

An Empirical Study on the Mediating Effect of E-Service Recovery Satisfaction on the Achievement of Customer Retention in the Airline Industry in Malaysia

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Abstract: *In the era of Internet and the accelerating rate of using the e-context as a marketing tool by wide range of companies, customer retention becomes a crucial element in firm's survival. Losing customers to competitors in e-context is a constant threat as it is a click away. The current study aims at investigating the influence of five customer factors namely; E-Trust, Prior Experience, Customer's Perception of Feedback, E-Loyalty and Digital Awareness on Customer Retention. The study has investigated whether E-Service Recovery Satisfaction (E-SRS) has a mediating role on these relations in Airline Industry in Malaysia. A questionnaire is designed as a data collection tool. The unit of analysis is Malaysian passengers who used the local Airlines and faced a service failure. Sequential Equation Modeling is employed to analyze the data collected using closed-ended multiple choice questionnaire.*

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

I. Introduction

Using Internet on daily bases has become essential for individuals in most parts of the world, beside business and organizations from all types of activates for which internet has become the nerve of their daily communications even within the same firm. Internet users have grown by (676.3) percent from 2000 to end of 2013 (Internet World Stats, 2014). Asia only has scored (45.1) percent of the internet usage all over the world, approximately (1,265,143,702) Internet users at the end of 2013 (Internet World Stats, 2014). Internet is considered as an essential and valuable tool for business as well as consumers who enjoy searching providers' websites which demonstrate a variety of products. Using internet has facilitated the task for consumers to check different types and prices at any time through the year and from providers all over the world by a click of a mouse (Ogungbure, 2009). Online purchase for goods and services has grown during last two decades and it became a trend that expected to grow further in future (Internet World Stats, 2014). Due to the fast growth in IT, the huge progress in communication systems and the cyber environment, the world has become one wide market. In addition, the fast technological developments has led to increase consumer's purchasing power and changing consumer's thinking patterns and behavior (Hsieh and Tsao, 2014; De Mooij, 2010).

Accordingly, adopting the new technologies has changed business patterns and has re-engineered industry's operations leading to generating new paradigm-shift. The new emerging relationships were explained by Zineldin (2000) as new marketing relationships based on "technologicalship" which can be considered as a new paradigm. This is due to the fact that this techno based relation has formed various types of interactions, problems, customer demands and solutions. In addition, Zineldin has emphasized that traditional relationships in marketing and "technologicalship" marketing are "fundamentally different". A study by Hsieh and Tsao (2014) has argued that the new cyber environment has changed the industry structure and has offered new opportunities and new range of threats to stakeholders. IT has empowered customers to customize and purchase products (Buhalis and Law, 2008). This new environment has created new opportunities for companies to expand into new markets, on the other hand it added new challenges as customers become more knowledgeable and can compare products and choose what is best suit their needs (Zhou and Amin, 2014). Another challenge occurs for providers with the internet era and that is; customers can easily switch to competitors, as it takes only a click. Switching to competitors is an ongoing threat because it will lead to losing consumers which means losing future revenues (Shankar, Smith and Rangaswamy, 2003). The new environment has forced most companies to put extra efforts in order to achieve the competitive advantage that will put them in the lead. Hence, most providers start working more on upgrading the quality of their products (goods and services). However, service failure is unavoidable, that's why when a failure occurs, the provider should implement fast and effective recovery strategies with the aim of minimize the negative effects of service failure (McCullough, 2009; Shaw and Craighead, 2003). The aim is to turn the dissatisfied customer into a satisfied customer (Tsai, Yang and Cheng, 2014;). To keep the existing customers will lead to securing firms revenues for future that's why retaining customers is a vital task for the companies (Adebiyi and Adeola, 2014). Due to the accelerating

competition among service companies and providers for the past few years, service recovery strategies are attracting more attention of both scholars and industries (Sousa and Voss, 2009). There is a chance that companies might offer poor recovery to the dissatisfied customers which might lead to a double failure that might make the situation worse (Edvardsson, Tronvoll and Gruber, 2011). The aim behind implementing service recovery is to solve the problem in order to minimize negative outcomes and eventually retain the customers (Nwankwo and Ajemunigbohun, 2013).

The current study aims at; first; investigating the effect of five customer determinant; Prior Experience, E-Trust, Customer’s Perception of Feedback, Digital Awareness and E-Loyalty on Customer Retention. The second aim for this study is to determine the role of E-Service Recovery Satisfaction in realizing customer retention and to investigate whether E-Service Recovery Satisfaction can mediate the relation between Customer Retention and the five customer determinants. The industry chosen for this study is Airlines Industry in Malaysia and the unit of respond is Malaysian passengers who traveled with the local Airlines and had faced a service failure.

II. Litratue Review

Purchasing through internet is gaining more acceptances by consumers all over the worlds. This is due to many reasons which were demonstrated by a study by eMarketer, Inc (2012) cited in (Lauden and Traver, 2013). The study aims at examining the factors that encourage consumers to adopt online purchase behaviour. The study showed that the highest rate was for the option; 24 hours shopping, followed by the option; easierto compare prices, then; offering free shipping. The findings of the study are demonstrated in Table 2.1.

Table 2.1. Reasons to choose online channel

Why Consumers Choose the Online Channel	
Reason	Percentage of respondents
24-Hours shopping	35.1%
Easier to compare prices	33.1%
Free shopping offers	31.5%
No crowds like in mall/traditional stores	30.8%
More convenient to shop online	29.2%
Easier to find items online than in stores	17.5%
Better variety online	17.4%
No sales tax	14.9%
Direct shipping to gift recipients	13.8%
Easier to compare products	11.4%

Source: eMarketer, Inc, 2012, (Lauden&Traver, 2013).

Using internet to purchase goods and services is a fast growing phenomenon in the last two decades especially with the continuance development of IT and communication programs and the producing of digital portable tablets and hand phones. A study by the International Telecommunications Union (2014) showed that the number of internet users comparing to non-users is growing steadily all over the world. According to the study, the figures between 2005 until 2013 demonstrate that the number of users is in continuance growing in the past thirteen years as it reached 39 percent of the world population at the end of 2013 comparing to 16 percent in 2005. Accordingly, the phenomenon of online purchasing has increased tremendously and it includes all kinds of products whether goods or services. This type of purchase is characterized by being convenient and speedy. According to non-adjusted estimates by U.S. Commerce, the total online sales for the year 2010 have reached \$165.4 billion, higher by 14.8 percent from online sales achieved in 2009. In such huge market and the fierce competition, retaining existing customers will be a strategic and essential objective that companies should adopt in their future planning in order to secure their survival. In service sectors, services cannot be felt or experienced beforehand, but only after delivering it, hence, it cannot be returned (Kapoor, Paul and Halder, 2011). In such situation, service recovery will play a vital role in turning the disappointment and anger the customer felt into a satisfaction and in some cases into delightfulness. It depends on how effective the recovery was in satisfying the customer. Retaining existing customers is an economic way to save marketing and promotion costs, as gaining a new customer will cost five times the cost of retaining the existing customer (Gupta, Lehmann and Stuart, 2004). In addition, a study by Kerin, Hartley and Rudelius (2009) stated that retaining existing customers will affect company’s profits. Hence, 5 percent increase in retention levels will generate profits as 25-85 percent higher. Accordingly, performing a successful service recovery will influence the company revenues and profits. On the other hand, producing the e-service recovery as part of the e-commerce has changed customer perceptions; however few studies have tackled the topic of e-service recovery (Dhurup, SurujlalandRedda, 2014). There are two critical differences between e-services and traditional services, first, in e-service there is little of human interaction and second is the mediating role of technology (Holloway and Beatty, 2003).

In a report issued by The Nielson Company (2014), it is estimated that growth in E-commerce in business to consumer (B2C) sales will amount to \$1.5 trillion around the world in 2014, hence amounting from 20 percent in 2013 to 22 percent for various categories. The highest percentage for online buying was Airline tickets and it was the only category that scored online buying rate (48 percent) higher than online brows (40 percent). These figures point to the fact that trust in Airline websites and the online purchasing is increasing, and it also indicates that the Airlines guarantee that their selling will increase in future (The Nielson Company, 2014).

The current study has examined satisfaction resulting from implementing the e-service recovery and whether it can influence customer retention. The objective of the current study is to investigate the suggested mediating role of e-service recovery satisfaction in the relation between customer retention and five customer determinants; Prior Experience, E-Trust, Customer's Perception of Feedback, E-Loyalty and Digital Awareness. The study industry is Airline industry in Malaysia and the respondents are the Malaysian passengers who use local Airlines and had faced service failures.

2.1 E-Trust

Trust as an essential concept in marketing literature and it has been researched and investigated by many scholars. Doney and Cannon (1997) defined trust as establishing for the credibility between customer and provider, moreover, it reflect the credibility of the seller in committing to his promises. Trust is also defined as the thoughts and beliefs that consumers constitute regarding the provider (Eid, 2011). The concept of trust in Brick-and-Mortar market is used to present trust in traditional market, while with the term E-Trust is presented to indicate to online trust. In his study, Shukla (2014) has posited that E-trust is an essential element in starting and maintaining the relationship between providers and customers, especially when the element of direct human interaction is absent. Hence, the customer should trust the website in order to perform the online purchase depending on trust level that he has experienced regarding the provider (Pizutti and Fernandes, 2010). Accordingly, using the internet for a long period of time will impact customer's e-trust in provider's web and the information and procedures that a particular provider offers (Ha and Akamavi, 2009). On the other hand, the level of trust in online webs will also impact the time spent on internet usage (Kim and Prabhakar, 2000). Providing privacy and security that protects customers' private information will enhance the extent of trust in internet (Flavián and Guinalú, 2006). It is also proven that continuing online purchasing will develop customers' experience that might change their perceptions regarding online context. (Chen and Dubinsky, 2003).

2.2 Previous Experience

Service experience was defined by Maklan and Klaus (2011) as "the customer's cognitive and affective assessment of all direct and indirect encounters with the firm relating to their purchasing behaviour". Prior experiences, positive or negative experiences, which customers have gone through, will affect customer's decision on whether to continue with the same provider or change to another provider (Kim, Jin and Swinney, 2008). Some scholars have examined the influence of Internet experience on trusting the online environment (Rose, Hair and Clark, 2011) in addition to investigating customer's intentions antecedents to use online purchase (George, 2004). Moreover, a study by Bart, Shankar, Sultan and Urban (2005) has suggested that the extent of experience with using the internet can influence website trust as it will generate higher confidence in the websites comparing to new internet users. Such experience also reflects on experienced user's behaviour when dealing with the web site (Hoffman and Novak, 2009). On the other hand, and from service recovery perspective, scholars like Hess, Ganesan and Klein (2003) and Tax, Brown and Chandrashekar, (1998) have emphasised that customers with positive experiences, tend to be more forgiving regarding failure incidents and will look positively to the recovery efforts, in addition, such efforts are expected to enhance loyalty. In supporting for this view, Chen and Dubinsky (2003) mentioned that in online context, the online continuance purchasing will enhance the online experience for customers resulting into changing their online perceptions. This view supports the notion that internet behaviour will affect consumer's intentions, motives, attitudes regarding choices, and behaviour (Sentosa et al., 2011).

2.3 Customer's Perception of Feedback

The third factor suggested refers to how customer will perceive and evaluate the provider's feedback concerning the service failure. The provider must offer services that meet quality standards (Broderick and Vachirapornpuk, 2002). Once service failure occurs, it means that the service offered did not meet customer expectation (Bitner, Booms and Tetreault, 1990). Smith, Bolton and Wagner (1999) also emphasized that such failure incident is the result of delivering a service which is below customer expectations. After service failure, it was suggested that customer satisfaction will be regained when service recovery exceeds customer expectations (Berry and Parasuraman, 2004). The factor of customer's perception of feedback is suggested by the study as one of the retention determinants is to present a new notion which is customer evaluation for the provider's feedback

in concern to service encounter. Customer evaluation for the feedback is an important variable because it will decide whether recovery has met customer's perception or they assume that they should receive better e-service recovery that will impact customer's satisfaction and eventually future relationship (Kim' Kim and Kim, 2009). Some scholars have related the satisfaction with the degree of justice perception that the recovery holds and how such perception can impact customer loyalty (Maxham and Netemeyer, 2002).

In this regard, Attribution Theory has been utilized by many scholars to explain how customers comprehend information to make choices, demonstrate their experiences to others, moreover, whom to blame when a service failure occur (Ogungbure, 2009). According to Attribution theory by Fritz Heider's (1958), customers will try to comprehend the justification for the service failure and will accordingly evaluate the recovery offered. The current study will investigate how customers will attribute the cause of failure to internal attribution (themselves or the firm) or external attribution. Eventually, attribution type will impact customer perception of service recovery, the extent of recovery acceptance and the degree of satisfaction (Ogungbure, 2009). According to previous review, Customer's perception of feedback is a vital and an essential variable that impacts future purchase plans. Customer's perception of feedback suggested by this study is formulated in order to generate a concept that reflects customer evaluation to the provider feedback. However, scholars have acknowledged that the effective responsiveness will indicate to fast and sharp response to customer's requests to the provider, also it demonstrates the provider's ability to response to failures (Zeithaml, Parasuraman and Malhotra, 2000).

2.4 E-Loyalty

Loyalty is a vital concept in marketing research and it has been investigated by many scholars. Customer loyalty is defined as the high commitment to re-buy a product in future indicating to repetitive purchasing for the same-brand in spite of "situational influences and marketing efforts" that can lead to switching behavior (Oliver, 1997). Allagui and Temessek (2005) emphasized that the theoretically, being loyal to a firm that uses internet in performing its transactions is similar to loyalty to traditional Brick and Mortar firms. E-loyalty was defined by Kim et al, (2008), in retailer context, as "customer's favorable attitude and commitment towards the online retailer that results in repeat purchase behavior". In online business, E-loyalty plays a critical role because securing long term relationship with the customer will guarantee increasing profitability (Alonso-Almeida, Bernardo, Llach and Marimon, 2014). E-Loyalty is also a crucial element for providers in e-context because customers can easily switch to other providers and will bear less switching cost (Wang, Hsu and Chih, 2014). It will require a click of a mouse (Ogunburgh, 2009).

Furthermore, E-loyalty will lead to decreasing marketing costs because existing customers will not need promotions or marketing campaigns. E-loyalty will also decrease the cost of acquiring new customers because existing loyal customers will act as free promoters (Bashar and Wasiq, 2013; Reichheld, Markey and Hopton, 2000). Accordingly, despite the fact that the cost of building online loyalty is higher than establishing traditional loyalty, but profit accelerates at a faster rate as soon as the relationship is well established (Chung and Shin, 2008; Reichheld and Schefter, 2000).

A loyal customer will be committed to the provider and it would be difficult to switch to another provider, moreover, he will be willing to pay more to same provider (Shankar et al, 2003; Bowen and Chen, 2001). Loyal customers can generate 25 to 85 percent of profit increase (Reichheld and Sasser, 1990). Loyalty indicates that customers prefer a specific firm over others and intend to continue purchasing from the same firm in future (Zeithaml, Berry and Parasuraman, 1996). Loyal customers are considered as valuable asset to firm's success, hence, attracting customers and maintain their relationship and loyalty are two essential issues (Yen and Lu, 2008).

2.5 Digital Awareness

Awareness as a concept is one of the important determinants for purchasing new products (Velmurugan and Velmurugan, 2014). It was asserted by social scientists that knowledge (about a product) is related to attitude and attitude is connected to behavior (Flamm, 2006). Hoffman and Novak (2009) mentioned that customers who always surf the internet will gain higher experience in searching for products that satisfy their needs and it will impact customer's attitudes and behavior towards e-context. Previous studies stated that prior experience affect the perceived risk, future intentions and whether to continue using the online purchase (Holloway, Wang and Perish, 2005). In a study by (Suh and Chang 2006), it was posits that maintaining subjective experience, visual images and stimulations for physical products, may enhance the experience of online purchase and influence attitudes and behaviours.

Studies suggested that there is a relationship between prior experience and prior knowledge and indicate to the fact that both will evolve during the information search process (Hoffman and Novak, 2009; Chih-Chung and Chang, 2005; Holloway et al, 2005). This process will impact future intentions towards online transactions (Holloway et al, 2005). Chih-Chung and Chang (2005) mentioned that a circular feedback loop will

emerge during the online search. In the same stream, Hoffman and Novak (2009) stressed that; online flow experience will lead to improve individual online skills. Skadberg and Kimmel (2004) mentioned that flow is a significant factor that impacts the learning process when surfing the websites, also and as the digital knowledge is increasing, the attitude and behaviour towards online environment will also change gradually.

2.6 Customer Retention

Customer retention is a vital concept in business. It represents the approaches that firms follow and implement in order to enhance and maintain business relations with the existing customers (Hoffman, Kelley and Chung, 2003). Customer retention is acquiring more importance in Internet era. Because of the fierce competition and open among competitors in the cyber environment, maintaining the relationships with the existing customer's base has gain new strategic dimension and become an essential competitive advantage. According to Tarokh and Ghahremanloo (2007) the World Wide Web has become a very important channel to start and expand business this is due to the accelerating IT progress that offers unique and valuable opportunities for firms to reach the global market. Adapt IT systems will assist in understanding customer's behaviour by analysing their behaviour. "Data warehousing as well as data mining technologies and contact technology" will provide a better understanding for customer's attitudes and behaviours (Rezaei and Alikhani, 2014). A study by Mattila and Cranage (2005) has concluded that customers who faced service failure and the failure was dealt with quickly and properly, and then those customers will be more satisfied than those who never faced a service failure at all. This conclusion indicates to the fact that recovery's quality is important because the perception when receiving poor recovery will influence future purchase. Hence, service recovery has become a key strategic determinant in firm's efforts to satisfy and retain existing customers and to attract new customers ((Rao, Goldsby, Griffis, and Iyengar, 2011). However, poor recovery might result into negative outcomes like spreading the negative WOM/Mouse, losing customers and eventually decreased revenues and profits (Michel, Bowen and Johnston, 2009).

The strategic importance of customer retention centered on the two important concepts in marketing; market share and profits. According to different studies on customer retention benefits, retention will lead to reducing marketing costs because regular customers will not need promoting materials and marketing campaigns like the case with new customers (Kerin et al, 2009). Also, and relating to this fact, researches confirmed that attracting one new customer will cost the company five times the cost of retaining an existing one (Segelstrom and Holmlid, 2011; Kotler, Bowen and Makens 2003). In case of service companies, it is suggested that reducing customer defection by 5 percent might lead to increase in profits by 85 percent (Reichheld and Sasser, 1990). Customer defection might result into damaging firm's image, decreasing revenues and profits, hence it was estimated that a dissatisfied customer will tell nine people about the negative experience he encountered (Rondeau, 1994). That is why companies are adopting more effective e-recovery strategies to ensure that customers will not switch to competitors.

2.7 E-Service Recovery Satisfaction

Service recovery indicates to provider's response to a service failure (Boshoff, 1997). Recovery satisfaction is consumer's satisfaction resulted from a single transaction or encounter (Ok, 2004). However, evaluations for many transactions will result into continuance satisfaction, which is mentioned 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. Bashar and Wasiq (2013) stressed that offering a fair treatment is an essential factor in achieving customer satisfaction. Researchers suggested that service recovery is almost a neglected aspect in service marketing literature (Kim, Yoo and Lee, 2012; Andreassen, 1999; Tax et al, 1998). To recover effectively from service failures is the core responsibility of operation function (Roth and Menor, 2003; Prajogo, 2006; Miller, Craighead and Karwan, 2000). To understand the influence of recovery on the level of satisfaction, loyalty and retention will have its reflections on how to design the recovery approaches (Miller et al, 2000). These reflections will determine two essential figures; first, the amount to be invested in order to deliver a reliable service to ensure that no failure will occur in future, second; the cost of offering a "superior recovery" when problems happen (Parasuraman, 2006). Bell and Luddington (2006 cited in Komunda and Osarenkhoe, 2012, p.4) mentioned that there should be a systematic approach that deals with customer dissatisfaction, and provide a definition to the planned service recovery as; "a thought-out, planned, process for returning aggrieved customers to a state of satisfaction with the organization after a service or product has failed to live up to expectations."

III. Methodology

The current study had adopted the quantitative approach to examine the suggested relationships between customer determinants and retention. The study used the survey approach as a measurement instrument. A multi-item Likert scale that has five points response format is utilized (Sekaran, 2013). In order to make sure that the questions can be understood by average customers, the questionnaire undergo a pre-test and pilot test. To achieve the goals of this study which is to examine customer's perception after receiving e-recovery and whether they decide to stay with the same provider or switch to another, the sampling technique adopted is purposive random sampling technique or judgment sampling (Zikmund, 2012). The study field is Airlines Industry in Malaysia and the respondents are Malaysian travelers on local Airlines. The questionnaire has two parts; the first is the demographic questions which reflect some of the personal aspects of the respondents. The second part is the general questions regarding the main variables in the study. The Structural Equation Modeling, and through the usage of SPSS and Amos software, is utilized to perform data analysis.

Conclusions & Recommendations

The current study aims at investigating the influence of E-Service recovery satisfaction on the relation between Customer Retention and the five customer determinants in Airline Industry in Malaysia. The findings are expected to benefit marketing operations and industry management as it emphasizes the importance of integrating online technology in their plans to retain existing customers who present a valuable source to guarantee future profits. Moreover, the expected findings will participate in deepening understanding of E-recoveries and its impacts on spreading the positive WOM and maintaining lifelong relations. Due to the few studies that have tackled e-service recovery and e-service recovery satisfaction, this study offers wide opportunities to do more researches in these vital and important areas and in different industries. The e-service recovery has been adopted extensively by various service companies in public and private sectors in recent years. In addition, future studies can examine the influence of different e-recoveries and its e-determinants on customer-provider relation from industry and customer perspectives. Moreover, scholars can explore more mediating and moderating variables that impact the level of customer retention in the e-context.

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