E-Loyalty Achievement in the Indonesia Airline Industry: An Analysis of E-Service Recovery

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Abstract
The main objective of this paper is to develop a conceptual framework that would explicate the effects of e-service recovery strategies on e-loyalty within the airline industry. The loyalty of customers to any organization is considered very crucial to the organizational performance and survival. In a world, where the majority of economic exchanges are carried out online by means of websites, there exists the risk of transaction failure, and thus the issue of service recovery is essential to prevent customers from switching because of unpleasant experiences suffered. This paper therefore presents and examines the influence of the four dimensions of e-service recovery (i.e. Responsiveness, Compensation, Contact and Personalization) on e-loyalty with emphasis on the Indonesian airlines industry. Moreover, this paper conceptualizes the model that could assist in establishing the influence of e-service recovery dimensions on e-satisfaction, e-trust and e-loyalty. Additionally, one of the aims of this paper is to benefit the airline management on their response to service failure and hence turn unsatisfied customers to satisfied and loyal ones.

Keywords: E-service recovery, e-loyalty, e-satisfaction, e-trust, airlines

1. Introduction
The increasing technological advancement has prompted many organizations toward adopting modern means of services, thus elevating the use of internet and electronic facilities in today’s global business environment (Herington & Weaven, 2007). This has given organizations the opportunity to improve and provide quality services and respond quickly to their customers by leveraging their effort to enhance effectiveness and efficiency using the e-services (Rowley, 2006). However, as much as quality services is paramount to Hence recovery from service failure is vital for organization’s attainment of customers and gaining their loyalty. The widely
accepted concept that service failure triggers service recovery is being recognized by managers and researchers as a key element of customer service strategies, especially in the airline industry. Thus, managing recovery has been considered to have a strong impact on customers, because they seem to be more dissatisfied in organizations’ failure to recover than when they experience the service failure initially (Berry & Parasuraman 1991; Bitner, Booms, & Tetreault 1990). Keaveney (1995) concluded that the major cause of switching behaviour by customers in service organizations is the occurrence of service failure and inability to recover from it. Therefore, service recoveries that are well executed are vital for improving customer satisfaction, building customer relationships, and customer loyalty (Fornell & Wernerfelt, 1987). The importance of e-service for transactions in airline industry is evident in solving many customers booking problems. Before the deployment of e-services, airlines were prone to poor service delivery emanating from service failures that negatively affect their relationships with customers (Cheng, Chen & Chang, 2008). The advent of e-service has brought about service recovery that can proffer airlines with competitive benefits. A firm’s ability to recover from service failure could revitalize customer satisfaction and loyalty as well as facilitate long term relationship between customers and the firm (Fornell & Wernerfelt, 1987). This is in line with the relationship marketing paradigm that stipulates strong and formidable relationships with existing key customers rather than gaining new customers (Torres & Kline, 2006). Although service recovery possesses the potential of providing customers satisfaction and instigate their loyalty, not many firms have the capability to recover from service failures. In this regard, organizations need to understand the way customers react to service problems and the influence service recovery will have on their relationship with the company (Tsai et al., 2005). The advantages of internet as a medium of providing service by firms can be enormous and diverse, modern modes of information exchange, communication and managing business can be beneficial to the customers and organizations. For example, many airline firms have developed a web-based service that gives customers direct access to information and easy services (Bai et al., 2008).

Currently, aviation companies have succeeded in e-services; about 90% of tickets were purchased by the customers via websites (Orlov, 2006). According to the 2007 Nielsen Global Online Survey (NGOS), higher numbers of flight tickets were bought through the internet by most users of e-services in Indonesia compared to other products like electronic equipment and books which can also be purchased through the internet (Agustina, 2008). Considering the fact
that service failure is inevitable and that there cannot be 100 percent perfect service, it becomes necessary to investigate how e-loyalty can be attained by the airline industry through the various service recovery strategies. Hence the main objective of this paper is to examine how the airline industry in Indonesia can employ service recovery strategies to attain e-loyalty.

2. Conceptual Model

This study proposes a conceptual model that explicates the relationship between the dimensions of e-service recovery (Responsiveness, Compensation, Contact, and Personalization) and e-satisfaction, e-trust and e-loyalty in the airline industry. The study is investigated by the failure experienced by customers during business transactions through various electronic medium especially internet.

**Figure 1: The Conceptual Framework of the Impact of e-service recovery on e-loyalty**

Airline industry reports have stressed the consistent shift in loyalty of customers as a result of their inability to recover from failures in the course of transactions (IATA, 2012; Tan, 2011). Deloitte (2013) in its report concluded that loyalty in the airline industry globally is suffering a great setback as most of the loyalty programs are becoming ineffective. Findings from several studies argued that responsiveness, compensation, contact and personalization are key determinants of loyalty. Consequently, e-satisfaction and e-trust establishes strong antecedents of e-loyalty (Pavlou, 2003). However, evidences from service marketing and e-service literatures have shown that, in most cases of unsatisfactory services, effective service recovery has appeared to be the solution (Matos et al, 2007; Prajogo, 2006; Weun et al.,
Based on the arguments above, this study conceptualized the impact of e-service recovery dimensions on e-satisfaction, e-trust and e-loyalty.

3. Literature Review

3.1 E-Loyalty

The concept of loyalty was established as far back as the 1940’s (Rundle-Thiele, 2005). It was defined as an “individual’s propensity to continuously and repeatedly show the attitude of commitment which he has not demonstrated in his life before” (Reynolds et al., 1974; Ha, 1998). Loyalty arises in the absence of the coercion, but from the consciousness of customer’s previous experience. While the concept of customer loyalty emphasizes more on purchasing behaviour, the term is often used by marketing experts and business practitioners to explain the attitude of customers toward the organization. Loyalty is seen and considered to be profitable by researchers when customers show loyal attitude in two distinct ways, that is, emotional and behavioural (Söderlund, 2001). According to Rundle-Thiele (2005), loyalty is regarded as composite loyalty. Ali Hassan (2008) describes loyalty in three ways; (a) as a generic concept, brand loyalty displays the tendency of customers to purchase a particular brand with high level of consistency; (b) as the concept of behaviour, re-purchase behaviour is often related to brand loyalty, where the difference is, when brand loyalty reflects the psychological commitment to a particular brand, repeat purchase behaviour is always the end product; (c) repeat purchase is the result of the dominance, this is a situation where its products become the only alternative available, through constant promotions to lure and entice customer to buy the same brand repeatedly. Engel et al. (1982) argued that loyalty is the preferential behaviour and reaction in reply towards brands or product type that is expressed by the customers during a particular period. Jacoby and Kyner (1973) considered customer loyalty as behavioural bias of the purchasing process that resulted from the psychology (Oliver, 1997).

However, the clear distinction between loyalty and e-loyalty is in the medium of transaction; while the former involves face to face or physical interaction, the latter is through electronic medium such as information and telecommunication channels (i.e. website, internet, telephone etc.). As described by Kim, Jin & Swinney (2008), e-loyalty in retailer context is a customer’s positive behaviour and commitment to the online retail representative that brought about the repetitive purchase behaviour. This complements Reichheld and Teal’s (1996)
conclusion that e-loyalty is important to the online business because it can lead to long term relationship with the provider.

3.2 E-Service Recovery Strategies

There have been plenty of studies about the significance of service recovery for an organization’s survival and continual existence (Oliver, 1999; Pavlou, 2003; Malley, 1998). Many authors have concluded that customer loyalty, customer satisfaction and trust are very important outcomes of service recovery (Pavlou, 2003). It was further clarified that a well-articulated service recovery will effectively change customer’s unfavourable experience during transaction to exiting and pleasurable ones. This is evident in Oliver (1999) who suggested that organizations must make customers feel comfortable and happy after encountering some hitches during their dealings with the firms.

3.3 Responsiveness

Responsiveness has been argued to be very crucial to service failure/quality and determines the organization’s tendency to be supportive and swift in responding to customers (Cenfetelli et al., 2008; Parasuraman et al., 1985; 1988). An accurate, prompt and precise response toward service failures has been established to improve customers’ valuation of service encounters (Berry et al., 1994; Kelley et al., 1993; Taylor, 1994). Gefen (2002), while acknowledging the criticality of responsiveness in the context of e-commerce websites, was sceptical about the capability of the modern automated system providing the same level of responsive service of salespeople. He further argues that there are other responsiveness aspects that are related to websites such as providing prompt service, helpful guidance when problems occur, and informing the customer of the accurate time when the ordered services will be performed or the products delivered. Karande et al. (2007), McColl-Kennedy and Spark (2003), and Sparks and McColl-Kennedy (2001) also stressed on the importance of voice recovery where the organizations exhibit high level of accessibility and compassion towards the feedback from customers during service failures by providing an avenue for the dissatisfied customers to express their opinions on how to improve existing services to prevent the future occurrence of such failures. Responsiveness is defined as the degree to which the services provided by e-commerce website of an organization is helpful in resolving the urgent need of customers that
visit and make use of online services (Coelho & Henseler, 2012). The capability of websites and
other online service channels to respond swiftly to the service request and enquiry can lead to
customer satisfaction. Extant studies have shown that there is a correlation between
responsiveness and customer satisfaction (Nusair & Kandampully, 2008). Although
responsiveness has been argued to positively influence e-satisfaction generally, Zeithaml &
Bitner (2000) suggested that its likelihood of negative impact on quality perceptions should be
noted especially if customers have the feeling that they are being bombarded with company e-
mails. Responsiveness indicates the ability of the service provider to quickly respond to the
online requests and resolve issues in cases of service problem (Zeithaml & Bitner, 2000). A fast
response to requests and complaints has been recognized as an element of service quality that
can lead to trust (Voss, 2000). Gummerus, Liljander, Pura, & Riel, (2004) argued that
responsiveness is the extent in which the feedback given by the customer is quickly responded
to. Since responsiveness is a representation of service provider’s ability to quickly respond to
service failure and also the customers’ perception of the service provider, it has been proved that
responsiveness can impact trust (Gummerus et al., 2004). Moreover, Chang and Chang (2011)
established that organization’s quick response to customers complains and the practice of
granting them fair treatment through apology and tangible token as compensation will go a long
way to enhance the effectiveness of recovery. This will also result in successful maintenance of
long term positive customer loyalty and satisfaction. Hence, this study proposes that:

H1: There is positive relationship between responsiveness as a dimension of e-service recovery
and e-satisfaction.

H2: There is positive relationship between responsiveness as a dimension of e-service recovery
and e-trust.

H3: There is positive relationship between responsiveness as a dimension of e-service recovery
and e-loyalty.

3.4 Compensation

Compensation is any form of reimbursement (i.e. refunds, discounts, free merchandise
and coupons) given to customers for the losses they might have incurred as a result of service
failure experienced during a particular transaction (Smith et al., 1999). Ample studies support
compensation as the standard recovery strategy that can be employed by an organization to
offset negative outcomes experienced by customers during service failures despite some discrepancies on the level of what to be awarded as compensation for a particular failure issue (Lovelock & Wirtz, 2004; Wirtz & Mattila, 2004). Tax et al. (1998) argued that compensation is particularly expedient in helping customers recover from adverse experiences suffered from service failure. Similarly, Mattila and Patterson (2004) established that compensation makes customers feel being treated fairly, while McColl-Kennedy and Spark (2003) revealed that compensation is especially appropriate in assuaging service failures that affect customers.

Compensation is vital in enhancing customer satisfaction in the event of service failure (Duffy, 1998). It was however established by the existing literature that the level at which the customers are recompensed would have a positive influence on their satisfaction, thus amending the undesirable experience received from the service failure (Miller et al., 2000; Ruyter & Wetzels, 2000). Additionally, Bitner (1990) suggested that granting compensation is a way of admitting fault and guilt on the part of the service provider, and also an indication that the service provider had the capability to manage the service failure. Whenever compensation was offered, customers can be more confident that the firm has the capacity to handle the service failure and this might likely makes customers to be satisfied and loyal.

One important factor to create trust in business is by treating the weaker party fairly and not taking the advantage of its dependency or lack of knowledge (Hart & Saunders 1997). This is important because, people tend to subconsciously determine if they can trust the other party in business transactions (Blau, 1964). According to Miller et al (2000), apology alone will not be effective to turn a dissatisfied customer to satisfied one after service failure. On the other hand, it will enhance the tangible recovery measures or compensations. Wirtz and Mattila (2004) established a stronger combination effect of immediate service recovery with apology increase post-recovery satisfaction, trust and loyalty. Prasuraman et al. (2005) however, mentioned that though using all recovery dimensions might lead into the desired results; mechanism with human interference like a personal call, might lead to trust in recovery service and also enhance loyalty. Moreover, compensations can assist organization to decrease customers’ annoyance and displeasure in service failure state (Bitner et al., 1990). However, understanding the nature and kind of compensation and the conditions under which the customer perceived the compensation to be fair is necessary to avoid another phase of service failure (Grewal et al., 2008; Huang & Lin, 2011). In accordance with the paradigm of disconfirmation of expectation, customers will
develop trust as well as loyalty when the compensation offered by the organization for service failure is in accord or exceed their expectations (Lii & Lee, 2012).

De Witt et al. (2008) argued that whenever poor service recovery is provided to customers by service provider, customers are likely to distrust the provider. Extant researchers have established that when customers are satisfied with the manner in which service failure is recovered, high level of trust is likely to be developed than the situation in which satisfaction is not achieved (delRío-Lanza et al., 2009; Kau & Loh, 2006). Therefore, this study proposes that:

H4: There is positive relationship between compensation as a dimension of e-service recovery and e-satisfaction.

H5: There is positive relationship between compensation as a dimension of e-service recovery and e-trust.

H6: There is positive relationship between compensation as a dimension of e-service recovery and e-loyalty.

3.5 Contact

Contact is the ability of customers to get the required support from service provider through the various channels of communication such as telephone, email, web chat and online representatives. Previous studies have established information quality as a reliable contact strategy as well as an important aspect of web based service quality (Kim & Lee, 2004; Jeong & Lambert, 2001; Yang et al., 2005). Also, existing studies on information quality established the significance and usefulness of adequacy, content, timeliness and accuracy of information (Yang et al., 2005). In order to meet the needs and expectations of customers, adequate and up to date information should always be provided on websites. Customer’s perception and evaluation about how valuable the website is subject to the contents of information in it which could bring about satisfaction and trust (Hanna & Millar, 1997). It is also believed that sufficient and suitable information could strongly stimulate the purchasing behaviour of potential online customers thereby resulting to loyalty. Variety of information and the comprehensiveness of its coverage were considered to be primary indicators of customer satisfaction (Ho & Lee, 2007). Trust is an essential variable in customer and service provider relationship. A person's trust can however disappear when a situation is not normal (McKnight et al. 1998). This is in accordance with the view of sociologists who conceptualized trust as the product of fulfilment of expectations.
(Luhmann, 1979; Blau, 1964). In the context of the internet, this view carries weight in what customers expect was represented by a website, based on their experience and knowledge of other similar websites, but when the website has a suspicious interface and requires customers to go through an unexpected procedure or provide typical information, consumers will likely be more disappointed. Kerr and Kaufman-Gilliland (1994) found that communication significantly influences trust. Complaining, decreasing consumption, stopping purchases or leaving the store on the benefit of a competitors are the ways in which customers express their complaints towards the company (Echeverri & Edvardsson, 2002). Out of these four ways that customers express their grievance, it is best if the customers complain rather than leaving the company entirely. However, most customers do not express their complaints to the companies (Harari, 1997), therefore businesses should provide an avenue and encourage customers to complain in order to enhance their relationships. A well functional service recovery system can additionally result in positive word of mouth and keep existing customers as well as attract new ones, as losing any customer to competitors could be very expensive for companies as life time value is the main goal of retaining customer loyalty (Zineldin, 1995). Every employee and every business makes a mistake once in a while. Service recovery is purposefully designed to make customers feel satisfied after service failures and facilitates long term relationship (Grönroos, 2008). Hence, this study proposes that:

H7: There is positive relationship between contact as a dimension of e-service recovery and e-satisfaction.

H8: There is positive relationship between contact as a dimension of e-service recovery and e-trust.

H9: There is positive relationship between contact as a dimension of e-service recovery and e-loyalty.

3.6 Personalization

When services are personalized by an organization, customers are given personal attention and their needs are well understood in order to provide convenience in the course of services (Yang & Jun, 2002; Kaynama & Black, 2000; Madu & Madu, 2002). In online travel and service recovery situations, customers look out for where their experiences can be fulfilling and memorable. This can only be achieved where services are personalized and where
companies keep a comprehensive personal database of their customers. Personalization can be in the form of personal “Thank You” notes and availability of online suggestion box where enquiries and service complaints can personally be attended to (Yang et al., 2001). Overall, the personalization is a unique dimension that does not exist in many travel sites. Thus, providing personalized service recovery to customers would help in recovering the customers and enhance their satisfaction, trust as well as loyalty (Nusair & Kandampully, 2008).

Furthermore, one of the major benefits of online technologies is that websites can be personalized to satisfy users’ specific needs, and to customize their services as this will help the e-companies fulfil their target market’s requirements (Srinivasan, Anderson & Ponnavolu, 2002). Madu and Madu (2002) acknowledge the importance of customization by stating that online companies should differentiate themselves from their competitors by creating unique qualities that will make them stand out. Additionally, they stated that online users are looking primarily for convenience, and that e-tailers should offer customized products and services to satisfy this need. Customized information does not necessarily mean more information, but rather information of higher quality which will in turn lead to customer satisfaction, trust and loyalty (Ha, 2004). However, Gummerus et al. (2004) warns that personalized treatment to customers should be carefully weighed by companies. They further state that customers could be frightened away because of information compromise. Hence, this research hypothesizes that:

H10: There is positive relationship between personalization as a dimension of e-service recovery and e-satisfaction.

H11: There is positive relationship between personalization as a dimension of e-service recovery and e-trust.

H12: There is positive relationship between personalization as a dimension of e-service recovery and e-loyalty.

4. Outcomes of E-Service Recovery

4.1 E-Satisfaction

It is becoming increasingly challenging for online firms to satisfy their customers who are increasingly demanding better information and services, and showing less tolerance for malfunctioning sites (Reichheld & Schefter, 2000). Yang et al. (2003) argued that it is imperative to include the internet-savvy customers in the development of commercial websites.
They further assert that, if organizations are to design their sites according to the needs, wishes and preferences of their target customers, they would gain a competitive advantage over their rivals. Jones and Sasser (1995) argue that highly satisfied customers are more loyal than ones with little satisfaction. Their study in automobile industry revealed that a slight drop from total satisfaction can create massive drop in loyalty, the conclusion was that highly satisfied customers have higher likelihood to be loyal than lowly satisfied ones. Strauss and Neuhaus (1997) found similar results which point out that companies will have to start looking at the intensity of their customers’ satisfaction levels. Mittal and Lassar (1998) suggested that managers of businesses should not be at ease with a good satisfaction score, and concluded that even about 20 percent to 30 percent of top customers with highest satisfaction have the tendency to switch. The level of customers’ satisfaction or dissatisfaction with the product/service will determine the extent of their repurchase intention (Kolesar & Galbraith, 2000). Satisfaction occurs when the product/service meets or exceeds the consumer’s expectations, while dissatisfaction is the case when expectations are not met. Based on previous research, Johnson (1995) reiterated that the causes of dissatisfaction to customers may not be the opposite causes of satisfaction. A bank that opens and closes erratically will lead to customers’ dissatisfaction just like what he explained. However, a bank that opens and closes precisely on time does not automatically lead to delighted customers. It is therefore important to remove the causes of dissatisfaction for the ultimate goal of customer retention (Cho, Im, Hiltz & Fjermestad, 2002), as customers who have bad experiences tell more people about it, compared to when they have good experiences (Hart, Heskett & Sasser, 1990). Customer satisfaction is therefore considered a major driver of e-loyalty (Gummerus et al., 2004; Ribbink et al., 2004; Semeijnet et al., 2005). According to Reichheld et al. (2000), cyber customers are more willing to be loyal to reduce the risks of online shopping, hence the probability that they are going to stay with an online vendor is higher once they are satisfied. Previous studies have also proved that post complaint satisfaction can positively influence loyalty (Dube & Maute, 1998; Webster & Sundaram, 1998). Miller et al. (2000) concluded that satisfaction after the recovery increases customer loyalty. Hence, this study proposes that:

H13: There is positive relationship between e-satisfaction and e-loyalty.

Mediating Hypothesis
H13a: E-satisfaction will positively mediates the relationship between responsiveness and e-loyalty in airline industry.

H13b: E-satisfaction will positively mediates the relationship between compensation and e-loyalty in airline industry.

H13c: E-satisfaction will positively mediates the relationship between contact and e-loyalty in airline industry.

H13d: E-satisfaction will positively mediates the relationship between personalization and e-loyalty in airline industry.

4.2 Trust

E-trust comprises of e-service quality like website design (Tamimi & Sebastianelli, 2007), which directly influences customer satisfaction and loyalty (Liao & Wu, 2009). DeWitt et al. (2008) established that trust has vital mediating roles in the process of service recovery. Anderson and Srinivasan (2003) argued that e-trust is very crucial for creating loyalty in an event where customers observe some level of risk. Researches in e-services have established direct and positive effects between e-trust and customer satisfaction (Kim & Swinney, 2009; Liao & Wu, 2009). Consequently, trustworthiness has been regarded to be important in enhancing customer loyalty (Ribbink et al., 2004; Kim et al., 2009). Trust is argued to be critical to the connections among the factors such as customer satisfaction, perceived value, and commitment (Sanchez-Franco, 2009) have been considered as the key factors in customer purchase intention (Chiu et al., 2010). Therefore, e-trust is the major player in e-service that directly affects the long-term relationship between customers and service providers. Trust has also been defined as the willingness of one party to depend on another party whom he is confident about (Moorman et al., 1992). The level of trust which customers develop is high when they perceive that service provider has integrity and can be relied on (Morgan and Hunt, 1994). Furthermore, trust has become an important ingredient that is often used to build a long term relationship in business and has been found to be an important predictor of loyalty by many authors such as Geyskens et al. (1996), Reichheld et al. (2000), Rousseau et al. (1998), Singh and Sirdeshmukh (2000). In an online environment, e-trust can be defined as the level of confidence that a customer has in online transactions and exchanges. Since online exchanges can expose customers to different risks, trust therefore becomes an important factor to create loyalty.
especially when the customer perceives the transactions that are involved to be highly risky (Grabner-Kräuter & Kalusha, 2003; Anderson & Srinivasan, 2003). Executing online transaction is deemed to be highly risky since customers would have to release sensitive information in the course of the transaction, coupled with the fact that there is no personal interaction between the customer and customer service officer (Reichheld & Schefter, 2000). Several authors have therefore found that trust is an important predictor and has positive influence on loyalty (Eid, 2011; Gummerus et al., 2004; Kim et al., 2009). Therefore, this study proposes that:

H14: There is positive relationship between trust and e-loyalty.

Mediating Hypothesis

H14a: E-trust positively mediates the relationship between responsiveness and e-loyalty in airline industry

H14b: E-trust positively mediates the relationship between compensation and e-loyalty in airline industry

H14c: E-trust positively mediates the relationship between contact and e-loyalty in airline industry

H14d: E-trust positively mediates the relationship between personalization and e-loyalty in airline industry.

5. Conclusion

There exists comprehensive review of literature and consideration of the empirical arguments that emphasizes the effects of e-service recovery strategies as an appropriate means of relieving customers of the undesirable experience suffered from the occurrence of service failure during an online transaction. This study presents four variables/dimensions of e-service recovery as responsiveness, compensation, contact and personalization as the measures by which Indonesian airline industry can adopt to tackle and resolve the issue of service failure in order to gain customers satisfaction, trust and loyal while employing the e-commerce facilities to transact business. Also presented by this study is the model that explicates the relationship between the four e-service recovery strategies, e-satisfaction, e-trust and e-loyalty. The major contribution to knowledge is the framework used for explaining the effect of the four independent variables on
e-satisfaction, e-trust and e-loyalty within the airline industry. Very importantly, this paper will benefit the management of airline organizations to be proactive toward providing recovery service that would surpass the expectation of the customer in an event of service failure. This would facilitate a strong and long lasting relationship between the organization and customers, and a result in improved customer loyalty.

However, lack of data to empirically test the proposed relationships in the model remains the unavoidable limitation in this study, hence the suggestion for further study to empirically investigation these hypothesized relationships.

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