PERCEIVED JUSTICE WITH SERVICE RECOVERY, RECOVERY SATISFACTION AND LOYALTY IN AN AIRLINE COMPANY: THE MODERATING ROLE OF FAILURE ATTRIBUTIONS

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PERCEIVED JUSTICE WITH SERVICE RECOVERY, RECOVERY SATISFACTION AND LOYALTY IN AN AIRLINE COMPANY: THE MODERATING ROLE OF FAILURE ATTRIBUTIONS

by

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Dedication

To:

My Father and my Mother

My Love; Roxana

My Brother and Sisters

My Lecturers

ACKNOWLEDGEMENT

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PENERIMAAN KEADILAN DENGAN PEMULIHAN PERKHIDMATAN, KEPUASHATIAN TERHADAP PEMULIHAN DAN KESETIAAN DALAM SYARIKAT PENERBANGAN: PERANAN PENYEDERHANAAN SIFAT KEGAGALAN

ABSTRAK

Kini, pemulihan yang efektif adalah sebahagian daripada program kualiti perkhidmatan firma dan ia penting terhadap penjanaan kepuashatian dan kesetiaan pelanggan. Terdapat beberapa kajian yang kebanyakannya dijalankan di negara Barat, mengkaji impak daripada usaha pemulihan terhadap kepuashatian selepas pemulihan. Namun demikian, kajian yang dijalankan untuk mengkaji sifat kegagalan, impak daripada kestabilan pengguna dan sifat kebolehkawalan kegagalan dalam pelaksanaan program pemulihan yang efektif adalah terhad. Berdasarkan Teori Keadilan, penyelidikan ini dijalankan di Malaysia untuk mengkaji bagaimana penilaian pengguna terhadap usaha pemulihan dipengaruhi oleh sifat kegagalan dan usaha pemulihan perkhidmatan dari segi agihan, prosedur, interaksi dan maklumat keadilan dalam konteks syarikat penerbangan. Dapatan soal selidik berstruktur dari 263 orang responden menunjukkan bahawa terdapat suatu perkaitan yang signifikan di antara penerimaan keadilan dan kepuashatian terhadap pemulihan dan juga kesetiaan dalam agihan dan prosedur keadilan. Kepuashatian terhadap pemulihan didapati memberi kesan pada kesetiaan. Keputusan regresi berhierarki dan inklusi daripada sifat kegagalan sebagai penyederhana atau moderator menemui bahawa perkaitan positif di antara prosedur dan maklumat keadilan dan kepuasan terhadap pemulihan akan lebih tinggi apabila kestabilan dan kebolehkawalan kegagalan adalah rendah. Sebagai kesimpulan kepuashatian terhadap pemulihan mampu menyederhana perkaitan di antara penerimaan keadilan dalam agihan

dan prosedur keadilan dan kesetiaan. Keputusan ini mempunyai implikasi terhadap teori

pemasaran dan tindakan pengurusan.

PERCEIVED JUSTICE WITH SERVICE RECOVERY, RECOVERY SATISFACTION AND LOYALTY IN AN AIRLINE COMPANY: THE MODERATING ROLE OF FAILURE ATTRIBUTIONS

ABSTRACT

It is now well documented that an effective recovery is an essential part of firms' service quality programs and critical to generating satisfaction and loyalty. A number of studies have investigated the impact of recovery efforts on post-recovery satisfaction, mostly in Western countries. However, despite the importance of customer attributions of service failure; the impact of customers' stability and controllability attributions of failure in implementing effective recovery programs is still under study. Based on Justice Theory, this research conducted in Malaysia employed a field study to investigate how customer evaluations of recovery efforts are influenced by interplay of their failure attributions and service recovery efforts of distributive, procedural, interactional and informational justices in the context of airline company. The findings resulted from the structured questionnaire collected among 263 respondents revealed that there is a significant relationship between perceived justice and recovery satisfaction as well as loyalty in distributive and procedural justices. Recovery satisfaction was found to be affecting loyalty. The results of hierarchical regression and inclusion of failure attributions as moderator found that positive relationship between procedural and informational justices and recovery satisfaction will be higher when stability and controllability of failure is low. Finally, recovery satisfaction mediated the relationship between perceived justice in distributive and procedural justices and loyalty. The results have implication for marketing theory as well as managerial action.

Chapter 1

INTRODUCTION

1.1 Background of the Study

It is not important how outstanding services a service organization delivers; they still make mistakes in their path to meeting expectations of their customers who are more demanding and less loyal than before. Bitner (1993) highlighted that because of the nature of services, it is not possible to have 100% error-free services. Even the most customer-focused companies with tightest quality control may not be able to get rid of service failures (Del Río-Lanza, Vázquez-Casielles & Díaz-Martín, 2009). Keaveney (1995) states that service failures are great threats to service organizations that are getting benefit from their long-term clients. Based on Keavaney (1995), service failure and failed recoveries are among the major causes of customer-switching behavior. Service failure can make customers dissatisfied with the service organization which consequently causes spreading a negative word-of-mouth (WOM), switching, complaining to the service provider, or continuing to patronage regardless of dissatisfaction (Kim, Kim, & Kim, 2009). Hence, service recovery, which is critical both for satisfying customers of the firm as well as strengthening its relationships with them, is a moment of truth for the company (Blodgett, Hill, & Tax, 1997; Smith & Bolton, 2002; Siu, Zhang, & Yau, 2013).

Service recovery refers to all kinds of actions that a service company takes in order to respond to a service failure (Gronroos, 1988). Service recovery actions are

strategies practiced by service organization and its staff to re-satisfy the customers after their dissatisfaction caused by service failure (Sparks & McColl-Kennedy, 2001; Siu et al., 2013). The main objective of service recovery efforts is to return the dissatisfied customer into a state of satisfaction by practicing proper strategies to reduce the damage, caused by service failures, to customer relationships (Ha & Jang, 2009; Zemke, 1993).

Service companies cannot leave service recovery aside because of the following reasons. First, service recovery is very important for companies' competitive advantage. Customers of service industry are constantly wooed by competitors; thus, a good service recovery is the source of competitive advantage (Fine, 2008; Casado, Nicolau, & Mas, 2011). Kelley, Hoffman, and Davis (1993) found that service firms can increase their customer retention more than 70% by providing appropriate service recovery after a failure. Furthermore, Maxham (2001) states that appropriate service recovery strategies show the significant role they can play in order to satisfy the existing customers. Therefore, it seems reasonable to propose that the manner in which a firm recovers from service failure could become a source of competitive advantage for the firm in the market. Second, it has been stated in previous literature that it is more costly to acquire a new customer (up to five times) than to keep an existing one. For this reason, service organizations are highly involved in reducing defection rate and consequently raising customer loyalty (Fine, 2008). It has been stated by Reichheld and Sasser (1990) that service companies' profit can boost about 85% when they reduce their customer defection rate by only 5%. Thus, building long-term relationships with customers via effective service recovery is the way of success for service organizations. A study conducted by Clark, Kaminski, and Rink (1992) on customers of different service

industries indicated that 52% of customers, who experienced a service failure and their complaints were not handled by service firm, planned to switch to a competitor. In addition, a study conducted by the United States Office of Consumer Affairs (1986), showed that of customers, who complain to their service provider and are not satisfied with the complaint handling and recovery they have received, only 19% will stay loyal to the service organization. Moreover, Collier (1995) found that customers who encountered a problem or failure with the service firm advised nine to ten persons regarding their negative experience while satisfied customers only advised four or five persons about their positive experience. Finally, Keaveney (1995) found that core service failures and inadequate reactions failures from staffs cover more than 60% of the all switching events. Thus, service recovery is very critical in gaining competitive advantage and keeping existing customers.

Previous literature shows that service recovery is very crucial for building satisfaction and loyalty of the customers. An effective service recovery and failure resolution can either break or enhance customer retention (Chebat & Slusarczyk, 2005). Ok, Back, and Shanklin (2005) states service recovery can greatly affect customers' satisfaction. It is very important as satisfaction with recovery is considerably related to increased customer loyalty (Chang & Chang, 2010), positive word-of-mouth communications (Kim et al., 2009), patronized service provider in the future (Maxham & Netemeyer, 2002a), and superior profitability (DeWitt, Nguyen, & Marshall, 2008). Therefore, service organization's service recovery strategies, customer satisfaction, long-term business, and profitability are connected to each other.

Researchers in service failure and recovery context have used justice theory as the main framework in order to investigate service recovery strategies and clearly understand what a successful service recovery is (McColl- Kennedy & Sparks, 2003). The logic behind this theory is that customer perceptions about the fairness of service recovery strategies affect their satisfaction and future behavioral intentions. Therefore, in an attempt to develop a successful recovery, it is vital for service firms to comprehend the dimensions of justice: distributive, procedural, and interactional (McColl-Kennedy & Sparks, 2003), and informational. Basically, these different dimensions of justice, related to monetary rewards (distributive), policies and procedures (procedural), complaint handling manner (interactional), and explanations (informational), can improve the relationship of firms with customers (Bitner, Booms, & Tetreault, 1990; Mattila & Cranage, 2005).

In this study, justice is viewed from customers' perspective. The reason is that, service failure is a conflict situation (Blodgett et al., 1997); when a failure happens, it is the customer who decides whether a failure has happened or not, because the customer is the one who feels whether his/her expectations are met or not, not the service provider. In this exchange situation, service failure is the customers' economic (for example; money, time) and/or social loss (e.g., status, esteem) (Smith, Bolton, & Wagner, 1999). As a result, customers perceive this economic/social loss as negative injustice and try to respond to this inequity with their post purchase behavior (Lapidus & Pinkerton, 1995). Service organizations try to do recovery by offering economic or monetary value (for example discount) or social resources (like offering an apology) (Smith et al., 1999). Overall, the summary of customers' inputs compared to the outputs they have received

forms the perceived justice which leads to customers' satisfaction or dissatisfaction judgment based on the level of the perception of justice (Andreassen, 2001).

1.2   Problem Statement

Competition in service industry is highly intensive and customers of this industry are always being tempted by competitors. Thus, customer's loyalty and intention to switch are becoming concerns for this kind of organizations. Since it is more costly to acquire a new customer than to keep an existing one, service companies are highly concerned in reducing defection rate and consequently raising customer loyalty (Fine, 2008). However, regardless of the cost, competitiveness, and profitability benefits associated with keeping existing customers, little research has been conducted on the area of service failure recovery and it has been identified as a neglected research area that needs much greater research attention (Johnston & Mehra, 2002; Tax, Brown, & Chandrashekaran, 1998; Andreassen, 1999). Furthermore, Lewis and McCann (2004) and Johnston and Michel (2008) stated that academic research on service failure and recovery is relatively recent and still evolving. Since service failure and unsuccessful complaint handling are among the main causes of customers switching and overall represent around 60 percent of the critical behaviors that led to "brand defects" (Keaveney, 1995) and negative word of mouth (Weun, Beatty, & Jones, 2004), service failures are great threats to service firms getting benefit from their long-term clients. In Keavany's (1995) cross industry study three among eight factors that are influential in customer switching behavior are related to service failures which are core service failure, service encounter failure, and response to service failure. The researcher further found that the largest category of service switching is due to the core service failures

(including mistakes, billing errors, and service catastrophe) followed by the service encounter failures (uncaring, impolite, unresponsiveness, and unknowledgeable attitude). Therefore, conducting more research in the area of service failure as to facilitate the process of providing an excellent and satisfactory recovery is extremely essential to capture and keep the existing customers.

Recent studies on service failure and recovery have studied service recovery from perceived justice perspective; however, in these studies the effects of perceived justice on organizational responses are not clear yet. For example, Kim et al., (2009) states that despite all research advances regarding the area of the effects of perceived justice on post-recovery behavior, there is still room to learn how a service provider's recovery efforts affect customers' satisfaction and subsequent relationships with the company. While, according to Maxham and Netemeyer (2002a), there is a paucity of empirical research regarding the effects of complainants' perceptions of justice on satisfaction and loyalty.

Chebat and Slusarczyk (2005) found that different dimensions of justice (distributive, procedural, and interactional) have a quite different effect on customer loyalty. However, there is lack of literature showing whether the justice dimensions also affect satisfaction with service recovery differently. Maxham and Netemeyer (2002a) analyzed the effects of perceived justice on satisfaction with service recovery, but they did not examine the relative effects of the justice dimensions. They mention that it is necessary to analyze the relative effects of the different dimensions of justice on satisfaction in a service failure and recovery context, as a specific recovery strategy, may

have an important impact on satisfaction (Maxham & Netemeyer, 2002a). In addition, as Kim, Yoo, and Lee, (2012) state although most researchers have recognized that importance of different service recovery strategies on post-recovery attitude and behaviors; however, still several important questions remain unanswered. Moreover, Del Río-Lanza et al. (2009) state that different dimensions of justice do not have the same level of importance in explaining satisfaction and the emotions generated by service recovery. They suggest that there is a need to analyze the dimensions of perceived justice separately rather than in an aggregate form. There is still interest in continuing to explore the relative influence of the dimensions of perceived justice on recovery satisfaction (Del Río-Lanza et al., 2009). Thus, it is important to analyze the dimensions of justice separately and find out which dimension of perceived justice with service recovery has a greater effect on recovery satisfaction. This study intends to address this gap.

Generally, in service failure and recovery studies only three dimensions of justice (distributive, procedural, and interactional) are investigated. In fact, there are only a few recent studies of service failure and recovery that analyze the impact of perceived justice and include informational justice as an independent variable (Mattila, 2006; Mattila & Cranage, 2005). However, Colquitt (2001) compares different models of perceived justice and finds that a four-dimension model is significantly better than the three-dimension model. Therefore, there is a need to include informational justice as a fourth dimension of justice to the service recovery literature. Shugan (2004) calls for more research and extensions of current studies that may provide effective ways for minimizing certain failures during service delivery to the customers.

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McCollough (1992) found that the effect of service recovery on satisfaction is not linear; alternatively, high recovery might not lead to high satisfaction while low recovery might not lead to low satisfaction. Based on this researcher, service recovery satisfaction may not be only associated with service recovery itself, but also the attributes of the service failure. Weun et al. (2004) also proposed that customers' assessment of recovery strategies as well as the effect of recovery strategies on their future relationship with the service firm should not be modeled in a linear fashion. They highlighted the importance of investigating interaction effects when trying to better understand these complex evaluation processes (Wuen et al., 2004, Jones, Mothersbaugh & Beatty, 2000). Del Río-Lanza et al. (2009) recommends considering moderating factors in the relationships between perceived justice with service recovery and satisfaction. Among these variables, they recommend customers attributions of the causes of the problem such as stability and controllability. However, despite the importance of failure attributions, little effort has been made to investigate the role of failure attributions in relation to perceived justice regarding service recovery efforts and recovery satisfaction. Thus, there is a need for research to investigate the moderating role of failure attributions in the relationship between perceived justice and recovery satisfaction.

Although service failure and recovery has been studied in wide range of service industries, it has not been well studied in the hospitality-based industries. According to Becker (2000) and Collie, Sparks, and Bradley (2000), research shows that the application of service recovery and justice theory in tourism and hospitality services is in its infancy stage. In addition, while in recent years there are several studies on service

recovery focusing on the hospitality industry, they have mostly focused on hotels and restaurants (DeWitt et al., 2008; Kim et al., 2009; Sparks & Fredline, 2007; Yuksel, Kilinc, & Yuksel, 2006; Karatepe, 2006). Thus, there is a lack of research on service recovery in the airline industry; Jaensson (2002) mentions that service recovery in the airline industry is a very important and critical phase, though. The study by McCollough, Berry, & Yadav (2000) is perhaps the only study which is looking at the service recovery in the airline industry. However, their study did not consider all dimensions of perceived justice and determine which dimension of justice is a stronger determinant of recovery satisfaction than the others. Besides, their study did not investigate the effects of service recovery and satisfaction with recovery on customer loyalty.

1.3   History of Malaysia Airlines

The origin and history of Malaysia Airlines dates back to the year 1937, where the combined program of the Ocean Steamship Company of Liverpool, the Straits Steamship Company of Singapore, and Imperial Airways resulted in Malayan Airways Limited (MAL) on 12 October. However, the operations did not start until 1947, when the first commercial flight departed from Kuala Lumpur International Airport, connecting Kuala Lumpur with Singapore, Ipoh, and finally Penang in the north. After formation of Malaysia in 1963, the airline was renamed as Malaysian Airlines Limited (MAL). After two years in 1965, the Borneo Airways merged with Malaysian Airlines Limited (MAL). In 1966, both of the Governments of Malaysia and Singapore turned out to be the main shareholders of the airline and resulted in formation of Malaysia-Singapore Airlines (MSA) (Malaysia Airlines, 2010).

However, since these two different shareholders and governments had different needs, the result was the separation of Malaysia-Singapore Airlines (MSA) after six years of operation in 1972, into Malaysian Airline System (MAS) (now Malaysia Airlines), and Singapore Airlines. The government of Singapore and Singapore Airlines had its own policy and chose to expand its international routes, whereas Malaysia Airline System chose to expand its domestic network prior to going international. However, with an official capital of RM100 million, Malaysia Airline System made a last review to its name which resulted in Malaysian Airline System Berhad (MAS) (Malaysia Airlines, 2010).

1.3.1 Expansion

In 1972, Malaysian Airline System (MAS) had flights to thirty four domestic destinations as well as six international routes. An economic boom in Malaysia during the 1980s prompted Malaysia Airlines growth. This caused Malaysia Airlines to have flights into forty seven international routes including eight European routes, seven Oceania routes as well as two destinations in the United States including Los Angeles and Honolulu. Moreover, by 1993, Malaysia Airlines had got to South America, and by that time, it was the one and only in the area having flights to South America including Buenos Aires, Argentina. There was also another flight by Malaysia Airlines to Mexico City between 1994 to 1998 carrying passengers between Mexico City and Los Angeles, en route to Kuala Lumpur (Reference for Business, 2010).

1.3.2 First Unprofitability

Before the Asian Financial Crisis in 1997, Malaysia Airlines experienced losses amounting to RM 260 million after making a record breaking profit of RM 319 million in the financial year 1996/1997. By the year 1999/2000, Malaysia Airlines managed to reduce the losses by almost RM 441 million in the year 1998/1999 reaching a lower amount of losses of RM 259 million. However, Malaysia Airlines again incurred further losses of around RM417 million in year 2000/2001 and RM836 million in year 2001/2002. Due to losses incurred, Malaysia Airlines decided to cut a number of routes that were not making profit, such as Brussels, Darwin, Honolulu, Madrid, Munich and Vancouver. Finally, in the year 2002/2003 Malaysia Airlines managed to recover its losses and made its maximum profit in the year 2003/2004, amounting to RM 461 million (Malaysia Airlines, 2008).

1.3.3 Second Unprofitability

The profit and loss statements of Malaysia Airlines again highlighted a high amount of losses of RM 1.3 billion in year 2005. Although the passenger traffic had a growth of 10.2% in year 2005, but the revenue was increased by only 10% or RM 826.9 million compared to the same period in year 2004. In this period the international passenger revenue improved by 8.4%, whereas cargo revenue decreased by 4.2%, Costs increased by 28.8% amounting to a total of RM 10.3 billion (Malaysia Airlines, 2008).

The Government of Malaysia appointed Idris Jala as the new CEO on 1 December 2005, to execute changes in operations and corporate culture. Under the

leadership of Idris Jala, Malaysia Airlines launched its Business Turnaround Plan in 2006, developed using the Government-linked company (GLC) Transformation Manual as a guide. Idris Jala found three problems with Malaysia Airlines profit and loss statements. The first problem was the very low yield. The fares received by the airline were low and did not cover the cost of running the airline. The second problem was with the airlines very inefficient routes network. According to Idris Jala, the CEO of MAS, there were a number of inefficient routes that were not profitable and did not make any commercial sense, but MAS still was flying in those routes for a long time. The third problem was high costs associated with low productivity and too many people. Based on Idris Jala, in the year that he joined the company, costs rose up by more than 50 percent (Business Turnaround Plan, 2010).

1.3.4 Recovery from Unprofitability

With Idris Jala's management, Malaysia Airlines, together with various initiative and Business Turnaround Plan, recovered from unprofitability and turned losses into profits for the year 2006 and 2007. By end of Business Turnaround Plan (BTP1), Malaysia Airlines, earned a record profit of RM 851 million equals to 265 million dollars in the year 2007, and ended the losses since 2005 (Business News, 2010).

One of the most important initiatives that Malaysia Airlines used to turn its losses into profits was route rationalizing. On the effort of route rationalizing, the airline cut a number of domestic and international routes. For example the domestic routes decreased from 114 to only 22 routes, other international routes like Kuala Lumpur to

Manchester that was not profitable and even costly were cancelled. Besides its route rationalizing, the airline made a rearrangement on its flight timings and the operations model from point to point services to hub and spoke services. Prior to the introduction of the Business Turnaround Plan (BTP1), the airline was flying to 118 domestic destinations as well as 114 international destinations around the world. However, after the introduction of Business Turnaround Plan (BTP1), a number of routes were canceled, having flights to only 88 destinations, as of September 2007 (Business Turnaround Plan, 2010).

More recently, the airline industry has undergone tremendous changes, which calls for an urgency to look into issues such as complaints. A document released by The Federal Aviation Administration in 1999 predicts that passenger demand or customer service will be an increasing important determinant of the growth of large airlines in less than 5 years (Sim, Song, & Killough, 2010). Given the changes, partly due to the inherent economic factors, such as soaring fuel cost, intense competitive pressure from the low-cost carriers and operating performance, there is a need for more research studies to be undertaken on recovery from service failures in the airline industry. Therefore, service recovery is an important aspect of service in a very competitive industry such as airline industry, especially in Malaysia. Based on that, it is very necessary and important for airlines to focus on service recovery in order to keep their current customers and reduce their costs.

1.4   Service Recovery in Airline Industry

Airline industry is one of the industries that is operating under fierce competition and is one of the world's leading industries which has a great effect on tourism, world trade, international business, and economic growth (IATA WATS, 2004). The reasons why airline industry has been chosen for this study are: First, it is a service industry fulfilling the main criteria of inseparability, heterogeneity, intangibility, and perishability and "in the airline industry, the product is the complete air travel experience" (Street, 1994, p. 13). Second, passengers of the airline contact with employees of the company, physical and technical resources, such as the check-in desk, the plane itself, meals and with other passengers etc. all of which may affect the satisfaction or dissatisfaction of the customers. Therefore, when the contact between customer and service provider is very high, the process of service delivery provides a number of occasions in which service failure occurs (Grönroos, 1984). The third reason for choosing airline industry is that service is one of the most competitive elements in the airline industry, because the competitiveness of airline industry has been increased due to the increasing deregulation and a lot of new and low-cost airlines are entering the market (Economist, 1999).

The airline industry is historically low-margin and cyclically unprofitable. Airline profitability in the long run has constantly performed below that of most other industries. Airlines rarely achieve net profits exceeding 2 percent of revenues, but still industry suppliers continue to outperform airlines (Doganis, 2002). In addition, the international air transport industry is inherently vulnerable to fluctuations in the world economy and follows a very cyclical pattern every 7 − 10 years with 4 − 6 years of reasonable profit and 3 − 4 years of little profit or loss (2002) (Wensveen & Leick,

2009). Therefore, recovering from failed services in this competitive industry is very important and crucial.

This study focuses on Malaysia airlines (MAS). As we can see from the MAS financial highlights, profit/loss is not stable and fluctuates in different years. In 2005, when MAS was about to go bankrupt, they hired Idris Jala as the CEO. He found three problems as below: very low yield, very inefficient routes network, and high cost with low productivity and the large number of employees. Because of that Malaysia Airlines developed a 3-year Business Turnaround Plan (BTP1) in order to solve the problem. MAS was successful as it could manage to cut costs in 2005 and 2006 and make profit for 2007. But in 2008 they again incurred loss. Therefore, it is clear that profit/loss fluctuates in different years and still it is not stable.

Table 1.1
Malaysia Airlines Financial Highlights

Year ended/(Quarter Ended)	Revenue (RM '000)	Expenditure (RM '000)	Profit/(Loss) after Tax (RM '000)	Shareholders Fund (RM '000)	EPS after tax (cents)
31 Dec 2002	8,864,385	8,872,391	▲336,531	2,562,841	▲38.7
31 Dec 2003	8,780,820	8,591,157	▲461,143	3,023,984	▼36.8
31 Dec 2004	11,364,309	11,046,764	▼326,07	3,318,732	▼26.0
31 Dec 2005	9,181,338	10,434,634	▼1,251,603	2,009,857	▼100.20
31 Dec 2006	13,489,549	13,841,607	▼133,737	1,873,452	▼10.90
31 Dec 2007	15,288,640	14,460,299	▲852,743	3,934,893	▲58.05
31 Dec 2008	15,570,141	15,229,23459,027	▼271,795	4,119822	▼14.6
31 Dec 2009	11,605,511	12,288,452	▲522,948	699,693	▲25.3
31 Dec 2010	13,585,559	13,485,355	▼237,346	3,524,166	▼7.2
31 Dec 2011	13,901,421	16,485,693	▼ 2,521,325	1,042,508	▼ 75.5

Source: Malaysia Airline System Berhad/Annual Report 2012.

In 2008 MAS developed another 5-year, Business Transformation Plan (BTP2). In BTP2, MAS is focusing on five key areas: improving service standards, lowering costs, competitive fares, getting more customers, more revenue and growing network, and building capacity. According to the chairman of MAS, Tan Sri Dr. Munir Majid, the first step is to provide five star products and services. Malaysia Airlines is totally focused on the customer. It conducts customer surveys, meets focus groups, and does many things to ensure that it is able to deliver what matters to the customers. Malaysia Airlines is constantly improving its services as it has one business philosophy: there is absolutely no compromise on service quality (Air Transport News, June 2010). In addition, Idris Jala, the CEO of MAS, stated that Malaysia Airlines will offer products and services that provide customers with more value compared to those of our competitors. Malaysia Airlines target customers are those who want service excellence and quality and do not make decisions solely on price (Travel Magazine, April 2008). Thus, service recovery becomes an important point for MAS towards it success.

Although MAS is a Government Linked Company (GLC), the ultimate goal of the company is making profit, not focusing on fulfilling social or political obligations. Prior to 2005, when Idris Jala took over the CEO position of MAS, except making profit MAS had other roles like political and social obligations that were a major constraint on making profit. As he said in Business Turnaround Plan (BTP1), poor pricing, rising cost structure, mismatched fleet, weak operational performance, low-intensity performance culture, and social obligations all contribute to dismal financial performance across most routes that Malaysia Airlines fly. It is estimated that about 60% of the routes are not profitable on a fully cost allocated basis (Business Turnaround Plan, 2010). He further

mentioned that political and social obligations present the most overwhelming and significant constraints to our ability to transform the business. What we are doing today is the national interest, but we are not fulfilling our commercial interests. Thus, the decisions that we make should be in line with the airlines profits, not the political favor, not the image, not the latest aircraft and technologies, and not our stature in the international community. We re-focus on our routes, businesses, and activities and will try our best in order to turnaround each part of our business and will discontinue all the activities that do not give our company a value.

In addition, Lau & Tong (2008) found that Government-Linked Companies (GLCs) have put appropriate priority to value creation. They indicated that even though Government Linked Companies interests are divided into numerous goals, these goals are only attained in order not to damage the goal of wealth maximization. This is consistent with the government's aim of cultivating "national champions", where the Malaysian government's priority is economic development. Therefore, if Government Linked Companies are intended to contribute to the economic development of the country, they need to place their role in creating firm value foremost (Lau & Tong, 2008).

1.5   Research Questions

Therefore, from the problem statement above, the following questions arise:

1)   What is the relationship between perceived justice with service recovery and recovery satisfaction?

2)   What is the relationship between recovery satisfaction and customer loyalty?

3) What is the relationship between perceived justice with service recovery and customer loyalty?

4) What is the role of recovery satisfaction in the relationship between perceive justice with service recovery and customers loyalty?

5) What is the role of failure attributions in the relationship between perceived justice with service recovery and recovery satisfaction?

1.6 Research Objectives

The purpose of this study is to explore the relationship between perceived justice with service recovery and recovery satisfaction as well as the relationship between perceived justice with service recovery and customer loyalty. It also aims to explore the relationship between recovery satisfaction and customer loyalty. Additionally, the present study investigates the mediating role of recovery satisfaction in the relationship between perceived justice with service recovery and customers loyalty. Moreover, this study investigates the moderating role of failure attributions in the relationship between perceived justice with service recovery and recovery satisfaction.

In particular the present study aims:

1) To determine the relationship between perceived justice with service recovery dimensions and recovery satisfaction.

2) To determine the relationship between recovery satisfaction and customer loyalty.

3) To determine the relationship between perceived justice with service recovery dimensions and customer loyalty.

4) To investigate whether the recovery satisfaction mediates the relationship between perceived justice with service recovery dimensions and customers loyalty.

5) To investigate whether the failure attributation dimensions moderate the relationship between perceived justice with service recovery and recovery satisfaction.

1.7 Significance of the Study

The significance of the study can be seen from both the theoretical and practical aspects.

1.7.1 Theoretical

Firstly, as previous literature shows, the impact of service recovery on post-failure attitudes and behaviors is not clear yet. Wirtz and Mattila (2004) report a positive relationship between recovery performance and post-recovery satisfaction; whereas, Andreassen (2001) shows that even an excellent recovery may not be enough to restore consumer attitudes and behavioral intentions to a pre-failure level. Goodwin and Ross (1992) assert that secondary satisfaction or satisfaction after complaint resolution might be higher than pre-failure satisfaction level (recovery paradox). Even though works of Andreassen (2001) and McCollough et al. (2000) did not support the existence of a recovery paradox, they supported the importance of recovery in diminishing dissatisfaction. Since the findings of the existing studies, examining the effects of service failure recovery and recovery satisfaction, are not consistent, this study intends to bridge this gap by identifying failure attributions as the moderating variable in the

relationship between service failure recovery and satisfaction with service recovery. The attributions of failure used in this study are stability and controllability. Therefore, this study is different from previous studies in that it emphasizes the role of customers' failure attributions in the relationship between perceived justice with service recovery and recovery satisfaction, while most of the previous studies have only focused on the effects of recovery on satisfaction with service recovery and neglected to examine how failure attributions affect the effectiveness of recovery strategies on recovery satisfaction.

Secondly, so far, work analyzing whether the justice dimensions affect satisfaction with service recovery differently is absent for the literature (Chebat & Slusarczyk, 2005). This is especially true in the airline industry. Therefore, this study makes this contribution by examining the specific effects of different dimensions of justice on recovery satisfaction in the airline industry.

Thirdly, most of the previous studies in the service failure and recovery have only investigated the three dimensions of justice (distributive, procedural and interactional). However, this study also introduces a fourth dimension of justice, informational justice to the service recovery literature.

Finally, hitherto, most service recovery research has been conducted only in Western contexts. Furthermore, most research in consumer behavior relies on theoretical frameworks developed in Western societies (Aaker & Maheswaran, 1997). Few studies have examined service recovery in an Eastern cultural context. Thus, this study intends

to fill this knowledge gap by introducing and adapting the model of justice (fairness) and customer satisfaction with service recovery process to an Eastern context (Malaysia). Thus, this study will add to the collection of literature toward service recovery effort in Malaysia. It will spur the interest of researchers in Malaysia to perform more research on service recovery in the near future.

1.7.2 Practical

From a practical perspective, the study expects to find which of justice perceptions, including distributive, procedural, interactional, and informational are significant antecedents of satisfaction with service recovery in the airline industry. In addition, this study hopes to go a step further to explore how satisfaction with service recovery affects loyalty of the airline customers.

Firstly, from a practical perspective, the findings of this study may be useful to the airline industry managers in order to prevent failure in future and in the case of failure know how to recover it more efficiently in order to achieve the loyalty of the customers. This study also may provide empirical evidence for practitioners to explain which recovery strategy or combination of recovery strategies is most effective in restoring customer satisfaction after a failure and subsequent recovery and loyalty.

Secondly, the results of this study can be applicable to many types of service providers. Service providers can apply these results in developing effective training programs and strong customer relationships. Service providers can train employees to

understand what aspects of perceived justice, the fair distributive treatment, procedural justice or interpersonal communication, and explanations are more important to the firms' customers. If service providers can improve these aspects of service recovery, the customers will be satisfied with service recovery and loyalty increases.

Thirdly, this study may lead to increased profits and sustainability for service providers who employ its findings to refine service delivery. Cost of acquiring a new customer is much higher than that of keeping an existing customer (Fine, 2008), loyal customers tend to contribute to increased revenues (Reichheld, 2003), generate positive word-of-mouth (Gremler & Brown, 1999) and make further purchases (Payne, 2000). Thus, service organizations are highly concerned about reducing defection rate and increasing customer loyalty. Therefore, the results of this study will be useful in keeping the existing loyal customers who will benefit the organization.

Finally, examining failure attributions as a moderator allows scholars and practitioners to understand more about customers in service failure recovery situations, expanding the horizon of customers' perceptions and reactions in those situations. With this understanding, service organizations will be able to develop effective recovery strategies that build and maintain long-term relationships with customers.

1.8   Scope of the Study

The study is limited to Malaysia Airlines Bhd (MAS). Therefore, this research focuses on the relationship between airline passengers' perception of justice with service recovery and loyalty of airline customers in Malaysia. In addition, this study looks into

the mediating effect of recovery satisfaction in the relationship between perceived justice with service recovery and loyalty and also the moderating role of failure attribution in the relationship between perceived justice with service recovery and recovery satisfaction.

1.9   Definition of Key Terms

Term	Definition
Distributive Justice	Distributive justice is the extent to which the final outcome is perceived as fair (Homans, 1961).
Procedural Justice	Procedural justice is the extent to which the policies and procedures used to achieve the final outcome are perceived as fair (Thibaut & Walker 1975).
Interactional Justice	Interactional justice is the extent to which one's personal interactions with firms employees are perceived as fair (Bies & Moag, 1986).
Informational Justice	Perceived adequacy and truthfulness of information explaining the causes for unfavorable outcomes (Colquitt, 2001).
Service Failure	Problems that occur during a consumer's experience with the firm (Maxham, 2001).
Service Recovery	Service recovery is defined as actions and activities that service providers take in response to service defections or failures in service delivery to return "aggrieved customers" to a state of satisfaction (Grönroos, 1988).

Term	Definition
Recovery Satisfaction	The customer's overall affective feeling about the firm as a result of the firm's complaint handling (Davidow, 2000).
Causal Attributions	Causal attributions are a customer's attempt to explain why a particular event has occurred (Heider, 1958).
Stability	Stability refers to the degree to which customers believe that the cause(s) of failures are temporary or enduring (Folkes, 1984).
Controllability	Controllability refers to the degree to which the cause is subject to volitional alteration where the outcome "could have been otherwise" (Weiner, 2000).
Loyalty	Customer loyalty is defined as a "customer's willingness to make an investment or personal sacrifices in order to strengthen the relationship between seller and purchaser" (Reichheld, 2003, p. 49).
Word-of-Mouth	W-O-M is defined as the extent to which a customer informs acquaintance about an event that has created a certain level of satisfaction (Soderlund, 1998).
Repurchase Intentions	Customer's aim to maintain relationship with a particular service provider and make his or her next purchase in the category for this service provider (Jones & Taylor, 2007).