

The Role of Loyalty Phases as a Moderator of the Relationship between Satisfaction with Service Recovery and its Drivers

Aygul ISAYEVA

Marketing Manager at SOCAR Georgia Petroleum, Invited lecturer at International Black Sea University, Georgia

Abstract

Service failures are inevitable. Customers tend not to complain when they happen. Given that we are able to make customers complain, what actions should we take? We know what the drivers of satisfaction with service recovery are, but we do not know if they are of equal importance to all customers. Most likely not. I think the loyalty phase the customer is in effects the relationship between satisfaction with service recovery and its drivers. My preliminary findings support the hypotheses. Loyalty phases seem to moderate the relationship between satisfaction with service recovery and its drivers.

Keywords: *Customer Satisfaction with Service Recovery, Loyalty phases, Customer Complaint Behavior, Disconfirmation, Distributive Justice, Procedural Justice, Interactional justice*

Introduction

Very few customers complain despite having experienced service failure (Stephens and Gwinner 1998). The reasons for not complaining are plentiful (Vorhees, Brady and Horowitz 2006) and the consequences potentially devastating to a company resulting in increased “opportunity cost” (Fornell and Wernfelt 1987 and Vorhees, Brady and Horowitz 2006), lost market share and declining profitability (e.g. Estelami 2000). On the other hand if the customer complains it should be considered as a gift (Barlow and Moeller 1996) and listened carefully in order to take the right corrective actions turning the unhappy customers into delighted apostles singing our gospel. Leaning me on the logic of the service recovery paradox, this should be a possibility at least theoretically. Still, the support for such effects is mixed and seems to depend on situational factors such as the cause and severity of the failure and whether the company had control over the failure (Magnini, Ford, Markowski and Honeycutt (2007). Lowering my ambitions concerning customer satisfaction and loyalty after a service failure to a more realistic level, there are still many potential benefits to collect. To mention but a few, complaint handling provides information to improve products/services, positive customer attitudes, increased repurchase intentions, positive word-of-mouth and communication about the provider (Stauss and Seidel 2004, Stauss and Schoeler 2004). Lately, Luo and Homburg (2008) have even found that complaint handling has a stronger effect on stock value gap than customer satisfaction. Also, an efficient service recovery should prevent double deviations situations, i.e. inappropriate or inadequate response to a failure (Johnston and Fern 1999) turning a bad situation into an even worse one. In order to develop efficient service recovery systems, collect the benefits and avoid double deviation situations, I need to understand the customer's situation. From earlier work it is known that personal and situational factors have an impact on customers' assessments of service delivery and their level of satisfaction (e.g. Wilson, Zeithaml, Bitner and Gremler 2008). Also, customers engage in different types of relationships with service providers (Gutek, Cherry,

Bhappu, Schneider and Woolf 2000), like for instance service encounters, pseudo relationship or true relationships (Guttek, Cherry, Bhappu, Schneider and Woolf 2000) or they are acquaintances, friends or partners with the service provider (Johnson and Selnes 2004). These different relationships are compounded by different dimensions and the relationship between customer satisfaction and loyalty vary depending on the loyalty phase the customer is in i.e. cognitive, affective, conative or action loyalty (Oliver 1999). One of the first studies to investigate the effects of complaint handling on customer relationships was conducted by Tax, Brown and Chandrashekar (1998). They looked at how the interplay between satisfaction with complaint handling and previous experience affect trust and commitment. While Mattila (2001) studied how relationship type impacts customer loyalty in the context of service failure. Some few studies have been carried out to test Oliver's (1997, 1999) loyalty phases empirically (Evanschitzky and Wunderlich 2006, Harris and Goode 2004 and Sivadas and Baker-Prewitt 2000) as well. But, to the best of my knowledge and despite its relevance, none has tested this framework in the context of complaint handling or service recovery. As such the purpose of my study is to investigate how loyalty phases may affect the relationship between satisfaction with service recovery and its drivers. Hence the research question is:

To what extent do the loyalty phases moderate the relationship between customer satisfaction with service recovery and its drivers?

In this article I will first present a brief literature review and develop hypotheses. I describe my method of collecting data and present some preliminary findings from testing the hypotheses and the conceptual model. These early results are discussed briefly along with how the analysis can be preceded most efficiently.

Service Recovery Satisfaction

The antecedents

The drivers of satisfaction with service recovery are well established. Andreassen (2000), Olsen and Johnson, McCollough, Berry and Yadav (2000), Smith, Bolton and Wagner (1999), Tax, Brown and Chandrashekar (1998), all find support for justice or perceived customer equity as an important driver of satisfaction with service recovery. In several of these studies customer perceived equity or justice are operationalized and measured in terms of distributive, procedural and interactional justice (e.g. Smith, Bolton and Wagner 1999, Tax, Brown and Chandrashekar 1998). Although it seems like these dimensions are all important in influencing satisfaction with service recovery, they may play different roles with different effects. For instance Blodgett, Hill and Tax (1997) found that interactional justice can compensate for lower levels of distributive justice in creating satisfaction. Both Andreassen (2000) and Smith, Bolton and Wagner (1999) added disconfirmation of expectations toward service recovery as an antecedents to satisfaction with service recovery and found support in their data sets. Andreassen (2000) also included initial negative affect as a potential driver of satisfaction with service recovery, but did not find any significant effects or support for this as an antecedent. Schoefer (2008) on the other hand suggests that satisfaction with service recovery is based partly on cognitive e.g. justice and partly on affective responses. Schoefer found support for the proposed model showing that both cognitive and affective influences contribute to satisfaction judgment. As the role of affect in influencing satisfaction with service recovery receives mixed results and for the purpose of this study, I limit the drivers of satisfaction with service recovery to include procedural, distributive and interactional justice as well as disconfirmation. See the conceptual model in Figure 1.

The consequences

Exit, voice and loyalty are response to decline in firms, organizations and states (Hirschman 1970). Jagdip Singh (1990) was one of the first to apply Hirschman's framework to a consumer context. He applied it in different service categories and found support for the model in all of them. Later, all the customer satisfaction barometer models are based on this logic see e.g. Johnson, Gustafsson, Andreassen, Lervik and Cha (2001),

Fornell (1992), Fornell, Johnson, Anderson, Cha and Everitt (1996). Furthermore, Keaveney (1995) reported that core service failure, service encounter failure and response to service failure are three out of eight important drivers of customers switching behavior (pricing, inconvenience, competition, ethical problems and involuntary switching being the remaining five). Voorhees and Brady (2005) found that attitude toward complaining and perceived responsiveness moderate the relationship between encounter specific satisfaction and future complaint intentions. Of all these consequences of service failure, switching behavior and bad word-of-mouth or voice, are the ones I absolutely want to avoid. But is it so that only the relationship between service dissatisfaction and complaint intentions can be influenced or moderated or can the relationship between service recovery satisfaction and its drivers be affected also. If so, what are the likely moderators?

Loyalty Phases and Hypotheses

According to Oliver (1997, 1999) the loyalty phase the customer is in will affect the relationship between customer satisfaction and loyalty. Customer loyalty he defined as “a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior” (p. 392, 1997). But, this is not all. Oliver (1997, 1999) claimed that customers go through different loyalty phases starting with a cognitive phase, followed by an affective phase, then a conative phase ending up in an action loyalty phase. The loyalty grows stronger as customers move through the different phases. The cognitive phase being the weakest and the action loyalty the stronger phase. In each phase customers will evaluate the service and the delivery differently along different dimensions with different consequences. As service recovery is just another service delivery, I think that Oliver's claims are relevant for service recovery too. That is, I think that the loyalty phase the customer is in will affect the relationship between satisfaction with service recovery and its drivers. As such the first and overall hypothesis is:

H1: Loyalty phases moderate the relationship between satisfaction with service recovery and its drivers.

But how is it likely that the loyalty phase will influence the relationship between satisfaction with service recovery and the drivers. Let us look at the characteristics of each loyalty phase and consider the most likely role of each driver in each loyalty phase.

The cognitive loyalty phase

Cognitive loyalty is the first phase and a weak form of loyalty (Oliver 1997, 1999). Loyalty in this stage is determined by information of the offering, such as price, quality, etc. according to Evanschitzky and Wunderlich (2006) who have operationalized and measured the different phases. The customer's information is recently experienced or based on prior vicarious knowledge (Oliver, 1999). Evanschitzky and Wunderlich (2006) hold that consumers are likely to switch once they perceive other alternative offerings as being superior, especially when it comes to cost-benefit ratio or relative to price and value.

The affective loyalty phase

Affective loyalty is the second phase in the loyalty development process according to Oliver (1997, 1999). In this phase a “liking or attitude toward the brand has developed on the basis of cumulatively satisfying usage occasions” (Oliver 1999, p. 35). It reflects the pleasure dimension of the satisfaction in line with the definition of satisfaction as “the consumer's fulfillment response, the degree to which the level of fulfillment is pleasant or unpleasant” (Oliver 1997, p.28). Today, satisfaction is considered a global, cumulative evaluation (e.g. Evanschitzky and Wunderlich 2006, Olson and Johnson 2003) that can be predicted from perceived performance as the cognitive component of the evaluation. The fact that the affective loyalty is the second and not the first phase reflects the classical primacy of cognition hypothesis (e.g. Zajonc 1998), where appraisals are assumed to begin with cognitions (Oliver, 1997), i.e. customers evaluating and judging service features such as

price and quality. But, several researchers have raised the question whether the sequence of events always begin this way? (e.g. Oliver, 1997, Zajonc, 1980, 1998). Both Oliver (1997) and Zajonc (1998) conclude that it can be easily “defended for primacy of affect on several grounds” (ibid. p. 613). “In fact”, as summarized by Oliver (1997, p.310) even “a back-and-forth interplay of emotions and cognition over time is not unusual”. As customers of today tend to engage in different service provider relationships, of various length and complexity, the nature of the relationship will most likely influence and even alternate the sequence of events in the evaluation process (Liljander and Strandvik, 1997). Although, the primacy of cognition/affect may not be clear, I do for now assume the classical primacy of cognition hypothesis (e.g. Zajonc 1998), as this is the same causal order of the loyalty phases as suggested by Oliver (1997, 1999).

The conative loyalty phase

This is the third loyalty phase. In this phase the customer intends to continue as a customer of the service provider based on repeated episodes of positive affect toward the brand. According to Oliver (1999) “conation by definition implies a brand-specific commitment to repurchase. Conative loyalty then is a loyalty state that contains what, at first, appears to be the deeply held commitment to buy noted in the loyalty definition” (p.35). Still, it is important that this desire to repurchase may be and anticipated but unrealized action. Despite this element of uncertainty, intention to repurchase is the most widely used item to measure customer retention and behavioral loyalty (e.g. Zeithaml, Parasuraman and Berry 1996, Johnsons, Gustafsson, Andreassen, Lervik and Cha 2001).

The action loyalty phase

This is the fourth and last loyalty phase. In this phase the motivated intentions in the previous loyalty states are transformed into readiness to act and actual behavior. In addition to be ready to act, the customer must have a desire to overcome obstacles that might prevent the act. For action to happen both these states are necessary, inertia will develop facilitating repurchase (Oliver 1999). Although, I recognize the difference between conative loyalty and action loyalty, I will not include the last phase in my study for practical reasons.

Comparing the content of each of the phases and the drivers of satisfaction with service recovery, I think that distributive, procedural and interactional justice and disconfirmation are dimensions that are more relevant as foundations for evaluation in the cognitive and/or the affective loyalty phase than they are in the conative phase. Furthermore, I do think that the relationship between satisfaction with service recovery and its drivers will vary with the characteristics of each loyalty phase as they are described above. Still, at this point in time, I allow myself to be relatively explorative and hypothesize roundly that:

H2: The effect of distributive justice on satisfaction with service recovery will vary with loyalty phase.

H3: The effect of procedural justice on satisfaction with service recovery will vary with loyalty phase.

H4: The effect of interactional justice on satisfaction with service recovery will vary with loyalty phase.

H5: The effect of disconfirmation on satisfaction with service recovery will vary with loyalty phase.

The conceptual model summarizes the hypotheses in Figure 1:

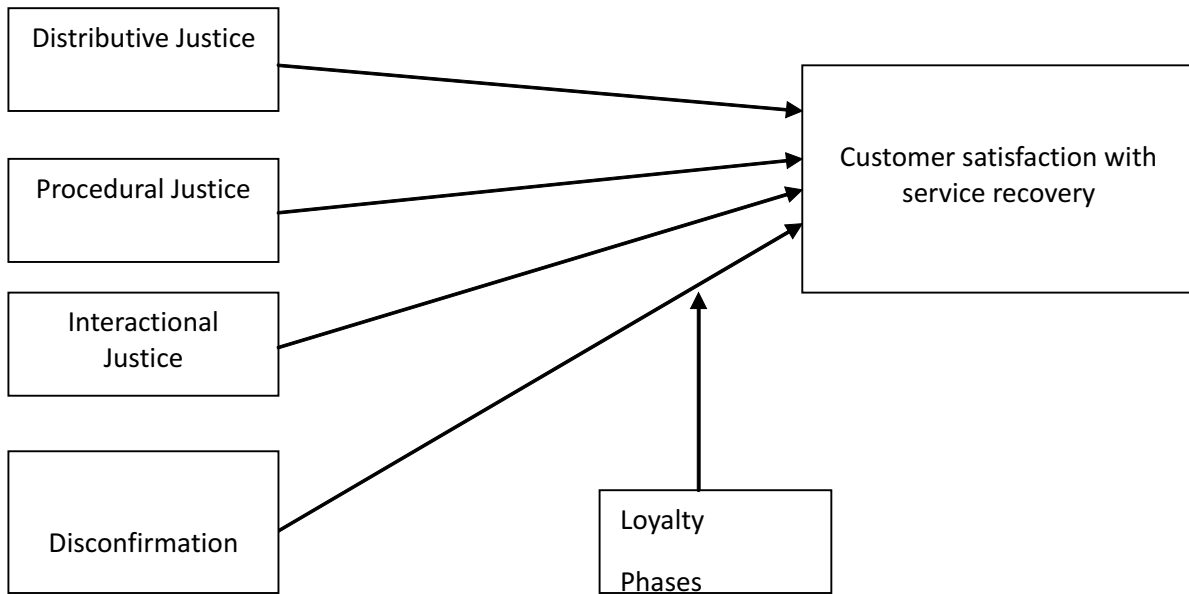


Figure 1. The conceptual model

This model is based on previous research such as Smith, Bolton and Wagner (1999), Tax, Brown and Chandrashekar (1998), Andreassen (2000), etcetera. Oliver's (1997, 1999) loyalty phases are entered as moderator in the model. Indicating that distributive, procedural and interactional justice as well as disconfirmation will all play different roles depending on the loyalty phase the customer is in.

Methodology

A quantitative design was chosen for the purpose of this study. A questionnaire was developed and the data collected through a survey. The sample consisted of customers from an international hotel chain. Following pre-testing, the study investigated customers who faced service recovery after service failure and was conducted on a convenience sample of respondents of 300 customers.

Because of missing values, 284 from the total of 300 surveys were retrieved and used for further analysis. The research result shows that 37.7% of the customers experienced the situation that produced dissatisfaction more than 8 months ago and 29.2% of the respondents expressed their dissatisfaction half a year ago. 52.1% of the customers did verbal complaint to the hotel, where the main preferred approach was face-to-face (53.2%). In general, 41.5 % of the customers have expressed dissatisfaction about product and service 3-4 times in the course of the past year.

The following demographic characteristics of the sample exhibited. The final sample contained 60.6% males and 39.4% females. Most of the respondents were business customers (86.6%). Descriptive statistics indicates that 83.8% of the customers stayed more than 6 nights per year. For age, most respondents were in the group of 36-45 (59.9%) The educational background of the sample varied with 10.6% with some high school, 19.7% college/university undergraduate, 56.3% college/university graduate and 8.8% having further education after college/university. For household's yearly gross income, most of the respondents were in the group of 500000-749999 (25.4%) and 749999-999999 (25.4%).

Measures

All the variables considered were measured on a 7-point Likert scale. The questions used to measure the variables in the conceptual model are all based on well-established scales from previous research, i.e. the measure of satisfaction with service recovery is based on Andreassen (1997, 2000). The scales for distributive, procedural and interactional justice were taken from Voorhees and Brady (2005). While the disconfirmation

scale was based on Oliver's (1980) work. The operationalization of Oliver's (1997, 1999) loyalty phases was based on the modified scales by Harris and Goode (2004).

Analysis of data

Reliability was examined via Cronbach alpha coefficient. Nunnally (1967) argues that a score above 0.5 is reliable for basic research, however the score over 0.70 proposed in the literature (Nunnally 1978). Reliability constructs were high for satisfaction with service recovery (0.841), distributive justice (0.968), procedural justice (0.927), and interactional justice (0.958). However, no reliability information was reported for disconfirmation by Oliver (1980). At the same time the scale does not have a good reliability in this study either (0.131).

Although in the Harris and Goode study (2004) the Cronbach alpha for the cognitive and conative loyalty were 0.69, it is still considerably close to the threshold value of 0.70 and higher than the 0.50 threshold that originally proposed by Nunnally (1967). Conative loyalty had an alpha coefficient of 0.626, cognitive loyalty phase 0.732 and affective loyalty phase 0.794. Taking these into account I believe that the scales are reliable and meet the proposed thresholds. See Table 1.

Table 1. Cronbach's alpha for the measures employed in this study

| Measures | Chronbach’s alpha | Number of items |
|-----------------------|-------------------|-----------------|
| SSR | 0.841 | 3 |
| Distributive Justice | 0.968 | 5 |
| Procedural Justice | 0.927 | 5 |
| Interactional Justice | 0.958 | 5 |
| Disconfirmation | 0.131 | 2 |
| Cognitive Loyalty | 0.732 | 4 |
| Affective Loyalty | 0.794 | 4 |
| Conative Loyalty | 0.626 | 4 |

Results and Tests of Hypotheses

With a sample consisting of 284 customers I decided to run hierarchical regression analyses in order to test the conceptual model and the hypotheses. In the first step of the hierarchical regression analysis, distributive, procedural and interactional justice and disconfirmation were entered as the independent variables and satisfaction with service recovery as the dependent variable. In the next step, to test for the moderating effect of loyalty phases, all the phases were entered as independent variables, i.e. cognitive, affective and conative loyalty phase. Based on the results from these analyses, I identified certain patterns and effects that need further research. First, at this point in time, I see that the conceptual model replicates well. I find support for the model in the data set and the model provides a relatively high R2 of .645 or 64.5 % in the first step, where only the drivers effect on satisfaction with service recovery are measured. All the drives i.e. justice dimensions and disconfirmation have significant effects on satisfaction with service recovery. Of the variables, distributive justice seems more important, followed by procedural justice, interactional justice and disconfirmation respectively. The two latter variables have negative effects on the dependent variable. In the next step, where all the loyalty phases and interaction terms are entered as independent variables also, the R2 increases to .677 or 67.7 %. When I analyze the pattern and strength of the relationship between satisfaction with service recovery and its drivers, I find indications of that these relationships are moderated by loyalty phase. As such I may draw that H1 is supported. Next, I look at the effect of the loyalty phases when they are entered as independent variables. See Table 2.

Table 2. Model Summary

| Model | R Square | Adjusted R Square | Change Statistics | | |
|-------|----------|-------------------|-------------------|----------|---------------|
| | | | R Square Change | F Change | Sig. F Change |
| 1 | .645 | .640 | .645 | 121.458 | .000 |
| 2 | .677 | .668 | .032 | 8.585 | .000 |

The findings in this study confirm that distributive justice is more significantly and positively related to SSR when the relationship is moderated by cognitive, affective and conative loyalty phases. Distributive justice has a beta value of 0.374 at $p < 0.05$, thus supporting H2.

Moreover, the Pearson Correlation presented in Table 3 shows that there is a positive relationship between distributive justice and SSR ($r = 0.688$). The relationship between these two variables was significant (0.000).

H3 argues that the effect of procedural justice on SSR will vary with loyalty phase. Beta values indicate strong support for this claim. Procedural justice has a beta coefficient of 0.563 at $p < 0.05$. Moreover, the results of the Pearson Correlation presented in Table 3 indicate a strong correlation between procedural justice and SSR ($r = 0.727$) were significant ($p = 0.000$).

H4 contends that the effect of interactional justice on SSR will vary with loyalty phase. Interactional justice has a beta value of (-0.353) in at $p < 0.05$.

Moreover the correlation matrix, displayed at Table 3 generates support for this view with a positive ($r = 0.525$) and significant ($p = 0.000$) bivariate association.

H5 reasons that the effect of disconfirmation on SSR will vary with loyalty phase. The multiple regression analysis shows the effect of disconfirmation on SSR with an absolute beta value of (-0.158) at $p < 0.05$. See Table 3.

Table 3. Coefficients

| Model | | Beta Coefficients | t | Sig. |
|-------|------------------------|-------------------|--------|------|
| 1 | (Constant) | | 4.925 | .000 |
| | Distributive_Justice | .619 | 9.285 | .000 |
| | Procedural_Justice | .563 | 11.018 | .000 |
| | Interactional_Justice | -.353 | -5.232 | .000 |
| | Disconfirmation | -.117 | -2.979 | .003 |
| 2 | (Constant) | | 3.300 | .001 |
| | Distributive_Justice | .374 | 4.548 | .000 |
| | Procedural_Justice | .605 | 10.684 | .000 |
| | Interactional_Justice | -.313 | -3.528 | .000 |
| | Disconfirmation | -.158 | -3.921 | .000 |
| | Cognitive | .235 | 2.621 | .009 |
| | Affective | -.082 | -1.361 | .175 |
| | Conative_Loyalty_Phase | .120 | 1.838 | .067 |

Correlations

| | | |
|---------------------|------------------------|-------|
| Pearson Correlation | SSR | 1.000 |
| | Distributive_Justice | .688 |
| | Procedural_Justice | .727 |
| | Interactional_Justice | .525 |
| | Disconfirmation | .034 |
| | Cognitive | .626 |
| | Affective | .532 |
| | Conative_Loyalty_Phase | .384 |
| Sig. (1-tailed) | SSR | . |
| | Distributive_Justice | .000 |
| | Procedural_Justice | .000 |
| | Interactional_Justice | .000 |
| | Disconfirmation | .288 |
| | Cognitive | .000 |
| | Affective | .000 |
| | Conative_Loyalty_Phase | .000 |
| N | SSR | 278 |
| | Distributive_Justice | 275 |
| | Procedural_Justice | 276 |
| | Interactional_Justice | 278 |
| | Disconfirmation | 278 |
| | Cognitive | 276 |
| | Affective | 278 |
| | Conative_Loyalty_Phase | 273 |

Based on these early results I can draw that H2, H3, H4, H5 and H5 are also supported. The drivers play different roles from phase to phase and the phases seem to play different moderating roles, i.e. quasi or pure. These interesting tendencies require further analyses to be run so that more definite conclusion can be drawn.

Conclusion

The main purpose of this study was to look at the potential moderating effect of loyalty phases on the relationship between satisfaction with service recovery and its drivers. Five different hypotheses were developed and tested. In my preliminary findings, support was found for all of the hypotheses. That is, my results at this stage indicate that loyalty phase may moderate the relationship between satisfaction with service recovery and its drivers.

When investigating this phenomenon further, hypotheses on how the different drivers of satisfaction with service recovery behave in each phase should be developed, based on a more in-depth literature review. Most likely gaining more insights would require other statistical analyses as well. Relevant to this study would be the procedure suggested by Baron and Kenny (1986) on analyzing moderator effects as well as Sharma (2003) who provides some interesting guidelines in this respect. Finally, differences between the three loyalty phases may call for multi-group analyses which may be run applying the LISREL software for instance (Jöreskog and Sörbom 1989).



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