

# Study of Service Recovery of Travel Agency Based on Customer Satisfaction:

## An Empirical Investigation

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**Abstract** — In order to survive in the keen competition, China's travel agencies have focused on providing high quality service. However service errors are inevitable due to travel agency's service is greatly determined by the environmental variables. Therefore, service recovery has become an important way to enhance customer satisfaction. This study aims to investigate how customer's perception about service recovery behaviors affects customer satisfaction based on fairness theory. Research instruments were developed and statistical evidence was collected from 85 customers of travel agency in China. The findings confirm that distributive, procedural, and interactional fairness are positively associated with customer satisfaction, and among them, distributive fairness is the strongest determinant to customer satisfaction. Focusing on distributive fairness would be an effective way to enhance customer satisfaction for the travel agencies.

**Keywords** - service recovery, travel agency, customer satisfaction, and empirical investigation

### I. INTRODUCTION

China's tourism industry has gone through a rapid growth during the past decades. With the dramatic development of the tourism market, competition has also increased among travel agencies. In order to survive in the keen competition, China's travel agencies have focused on providing high quality service since it is believed that good service quality are more likely to establish loyalty and result in increased market share and profitability [1].

Due to the unique nature of services, e.g., the inseparability of production and consumption, 100% error-free service is impossible to ensure [2]. Moreover, the travel agency is a kind of service provider with continuous operation and highly fluctuating demands and the quality of service is greatly determined by environmental variables, therefore, service errors are inevitable during the process of service delivery [1], [2].

Though the travel agencies can not eliminate the possibility of errors during service delivery, the staff's response to a customer's dissatisfaction may still restore a level of satisfaction and lead to future transactions. It is believed that how staff reacts to service failure is more important than the failure itself [3], [4].

Service recovery involves those actions designed to resolve problems, alter negative attitudes of unsatisfied customers and to ultimately retain these customers [5]. Understanding recovery is important for managers, including how customers perceive and evaluate recovery efforts and the effects of their perception about recovery on customer satisfaction.

Fairness theory appears to be the dominant theoretical framework applied to service recovery [6]. Similar to complaint-handling, customers evaluate the fairness of service recovery along three factors: distributive, procedural and interactional fairness [7].

This paper uses fairness theory to investigate how customer's perception about service recovery behaviors affects customer satisfaction. The central questions are: (1) whether the related elements of distributive, procedural and interactional fairness are strongly associated with customer's satisfaction? (2) What are the critical elements among customer's perception of distributive, procedural and interactive fairness to influence customer satisfaction significantly? To answer the above questions, several critical factors of customer perception of fairness and service recovery practices were proposed on the basis of literature review. Research instruments were developed and statistical evidence was collected from 85 customers of travel agency in China.

This paper is structured as follows: First, the conceptual framework is presented. Next, the data and samples used for analysis are illustrated. Overviews of correlation analysis and regression analysis are provided. The results based on the analysis are presented and discussed. Finally, the paper concludes with a discussion on the managerial implications of the study.

### II. CONCEPTUAL FRAMEWORK AND HYPOTHESES

#### A. Service Failure and Service Recovery

Integral to consideration of the provision of quality service is service failure and recovery. Service failures are inevitable and occur in both the process and the outcome of service delivery. Service failures are defined as any service related mishaps or problems (real or perceived) that transpire during a customer's experience with a firm [8].

In this context, service recovery is the process by which a firm attempts to rectify a service delivery failure, which

involves those actions designed to resolve problems, alter negative attitudes of dissatisfied customers and to ultimately retain these customers [5]. Successful service recovery has significant benefits, including transforming dissatisfied customers into satisfied customers, building stronger customer relationships and lead to higher loyalty [1], [5], [8].

### B. Fairness Theory

The most widely used theory framework within service recovery literature is fairness theory, which explores the role played by distributive, procedural and interactional justice in recovery situations [4], [6], [7]. Attention has focused on the relationship between perceived fairness and consumer satisfaction in marketing literature.

#### 1) Distributive Fairness

Distributive fairness examines the way resources or rewards will be allocated among parties to a transaction. In a service complaint setting, resources or rewards represent the outcome of a consumer complaint, analogous to the dollar amount of civil lawsuit. The consumer who receives a refund, compensation for lost time, or even a free gift may be said to experience a favorable outcome; on the other hand, a firm that refuses to compensate the consumer may create an outcome that will be perceived as unfavorable [4]. Therefore, we expect that:

H1. The perceived distributive fairness will positively influence customer satisfaction.

#### 2) Procedural Fairness

Procedural fairness concerns the process used to determine the distribution of outputs. It represents a standard that can be applied to processes used to settle conflicts. Procedural fairness derives from: 1) the completeness of information collected, including the participant's opportunity to add to the information or influence the order of presentation; 2) the decision-maker's use of the information; and 3) the extent to which participants believe they influenced the outcome [9].

Thus, fairness will not be obtained simply by the opportunity to present information, but by the opportunity to present information to a responsive decision-maker. This type of participatory presentation of information has been described frequently as "voice" [4]. Therefore, we expect that:

H2. The perceived procedural fairness will positively influence customer satisfaction.

#### 3) Interactional Fairness

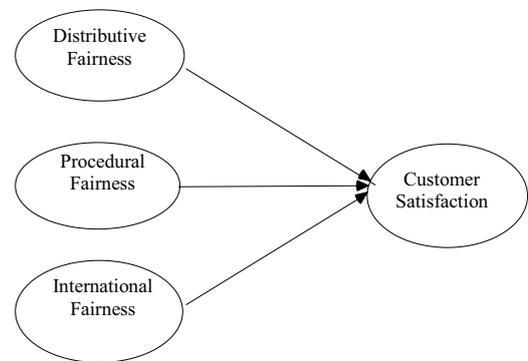
Interactional fairness concerns that how the organization's policies would be carried out. An example of interactional fairness would be an apology to the customer for a service failure. An apology, which represents a means of restoring psychological equity can be expected to offset perceptions of rudeness or inappropriate behavior. Service providers are often encouraged to apologize even if the

cannot offer any tangible compensation [10]. Therefore, we expect that:

H3. The perceived interactional fairness will positively influence customer satisfaction.

Overall, in the conceptual framework of this study, customer satisfaction is considered as a key variable. Figure 1 provides a summary of the variables and hypotheses guiding this study.

Fig. 1. Conceptual model



## III. METHODOLOGY

### A. Sample

The survey methodology was used to gather data and test the research hypotheses. The survey sample space consisted of the customers who have ever received service from travel agencies in China. The questionnaire was put on the net of "questionnaire star". Three weeks later, 110 questionnaires were filled and among which, 85 completed questionnaires were usable responses, yielding a 77 % effective response rate.

As shown in Table I, the investigated tourists varied greatly in terms of sex, age, educational background and career. Nearly 94.1% of the respondents ranged from 19 to 42 years old.

### B. Survey Instrument

To empirically test the stated hypotheses, a survey instrument was developed. In total 24 questions were included in the questionnaire. The items for measuring the customer's evaluation about service recovery practices from fairness perception and customer satisfaction were adapted mainly from the work of Smith et al (1999) [11]. Each item in the questionnaire was measured using a five-point Likert scale from 1 (strongly disagree) to 5 (strongly agree).

TABLE I. SELECTED CHARACTERISTICS OF THE SAMPLE

Characteristic		Frequency	Percentage
Gender	Female	48	56.5
	Male	37	43.5
Age	<18	2	2.35
	19≤age≤30	72	84.7
	31≤age≤42	8	9.4
	>43	3	3.5
Education	High school	15	17.6
	Undergraduate	66	77.7
	Postgraduate	4	4.7
Career	Student	51	60
	Staff	8	9.4
	others	26	30.6
Total		85	100

B. Validation of the Measures

Reliability and validity of the measures were examined before the conceptual model tested. Firstly, Cronbach’s coefficient alpha was used to measure the scale reliability. As shown in Table II, the coefficients of Cronbach’s alpha of the instruments are all higher than 0.7 (range from 0.784 to 0.894), which indicate an acceptable internal consistency reliability of the measurements in this study [12].

Secondly, since the measurement items were adapted from previous research, which were examined in the existing literature, the scales could be considered to possess content validity. Thirdly, within-scale factor analysis was conducted to test whether each set of items was a valid indicator of the construct. The results are shown in Table II. The factor loadings ranged from 0.723 to 0.923, which well exceeded the generally recommended minimum value of 0.3 and all items in each scale all loaded on a single factor. This suggested that each factor was valid as a construct [13].

TABLE II. SELECTED CHARACTERISTICS OF THE SAMPLE

Variables		Validity of constructs(Factor loadings)	Reliability of construct (Cronbach α)
Distributive Fairness	DF1	0.758	0.801
	DF2	0.871	
	DF3	0.914	

Variables		Validity of constructs(Factor loadings)	Reliability of construct (Cronbach α)
Procedural Fairness	PF1	0.748	0.810
	PF2	0.923	
	PF3	0.881	
Interactional Fairness	IF1	0.682	0.784
	IF2	0.723	
	IF3	0.736	
	IF4	0.764	
	IF5	0.781	
Customer Satisfaction	CS1	0.831	0.894
	CS2	0.912	
	CS3	0.903	
	CS4	0.729	
	CS5	0.803	

IV. RESULTS

A. Spearman Correlation Analysis

Firstly, Spearman correlation analysis was used to identify relationships between each of the fairness elements and customer satisfaction. Table III indicates the Spearman correlation of the three independent variable factors and the dependent variable.

From the results of bivariate correlation analysis presented in Table III, the correlation coefficients between fairness theory variables and customer satisfaction variables ranged from 0.506 to 0.801, which were fairly significant. This proved that there was a significantly positive relationship between fairness elements and customer satisfaction. This provides support to the hypothesis H1, H2 and H3.

TABLE III. SPEARMAN CORRELATION ANALYSIS

	F1: Distributive Fairness	F2: Procedural Fairness	F3: Interactional Fairness
F4 Customer Satisfaction	0.801**	0.506**	0.628**

\*\* Significant at the 0.01 level (2-tailed). \* Significant at the 0.05 level (2-tailed).

*B. Multiple Linear Regression Analysis*

Secondly, a multiple linear regression was conducted using the three fairness constructs as independent variables and customer satisfaction as the dependent variable. This is to examine the role of fairness elements in predicting customer satisfaction. Table IV shows the result of multiple linear regressions. Among the three fairness factors, distributive fairness is the significant predictor of the dependent variable, customer satisfaction with a significant t of 0.000.

TABLE IV. MULTIPLE LINEAR REGRESSION ANALYSIS

Dependant variable: Customer satisfaction			
Multiple R	0.751	Adjusted square	R- 0.547
R-square	0.563	Standard error	0490
Independent variables	Beta	t	Significant t
Distributive Fairness	0.643	5.613	0.000
Procedural Fairness	0.127	1.436	0.155
Interactional Fairness	0.042	0.391	0.697

\*\* Significant at the 0.01 level (2-tailed). \* Significant at the 0.05 level (2-tailed).

Therefore, from the results of regression analysis (Table IV), distributive fairness has significant influence on customer satisfaction with a multiple R-value of 0.751. This result indicates that though the three fairness elements all have significant positive relationship with customer satisfaction, distributive fairness is the most significant predictor for customer satisfaction among the three fairness elements.

V. CONCLUSION

This paper investigated the customer’s perception about service recovery practices based on fairness theory and their influence on customer’s satisfaction in Chinese travel agency context. The current study has proved that customer’s fairness perceptions about service recovery are positively associated with customer satisfaction. In particular, customer’s perception about distributive fairness is the most significant predictor for customer’s satisfaction among the three fairness elements in travel agency context.

The findings will help the travel agency managers to better understand the service recovery process that distributive fairness would be more important than the other

kinds of fairness, including procedural and interactional fairness from customer’s perspective. The managers may try to enhance customer satisfaction by focusing on providing refund, a free gift, a discount or any other kinds of favorable outcome to the customers who has experienced failed service. Therefore, paying attention to the distributive fairness is certainly the most effective mean to improve customers’ appraisal of service recovery.

Overall, the findings in this study highlight the importance of placing a high priority on distributive fairness when providing service recovery to enhance customer satisfaction. This would provide guidance for the China travel agency professionals to improve their service recovery effectively and have more potential for establishing customer satisfaction.

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