

Retaining Customer Loyalty through Implementation of Recovery Strategies in the Food and Beverage Industry – A Case Study of a Fine Dining Restaurant in Jakarta

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Excellence is the absolute prerequisite in fine dining because the prices charged are necessarily high. Therefore, service error/service failure occurrence in dining operations tend to be avoided. However, a report states that 60% of restaurants fail within the first three years of their operation, and it was identified that service failure within the process was among the root causes. Therefore, to avoid customer dissatisfaction within an establishment, the implementation of a service recovery action is crucial to move customer dissatisfaction to satisfaction. The purpose of this research is to explore the correlation between service and customer loyalty as well as to explore ways or strategies in service recovery implementation that would effectively influence customer loyalty. The research findings reveal that slow/unavailable service, placement of incorrect orders, and product quality were identified as the most commonly occurring issue in service failure. At the same time, apologies, item replacement, and management intercession were the most popular recovery strategies leading to customer loyalty intention. The results of this study indicate that the recovery strategy has an impact of 42% on customer loyalty intention.

Key words: *Service Failure, Recovery Strategy, Justice, Customer Loyalty.*

Introduction

The number of restaurant failures has been considered by hospitality academics and practitioners in the past (Hjalager, 2000; Luo & Stark, 2014; Muller & Woods, 1991; Olsen et al., 1983). Parsa et al. (2005) emphasized that 60% of restaurant fails within the first three

years of their operation, and one of the major problems identified was service failure. The occurrence of a service failure within the industry cannot be fully avoided, as Murphy's Law goes "if anything can go wrong, it will" (Halpern, 2005; Lacey, 2012).

From the information provided by the Marketing Manager of Restaurant X, Ms. Ida Ayu Linda, some cases appeared in the previous year which substantiate that Restaurant X has encountered issues in the employee performance sector, specifically service failure within their operations. However, as Restaurant X is a fine dining restaurant, Arrows & Powers (2009) argue that "excellence is an absolute prerequisite in fine dining operations because the prices charged to the customers are necessarily high." The service industry heavily relies on their workforce and they require direct interaction with the customers, as such, various unexpected challenges and errors might occur as the workforces can face different and unknown people and situations (Lacey, 2012; Pasamehmetoglu et al., 2017; Solent & Hood, 2008). Furthermore, it was suggested that service recovery action is crucial to transform customers' dissatisfaction into satisfaction, as well as to retain existing customers (Bell et al., 2005; Gronroos, 2001; Miller et al., 2000). The result of recovery strategies, whether positive or negative, has a significant impact on how the company is perceived by customers (Cranage, 2001; Lewis & MacCaan, 2004). Keaveney (1995) then supplemented that if organizations do not adopt recovery strategies within their operation, this can lead to customers switching over to another service provider. On the other hand, a successful recovery strategy might result in the re-purchase intention and positive word-of-mouth intention of existing customers (Nwokorie, 2016; Singh, 2017).

Literature Review

Service Failure

Service failure is defined as a failure in meeting customer satisfaction. In the service industry, customer satisfaction is essential for every customer and has been one of the determinants of company success. The industry relies on its workforce, which involves direct interaction between employees and customer, as such smooth customer service cannot always be delivered as intended (Solent & Hood, 2008). "Employees in the hospitality industry confront various challenges and are likely to make errors when facing different people and different situations, even though most people and organizations prefer avoiding error occurrence" (Pasamehmetoglu et al., 2017). Lacey (2012) supplemented that the occurrence of service error/failure within the service industry is very unlikely to be avoided. Moreover, Silber et al. (2009) provided that service failure is classified into three segments: service system failure, failure in meeting customer's requests, and spontaneous employee action.

Recovery Strategy

Service recovery is the actions taken by an organization in response to a service failure so as to change the customer's dissatisfaction to satisfaction and ultimately retain the customer (Bell et al., 2005; Gronroos, 2001; Miller et al., 2000). As mentioned earlier, the occurrence of service error within the service industry is unlikely to be avoided, therefore, it is a priority to mitigate customer dissatisfaction within an establishment after service error occurrence. The implementation of service recovery action is crucial to transform the dissatisfaction of the customers into satisfaction, with the ultimate intention being the retention of existing customers (Bell et al., 2005; Miller et al., 2000; Gronroos, 2001). Similarly, Harrison-Walker (2018) stated that recovery strategies aim to rejuvenate customer satisfaction following the service error occurrence.

Studies have shown that the result of the recovery strategies, whether positive or negative, have a significant impact on how a company is perceived by the customer (Cranage, 2001; Lewis & MacCaan, 2004). Ineffective recovery strategies executed by an establishment may result in the customer shifting to a competitor and circulating negative word-of-mouth, which might then lead to losing existing and future customers (East & Sinclair, 2000). On the other hand, Gustafsson & Johnson (2004) suggested that an active service recovery could result in a win-win situation for both the customer and the organization. Furthermore, Nwokorie (2016) provided that a successful recovery strategy does influence the final result of the customer's overall satisfaction, which contains the re-visit intention and word-of-mouth intention of the existing customer.

Justice

Smith et al. (1999) mentioned that the dimensions of fairness explained 60% of customer recovery satisfaction in hotels and restaurants. Justice theory consists of a three-structural aspect: "procedural justice, distributional justice, and interactional justice" (Maxham & Netemayer, 2002). Procedural justice could be perceived as an ethical consideration, measured from the procedure and policies being carried out throughout the recovery resolution. On the other hand, distributive justice is defined as an ethical consideration, where the product user focuses on the role of fairness between the input and outcome of the matter, which will result in the final decision of their perceived recovery resolution result. The last dimension, interactional justice, is identified as an ethical consideration in which the customer experiences a fair treatment from the service provider as a result of personal engagement being delivered by the employees to the customer throughout the process. The idea of justice itself can be described as fairness, based on what the customer thinks they deserve compared to the response they get (Oliver, 1997).

Customer Loyalty

Customer Loyalty is a factor that significantly affects success in the hospitality businesses (Kumari & Patyal, 2017). According to Stone et al. (2000), customer loyalty is a physical and emotional commitment given by the customers for their needs to be met. Logiawan & Subagio (2014) further define a loyal customer as one who is constantly repeat purchasing within the same brand.

Satisfied customers are more likely to re-purchase services from the same company. Thus, they are more likely to become loyal or returning customers for the same brand or company, which creates an opportunity for the company to secure a stable consumer base. Singh (2017) provided that besides the re-purchase intention, a loyal customer would also have more intention to circulate positive word-of-mouth within their community. According to Fornell (1992), re-purchase intention refers to "the likelihood of using a service provider again in the future." On the other hand, Singh (2017) defines word-of-mouth intention as "an exchange, flow of information, communication, or conversation between two individuals." Moreover, an increase in the loyal customers of a company might simultaneously improve the company's brand image and attract more potential customers.

Research Model

The research model proposed in this research is presented in Figure 1.

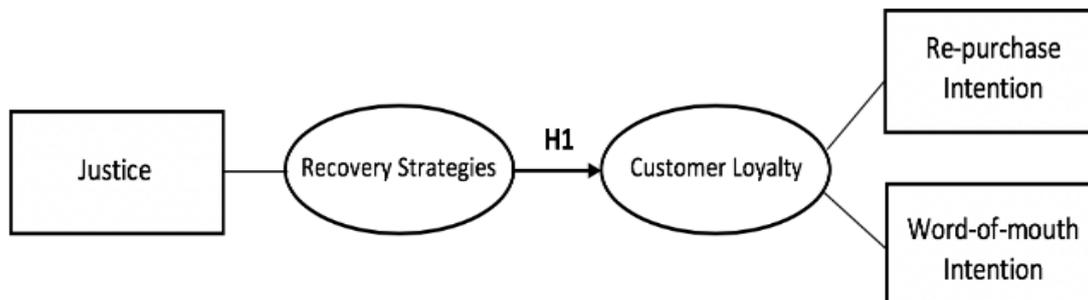


Figure 1: Research Model (Author, 2019)

Research Method

Population and Sampling

As the population on this research is extremely excessive yet indistinct, the author decided to adopt Rao Purba's sampling formula. By taking Rao Purba's method with a 95% level of confidence and the maximum inaccuracy verge of 10%, it can be ascertained that the minimum number of respondents that the author should acquire is 96. Therefore, the author

has decided to obtain 150 respondents to enhance the reliability and validity outcomes of the research.

Pre-test

To ensure that the questions are understandable, they should be tested in advance. The purpose of pre-testing is to ensure that the problems that would be put to the respondent are understandable as this can guarantee the validity of the overall results obtained. Therefore, the author decided to perform a pre-test on 30 respondents before proceeding to the actual questionnaire.

Validity Test

According to (Shadish et al., 2002), the term validity refers to the approximate truth of an inference. However, Silverman (2010), provided that validity is inference on how accurate the data is in signifying the actual condition. Validity refers to how reliable a data collection instrument can be in terms of measuring the research.

Reliability Test

According to Heale & Twycross (2015), Cronbach's Alpha is one of the most used tests to measure the steadiness of the data. Corbin & Strauss (2008) defined reliability as the ability of a data collection instrument to yield the same results when used in a similar setting. Golafshani (2003), stated that to attain the expected result, the number of respondents needs to meet the minimum amount of the sampling size.

Classical Assumption Test

The traditional assumption test is utilized to ensure that the respondent's profile is suitable for the focus study that the researcher is conducting. Poole & O'Farrell (1970) stated that the usage of the classical assumption test is to support the utilization of regression within the study, and the primary purpose is "to decrease the error occurred between the observed and predicted values for the dependent variable." The standard assumption tests itself consist of: normality, heteroscedasticity, multicollinearity, autocorrelation, and linearity tests. It was decided that the standard assumption tests that will be implemented in this study are the normality and heteroscedasticity tests.

Normality Test

To ensure that the residual value is frequently distributed throughout the data, a normality test is performed (Ainiyah et al., 2016). Normally distributed data would make the regression

model adequate (Kurniawan, 2014). However, it is highly notable that the normality test is only performed to the residual value of the data, not the variables.

Heteroscedasticity Test

The idea of a heteroscedasticity test is to identify whether or not the data has a significant difference in residual variance within the determinant (Ainiyah et al., 2016). Heteroscedasticity occurs when the difference in data obtained is fluctuating. This test could be measured by using a level of significance. This test could be observed using considerable value as the boundary.

Single Linear Regression

Single regression or a single linear regression is aimed at determining whether the relationship or impact among the independent variable, and the dependent variables is likely or unlikely (Levine & Stephan, 2005). The difference of single regression with the other is that in single regression, it merely foresees one predictor variable.

Hypothesis Test

The purpose of the hypothesis testing is to complete a statistical test that is designed to ascertain the correlation among the X variable and Y variable. Hypothesis tests could be determined by using the T-test and F-test.

T-test

The purpose of the T-test is to analyse the impact of the independent variable on the dependent variable. It is used to identify the correlation between independent variables on the dependent variable (Levine & Stephan, 2005). When the results show that Result $<$ T-table at an alpha significance level, it means that the H₀ is accepted. Contrarily, it could also be inferred that there is no significant impact between the independent variable and the dependent variable (Cooper & Schindler, 2013).

F-test

The primary purpose of this test is to determine the impact of the independent variable on the dependent variable. The results will be compared to the probable value that could be seen in the F-ratio tables to indicate whether or not the hypothesis would be accepted. The measurement would be as following: If the F result $<$ F-table at an alpha significance level, it means that the H₀ is approved, and if it is the other way around, it means that the hypothesis is not allowed (Cooper & Schindler, 2013).

Result and Discussion

Company Profile

Restaurant X is a fine dining restaurant situated in the Sudirman Central Business District (SCBD) area. The restaurant was opened in September 2010. The restaurant operated daily from Monday-Sunday, including a public holidays.

The daily operational hours for the restaurant are divided into two blocks: lunchtime (11:30-14:30) and dinner time (18:00-23:00). However, the restaurant is only open for lunch on weekdays. The seating capacity of the restaurant is 70-80 persons.

Restaurant X offers an extensive choice of fine French cuisine along with premium choices of wine. The menu provided in the restaurant includes ala-carte, a set-menu, and a chef's choice menu. The restaurant, which is led by Chef Gilles Marx, indulges their customers with outstanding service in addition to the food and beverage quality. The restaurant has a warm ambiance with a modern and elegant interior, inspired by the romanticism of the Eiffel tower, making it perfect to be a place to dine in with your loved ones (Calesta, 2019).

The uniqueness of the restaurant is that they offer a seasonal menu which is rejuvenated every three months and is based on the annual harvest of world wide markets. As a result, the restaurant was named as the restaurant of the year in the first quarter of 2019 by Jakarta's Best Eats Awards in the Fine Dining Restaurant Category.

Discussion and Findings

The result from the statistical tests completed in IBM SPSS were obtained after going through several processes. The result from the f-test and t-test show that the hypothesis that is being accepted in this study is H1, where it is found that recovery strategies do affect customer loyalty intention in excellent dining restaurant operations. Correspondingly, the R-test results reveal that the recovery strategies variable predicts 46% of customer loyalty intention in the fine dining restaurant. The results disclose that the two predictors show a strong and positive correlation within the independent and dependent variable with a significant value of 0.7. However, from this section, it could be seen that successful service recovery within an excellent dining operation is crucial in retaining customer loyalty intention.

The results also expose the sectors in which service failure is most likely to occur. It was found that most of the service failure experience encountered was categorised as slow/unavailable service, which is a combination of slow service and the inattentive service of the employee, especially when needed by the customers (55 responses). Incorrect



food/beverage orders were the second most common problems within the operation with 49 responses, followed by product quality, with 43 responses.

The result also shows that fine dining restaurant customers are dominated by individuals in their early 20's. It could be perceived that those in this age range tend to treat themselves after their stressful daily routine. The results indicates that 51% of the responses came student who held a bachelor's degree. In contrast, the monthly income of the respondents was varied with most between the range of IDR 3,000,001 – 5,000,000, which is relatively high monthly income for a student.

From the findings, it can be concluded that even though service error within the service industry is unavoidable, a good implementation of service recovery will determine how the reputation of the company is perceived by the customer (Cranage, 2001; Lewis & MacCaan 2004). Thus, as the result of successful recovery strategy implementation, this study answers the speculation on whether the implementation of recovery strategies has an impact on customer loyalty intention by disclosing that there is a 46% impact on the presence of recovery strategies within an establishment towards customer loyalty.

Conclusion

Several dimensions of recovery strategies and customer loyalty are measured throughout the research. The independent variable, "procedural justice, interactional justice, and distributional justice" was measured, while the dependent variable, "re-visit intention and word-of-mouth intention" was measured. The result of the tests show that distributive justice has an impact of 27% towards customer loyalty, followed by interactional justice with 22% and procedural justice with 19%. Hence, the evaluation from the result indicates that the recovery strategy has an impact of 42% on customer loyalty intention.

The result from the tests disclose that the proposed hypothesis is accepted, and the research questions are also solved. This research also reveals that slow/unavailable service, incorrect orders, and product quality are identified as the most commonly occurring issue in-service failure. At the same time, apology, item replacement, and management intercession were the most popular recovery strategies leading to customer re-visit intention and word-of-mouth intention.

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