

THE EFFECT OF SERVICE FAILURE AND RECOVERY TOWARD CUSTOMER LOYALTY OF INDIHOME

Muhammad Al Farisa and Ira Fachira
School of Business and Management
Bandung Institute of Technology
Muhammad.al@sbm-itb.ac.id

Abstract. Nowadays internet is one of the most important necessities in human life. PT Telkom Indonesia comes with indiHome product as the answer of the challenge of this globalization era. indiHome which come with a package of internet, IPTV, and fixed phone succeed to get big number of subscriber, but eventually the reputation of its quality is generates some bad reviews due to the numbers of service failure happened. This research is aimed to assess the effect of service failure happened, and also its recovery by PT Telkom toward the loyalty level of indiHome customer specifically in Bandung area. The data for this research are gathered using questionnaire, and analysed statistically with difference test method. In this research the customer of indiHome are divided into six different groups based on the experience of service failure and recovery which will affect the loyalty. The customer groups are A, customers who never experience service failure, B who have experience service failure which divided into B.1 who get the problem solved, and B.2 who get the problem unsolved. Group B.1 is divided again into B.1.1 who get the outstanding recovery, B.1.2 who get the fair recovery, and B.1.3 who get recovery which is lower than what have been expected. The result shows that each group has different level of loyalty. The group of customer who has ever experience service failure and got the outstanding recovery shows the highest score of loyalty level, even exceeding the group of customer who never experience service failure at all. This result of research would contribute to give the recommendation to companies in service industry especially PT Telkom, to put a big concern in designing an outstanding recovery program, and for the academic and research practitioners to take this research for the future researches related.

Keywords: Service Failure, Service Recovery, Customer Loyalty, indiHome

Introduction

Nowadays in this modern age, where the technology comes in real pace development and innovation, people has a very wide and simple access to get what they want. Internet as one of the most important innovation in this digital era, turns into a necessity of everyone. Looking into this situation, PT Telkom as the main telecommunication provider in Indonesia realizes an opportunity to fulfill the need of internet in this country. The plan then turns into a realization in form of service product of indiHome, which consisted of internet, IPTV named UseeTV, and fixed phone. Even though indiHome directly get a big number of subscribers around Indonesia, the condition do not guarantee the reputation of indiHome. Some technical problems that happened to many users generate questions toward the quality of indiHome. The errors which occur or could be classified as 'service failure' certainly will stimulate some certain attitudes from IndiHome subscribers. Some research regarding to the service failure situation have been conducted and taken as the base of further research about it. Due to the finding of preceding researches, it is shown that service failure and company's effort to cover up the failure, or service recovery have significant influence in determining the level of customer loyalty, which is shaped before and after experiencing service failure and recovery (Sousa and Voss, 2007).

As also could be found in indiHome, the service failure of indiHome can affect customer loyalty toward indiHome. Throughout this research, the effect of service failure of indiHome toward loyalty level of customer will be determined, as well as the further step of this research will identify in which level service recovery will minimize bad effect of service failure toward customer loyalty. Customer's attitude in facing failure and how PT Telkom do recovery to solve the problem may also determine the further substance which is the loyalty level. Outstanding recovery potentially will stimulate higher level of loyalty compared to other situation experienced. Since the differences of experience in using indiHome among subscribers may shape the different loyalty level too, this research will assess customer's loyalty level toward indiHome product as the reaction toward service failure and recovery experienced.

Literature review

Service Marketing

service is economic activities which in the transaction one party giving an intangible value from deeds, processes, performances, experiences, information as the return of money (Lovelock and Wirtz, 2011) (Gremler, Zeithaml, and Bitner, 2006). The service product characteristic, which mainly is intangible, has differences with tangible products. To know better about service product, the explanation about marketing mix which had been specialized for service product will be elaborated below.

Service Marketing Mix

Service marketing mix is defined as the variables that company can control and coordinate to satisfy its target market (McCarthy and Perreault, 1987).

For product, IndiHome has three core products which are fix line phone, internet, and also IPTV named UseeTV. Place, PT Telkom Indonesia takes place of its service encounter at 'Plasa Telkom' which spread around Bandung. Promotion is done through some programs. First is advertisement that they set through printed and electronic media. For printed media PT Telkom uses billboard, banners, printed cars, and pamphlet that they spread in malls and other points of interest. Price of IndiHome has set the pricing strategy to be suitable with different type of subscribers with their own preference. Physical evidence that available might be seen from the installed equipment that support IndiHome product. Process are Steps which is passed in a set of IndiHome subscription process and complaining process. People are some human actors that able to be spotted on are the Telkom employees which act as the back office part in the operational of IndiHome; they do not have direct interaction with customers and their concern is more to the technical business strategy of IndiHome, there are also customer service in Plasa Telkom, and technicians.

Service Quality

Service quality is defined as the ability of company to meet customer expectations or even exceed it (Gremler, et al., 1988). In the study of service quality, customer expectation and also perception takes important role that determined it. Below is the explanation of customer expectation and perception which is also specified for indiHome, and the following relation toward service failure.

Customer Expectation vs Customer Perception

Before deciding to subscribe indiHome service, the prospect customer will make their own expectation of indiHome. Further, the customer perception is important to be in line with customer expectation. Due to the customers that will compare perceptions with expectations when judging a firm's service, understanding customer expectations is a prerequisite for delivering superior service (Parasuraman, et al., 1991).

Service Failure

Service failure can be defined as the real or perceived breakdown of the service in terms of either outcome or process (Duffy et al., 2006). Basically service failure will happen when customer's

perception does not meet with what has been expected (Johnston, 2005). Mostly the failures start to appear after the first month of using indiHome. The biggest portion of problems that happened are related to the internet service, followed by complaints about useeTV service, and fixed phone problem.

Service Recovery

Service recovery is an attempt by company, as the continuance of failure that happened during a service delivery to its customer. Service recovery could be described as an organization’s response toward poor quality service (Gronroos, 1988). The service recovery which performed by PT Telkom toward indiHome’s failures so far still do not looked good enough. Some reviews by disappointed subscribers of indiHome told that the recovery process still get too long and tend to show some miscommunication among the parts in PT Telkom. (Lapornet, 2015).

Customer Loyalty

In the relation of customer loyalty with service failure and recovery, some preceding studies shows that service failure and recovery give decent effects toward customer loyalty in different levels. Specifically, understanding the impact of service failure and its recovery on customer loyalty has important implications for the design of the service delivery and recovery systems (Miller et al., 2000). Hence the customer loyalty toward indiHome service product may be seen from two main aspects, which are:

Intention to keep subscribing IndiHome service.

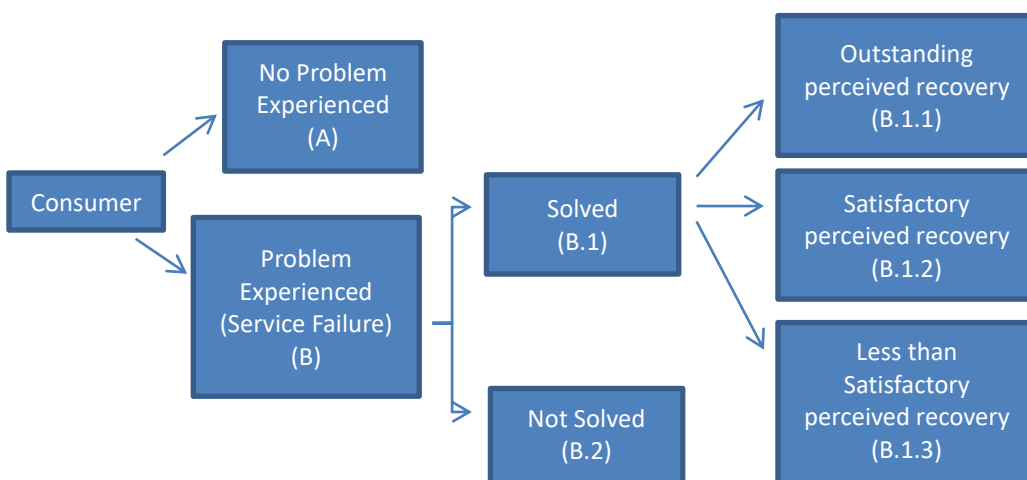
Word of mouth recommendation.

Recovery Paradox

Recovery paradox theory explains the condition where the recovery attempt which follows the service failure, gives a paradox that stimulates customer retention and positively impact the loyalty level (Krishna et al, 2014). Following the theory of service recovery paradox, the implementation toward indiHome could be in form of the condition where loyalty of subscriber will increase along with the outstanding recovery given by PT Telkom. The subscribers of indiHome which has been explained before, at the beginning will naturally feel disappointed with the failure occurred. At this point some reaction may lead to decreasing level of loyalty toward indiHome.

Conceptual Framework

This research will adopt framework used by preceding research by Sousa and Voss (2007) which assessing the effect of service failure and recovery toward six different groups of customer which differs in service failure and recovery experience.



Hypothesis:

H1 : Loyalty behaviour of those who never experience service failure (group A) will be higher than those who have ever experience service failure except for those who experience outstanding

recovery (group B.2, B.1.2 and B.1.3)

H₂ : Loyalty behaviour of those who experience service failure and get the problem solved (group B.1) will be higher than those who experience service failure but does not get the problem solved (group B.2)

H₃ : Loyalty behaviour of those who experience outstanding recovery (group B.1.1) and those who experience recovery as what they expected (group B.1.2) will be higher than those who experience recovery lower than what they expected (group B.1.3)

H_{4a} : Loyalty behaviour of those who experience outstanding recovery (group B.1.1) will be higher than those who never experience any service failure (group A)

H_{4b} : Loyalty behaviour of those who experience recovery as what they expected (group B.1.2) will show the lower level of loyalty behaviour as those who never experience any service failure (group A)

Methodology

Research Design

The research is conducted with a systematic order described in this research design. First thing that researcher need to do is to identify the problem, and decide the research question as the output.

Survey Design

This study is conducting quantitative research, which defined as the way of explaining phenomena by collecting numerical data that are analysed using mathematically based method in particular statistics (Aliaga and Gunderson, 2003). In this research, there are some variables that will be used by the researchers to find the answer of research question. Adopting to the preceding research of service failure and recovery done by Sousa and Voss (2007), there are three variables used to analyze the questions and each variable has sub-variable and indicator for further in depth analysis. The variables are service failure, service recovery, and customer loyalty.

Data Collection

The data collection in this study is gathered by questionnaire in Bahasa Indonesia, which distributed online to people who subscribes IndiHome in Bandung area. The data was collected during July 2016 while the research is conducted

Sampling Technique

This research will take data from survey which done to the sample as the representative group of population. To obtain a sample that which able to describe population, the determination of research sample is using Slovin Theory of sampling method. Based on calculation using Slovin formula above, from the official data population of indiHome subscribers in Bandung area by PT Telkom (2016) that has total 5.698 subscribers with margin of error desired 10%, the number of sample that would be needed for this research are 100 respondents.

Reliability and Validity

The validity test used to test that the respondents and research measurement tools are appropriate with research purpose. The reliability is valued on Cronbach Alpha – score, which will be reliable when the score is greater than 0.6. In validity test, the research using three types of validity, which are construct, content and criterion validity.

Data Analysis Technique

The data analysis process of this research will perform the method that has been tested in preceding study by Sousa and Voss (2007). The process comprised two different stages. Those two stages are first measurement analysis of loyalty construct, and second hypothesis testing. For the measurement analysis is also comprised three stages. First stage of measurement analysis is assessing uni-dimensionality of loyalty construct. This stage will be done using factor analysis on loyalty elements. Second stage of measurement analysis of loyalty construct is by test the reliability of the construct. This test is only aimed for the loyalty construct, and different with the reliability test for the research. The third stage of this measurement analysis of loyalty construct is the validity

test. Here will be tested the convergent validity by computing item-to-total correlations. The result got from this measurement analysis stage will show the uni-dimensionality, reliability and convergent validity of the loyalty construct. To test the hypotheses, the ANOVA will be applied to loyalty scores of five partitions of the sample: Groups A, B.2, B.1.1, B.1.2, B.1.3, this analysis strategy can be seen as equivalent to considering that each of these mutually exclusive groups has experienced a different SFR treatment.

Conclusion and Recommendation

On this last part of the research, a conclusion will be taken from data that has been gathered and analysed. Data result will be summarized that way the research question of this project will be discovered and further the researcher will give recommendation for IndiHome service product. The answer of research question will be concluded and the hypothesis made in this research will be proved whether it is valid or not

Data collection and analysis

Validity and Reliability Test

For validity, the result as a single factor of loyalty construct has an eigenvalues 1,877 which is higher than 1. According to the Kaiser-Gutmann rule, which is also adopted in Sousa and Voss’ research (2007), this suggests a uni-dimensional latent construct (Brown, 2006). For reliability, the reliability score result is 0,608 and based on Guilford and Michael (1950) it passed the standard coefficient (0,6), so the data in this research is reliable.

Difference Test Result

Indicator	Customer Group	Counted Z	p-value (sig)	Result	Conclusion
Have you ever experience a problem in your indiHome product?	Never experiencing problem (Group A)	-2,734	0,006	Ho rejected	Difference Approved
	Experiencing problem (Group B)				
Does the problem solved by PT Telkom?	Unsolved (B.2)	-2,977	0,003	Ho rejected	Difference Approved
	Solved (B.1)				
I feel satisfied with the recovery given by PT Telkom towards the failure on my indiHome	Outstanding Recovery	29,729	0,000*	Ho rejected	Difference Approved
	Fair Recovery				
	Lower than expectation recovery				
I feel satisfied with the recovery given by PT Telkom towards the failure on my indiHome	Outstanding Recovery	-4,019	0,000	Ho rejected	Difference Approved
	Fair Recovery				
I feel satisfied with the recovery given by PT Telkom towards the failure on my indiHome	Outstanding Recovery	-4,576	0,000	Ho rejected	Difference Approved
	Lower than expectation recovery				
I feel satisfied with the recovery given by PT Telkom towards the failure on my indiHome	Fair Recovery	-3,397	0,001	Ho rejected	Difference Approved
	Lower than expectation recovery				

Those data analysis and hypotheses testing result are in-line with the preceding research of the effect of service failure and recovery toward customer loyalty by Sousa and Voss (2007) toward e-banking service in Portugal. All of the hypotheses were tested and proved, indicating the theory which being assessed in this research also proved in different industry.

Conclusion and Recommendation

Conclusion

All hypotheses set were supported, it is proved that service failure and recovery gives a significant difference toward perception of customer regarding the loyalty to indiHome product

Recommendation

For PT Telkom, this research may be seen as the reference where the research result shows the significant differences of customer loyalty level between customers. toward companies especially which run in service industry, since the result shows service failure will give a negative impact toward customer loyalty, the big concern may be put in the delivery of service so it will not perform any failure in customers hand. for the academic and research practitioners, this research may be taken as reference, which also substantiates the preceding research about service failure and recovery, specifically to its effect toward customer loyalty.

References

- Andreassen, T. (2001), "From disgust to delight: do customers hold a grudge?", *Journal of Service Research*, Vol. 4 No. 1, pp. 39-49.
- Berry, L.L., Parasuraman, A. and Zeithaml, V.A. (1988) 'The service-quality puzzle', *Business Horizons*, 31(5), pp. 35-43
- Bitner, M.J. (1990) 'Evaluating service encounters: The effects of physical surroundings and employee responses', *Journal of Marketing*, 54(2), p. 69.
- Brown, W.L. (2006) 'Why John Brown matters', *American Book Review*, 27(3), pp. 26-27
- Day, George S. 1969. "A Two-Dimensional Concept of Brand Loyalty." *Journal of Advertising Research* 9 (September): 29-35
- Duffy, J., Miller, J. and Bexley, J. (2006), "Banking customers' varied reactions to service recovery strategies", *The International Journal of Bank Marketing*, Vol. 24 No. 2, pp. 112-32.
- Ferketich, S. (1991) 'Focus on psychometrics. Aspects of item analysis', *Research in Nursing & Health*, 14(2), pp. 165-168.
- Guilford, J.P. and Michael, W.B. (1950) 'Changes in common-factor loadings as tests are altered homogeneously in length', *Psychometrika*, 15(3), pp. 237-249.
- Gronroos, C. (1988), "Service quality: the six criteria of good perceived service quality", *Review of Business*, Winter, Vol. 9, pp. 10-13.
- Hart C.W.L., Heskett J.L. and Sasser W.E.J. (1990) "The Profitable Art of Service Recovery", *Harvard Business Review*, Vol 68 No July-August, pp. 148-156
- John OP, Soto CJ. The importance of being valid: Reliability and the process of construct validation. In: Robins RW, Fraley RC, Krueger RF, editors. *Handbook of research methods in personality psychology*. Guilford; New York: 2007. pp. 461-494
- Johnston, R. (2005), "Service operations management: from the roots up", *International Journal of Operations & Production Management*, Vol. 25 No. 12, pp. 1298-308.
- Johnston, R., Fern, A., 1999. Service recovery strategies for single and double deviation scenarios. *The Service Industries Journal* 19, 69-82
- Keaveney, Susan M. (1995), "Customer Switching Behavior in Service Industries: An Exploratory Study," *Journal of Marketing*, 59 (April), pp.71-82.
- Krishna, A., Dangayach, G. and Sharma, S. (2014). Service Recovery Paradox: The Success Parameters. *Global Business Review*, 15(2), pp.263-277.

- Lovelock, C., and Wirtz, J. (2011). *Services Marketing*. New York: Pearson. McCarthy, E. J., and Perreault, W. D. (1987). *Basic Marketing*. New York: McGraw-Hill Higher Education.
- Matos, C., Henrique, J. and Rossi, C. (2007), "Service recovery paradox: a meta-analysis", *Journal of Service Research*, Vol. 10 No. 1, pp. 60-77.
- McCullough, M., Berry, L. and Yadav, M. (2000), "An empirical investigation of customer satisfaction after service failure and recovery", *Journal of Service Research*, Vol. 3 No. 2, pp. 121-37.
- Miller, J., Craighead, C. and Karwan, K. (2000), "Service recovery: a framework and empirical investigation", *Journal of Operations Management*, Vol. 18 No. 4, pp. 387-400.
- Nunnally JC, Bernstein I. (1994) *Psychometric theory*. 3rd ed. McGraw-Hill; New York.
- Oliver, R. (1999), "Whence consumer loyalty?", *Journal of Marketing*, Vol. 63 No. 4, pp. 33-44.
- Oliver, R.L. and Swan, J.E. (1989) 'Consumer perceptions of interpersonal equity and satisfaction in transactions: A field survey approach', *Journal of Marketing*, 53(2), p. 21.
- Ok, C., Back, K. and Shanklin, C. (2007), "Mixed findings on the service recovery paradox: an illustration from an experimental study", *The Service Industries Journal*, Vol. 27 No. 6, pp. 671-86.
- Parasuraman, A., Berry, L.L. and Zeithaml, V.A. (1991) 'More on improving service quality measurement', *Journal of Retailing*, 69(1), pp. 140-147.
- SearchTelecom. (2010, November). *IPTV definition*. Retrieved June 2016, from SearchTelecom: <http://searchtelecom.techtarget.com/definition/IPTV>
- Sousa, R. and Voss, C. (2007) 'The impacts of e-service quality on customer behaviour in multi-channel e-services', *Total Quality Management and Business Excellence*, 23(7-8), pp. 789-806
- Sugiyono. (2007). 'Metode Penelitian Administrasi.', Alfabeta, Bandung.
- Shostack, G.L. (1977) 'Breaking free from product marketing', *Journal of Marketing*, 41(2), p. 73
- Spreng R.A., Harrell G.D. and Mackoy R.D. (1995) "Service Recovery: Impact on Satisfaction and Intentions", *Journal of Services Marketing*, Vol 9 No 1, pp. 15-23
- Zeithaml, V.A., Bitner, M.J. and Gremler, D.D. (2006) *Services marketing: Integrating customer focus across the firm*. 5th edn. Boston: McGraw Hill Higher Education.
- Zeithaml, V.A., Rust, R.T. and Lemon, K.N. (2001) 'The customer pyramid: Creating and serving profitable customers', *California Management Review*, 43(4), pp. 118-142.