.

Guo *et al.* (2015) indicated that recovery action to make up customer loss in the service failure process to satisfy customers would result in stronger customer loyalty than the original service satisfaction. Kashif, Zarkada, & Ramayah (2016) proposed that different service recovery measures would cause distinct satisfaction

and customer responses. Wu *et al.* (2015) considered that good service recovery could reinforce customer satisfaction, establish relationship with customers, prevent customers from betraying the brand, and promote customer loyalty. Sengupta, Balaji, & Krishnan (2015) proposed that recovery actions for service failure would positively affect customer behavior, reinforce the relationship between customers and enterprises, and enhance customer loyalty; on the contrary, improper service recovery would increase customer dissatisfaction. Hsu & Lin (2016) pointed out the effect of service recovery on customer loyalty. Satisfied customers would enhance the repurchase intention; when timely and properly handling service failure, the satisfaction and repurchase intention after the recovery would be obviously enhanced to promote customer loyalty; and, customers receiving highly satisfactory service recovery would present higher repurchase intention. Consequently, the following hypothesis is established in this study.

H3: Service recovery appears notably positive correlations with customer loyalty.

Research object

Consumers of tourism industry in Fujian Province, as the research samples, are distributed and collected the questionnaire on site. Total 315 valid copies are retrieved, with the retrieval rate 75%.

Results

Reliability and validity analysis

With factor analysis, service recovery in this study is extracted two factors of "substantially" (eigenvalue=2.771, α=0.84) and "psychologically" (eigenvalue=2.536, α=0.88). The accumulative covariance explained achieves 76.224%.

With factor analysis, word of mouth in this study is extracted two factors of "internal information" (eigenvalue=1.942, α=0.86) and "external information" (eigenvalue=1.725, α=0.83). The accumulative covariance explained reaches 73.156%.

With factor analysis, customer loyalty in this study is extracted two factors of "behavior loyalty" (eigenvalue=3.155, α=0.90) and "attitude loyalty" (eigenvalue=3.046, α=0.91). The accumulative covariance explained achieves 81.367%.

Correlation analysis of service recovery and word of mouth

To test H1, the analysis results, Table 1, reveal significant effects of substantially (t=2.344**) and psychologically (t=2.123**) on internal information as well as remarkable effects of substantially (t=2.456**) and psychologically (t=2.225**) on external information that H1 is supported.

Table 1: Analysis of service recovery to word of mouth

dependent variable→	word of mouth			
independent variable↓	internal information		external information	
service recovery	Beta	t	Beta	t
substantially	0.223	2.344**	0.237	2.456**
psychologically	0.202	2.123**	0.211	2.225**
F	18.751		25.426	
significance	0.000***		0.000***	
R2	0.184		0.243	
adjusted R2	0.162		0.212	

*Note: * stands for p<0.05, ** for p<0.01, *** for p<0.001.*
Data source: Self-organized in this study

Correlation analysis of service recovery, customer loyalty, and word of mouth

(1) *Correlation analysis of service recovery and customer loyalty*

To test H3, the analysis results, Table 2, show notable effects of substantially (t=2.431**) and psychologically (t=2.242**) on behavior loyalty as well as significant effects of substantially (t=2.489**) and psychologically (t=2.311**) on attitude loyalty that H3 is supported.

(2) *Correlation analysis of word of mouth and customer loyalty*

To test H2, the analysis results, Table 2, appear remarkable effects of internal information (t=2.275**) and external information (t=2.402**) on behavior

loyalty as well as notable effects of internal information (t=2.336**) and external information (t=2.125**) on attitude loyalty that H2 is supported.

Table 2: Analysis of service recovery and word of mouth to customer loyalty

dependent variable→	customer loyalty							
independent variable↓	behavior loyalty		attitude loyalty		behavior loyalty		attitude loyalty	
service recovery	Beta	t	Beta	t	Beta	t	Beta	t
substantially	0.238	2.431**	0.241	2.489**				
psychologically	0.216	2.242**	0.222	2.311**				
word of mouth								
internal information					0.216	2.275**	0.227	2.336**
external information					0.233	2.402**	0.205	2.125**
F	26.374		28.544		34.182		38.663	
significance	0.000***		0.000***		0.000***		0.000***	
R2	0.255		0.274		0.337		0.376	
adjusted R2	0.223		0.251		0.302		0.349	

*Note: * stands for p<0.05, ** for p<0.01, *** for p<0.001.*
Data source: Self-organized in this study

Conclusion

The research results prove that customers satisfied with the service recovery provided by tourism businesses would spread positive word of mouth to the friends; on the contrary, customers dissatisfied with service recovery would spread negative word of mouth. A tourism business therefore should properly apply service recovery to recover possible loss of customers and change angry or discouraged customers into loyal ones. The expectation of substantial service recovery is higher than psychological recovery. In other words, verbal apology, concerns, comfort, and assistance are far less effective than substantial recovery. It is worth noticing that the process to deal with service recovery and the handling

attitude and efficiency of high-level managers could best acquire customers' highest satisfaction and loyalty. A tourism business being able to rapidly respond to customers' problems, rapidly solve failure, actively confirm the recovery process, and immediately provide relevant and complete recovery plans in the report, rapidly complete recovery measures, and reduce time would enhance customers' service loyalty.

Suggestions

Aiming at above research results, the following suggestions are proposed in this study.

(1) A tourism business, when drafting the service system, should take "service failure" into account and actually make classification to complete the entire service system and the planning, execution, and control of the service quality. It is suggested that tourism businesses should investigate and classify possible or encountered service failure as the bases to draft the service recovery policies.

(2) When service failure occurs, what kind of service recovery would have customers feel fair and be satisfied? A tourism business being able to establish a database, integrate past service failure cases, as well as understand the cause of failure, the service recovery methods, and customers' feelings as the goal for zero service failure would be able to promote customer satisfaction and strengthen customer loyalty to further create profits.

(3) Consumers nowadays pay more attention to service staff's attitude and respect. However, service staff is not a machine and would present personal emotion to appear service difference. To reduce the discomfort to consumers, a tourism business should provide relevant education courses, reinforce service staff's training, and cultivate the active concerns to have consumers perceive the concerns and further promote the word of mouth and loyalty.

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