Effect of the Seriousness and Controllability of Service Failures on the Perceived Fairness, Reliability, Satisfaction, and Loyalty of Customers
-Focused on Inbound Foreign Tourists in South Korea-

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Abstract

In this study, a result based on research analysis highlights the influences that the degree of seriousness and control of service failures in the food-service industry have on fairness, satisfaction, and trust of foreign visitors of South Korea. It shows that trust has a significant effect on satisfaction, which has a significant effect on the degree of individual trust. On the basis of this result, food-service enterprises have to perform a fast-paced process of recovery to overcome such failures—an effort much greater than that to establish their level of control and seriousness in the first place. Moreover, they then have to solidify their performances to fully recover their lost trust, satisfaction, and faith of the customers.

Keywords: Control; Fairness; Faithfulness; Loyalty; Reliability; Satisfaction; Seriousness; Service Failure; Trust

1.Introduction

This study focuses on the effect of the seriousness and controllability of service failures in domestic food service enterprises on the perceived fairness, trust, satisfaction, and loyalty of foreign visitors. Its aim is to propose effective measures to improve such failed services in Korea.

Three objectives guided this research. The first was to distinguish the service failures that foreign visitors experience from food service enterprises in Korea by their seriousness and controllability. The second was to study perceived fairness in terms of procedural fairness, interactive fairness, and distributive fairness based on thorough research, and to identify the impact of the three kinds of fairness on customers. The final objective was to identify differences in trust and satisfaction levels that result from the quality of relationship with customers who are assumed to have been affected by the above fairness categories, and to understand how the trust and satisfaction formed out of fairness in turn impact loyalty.

2.Research Model and Hypothesis

While service failures bring about different responses from customers depending on the extent to which enterprises have been able to control their failures in advance, customers evaluate the controllability by judging whether the object perceived to be responsible for a specific reason behind a service failure has controlled the reason. In other words,

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customers show the strong discontent when the reason for a service failure is permanent, when enterprises or service providers are responsible for such a reason, and when they realize that such a reason could have been controlled. However, the degree of discontent decreases when they realize that the reason for a service failure is temporary, when the reason is relevant to them (customers), and/or when they realize the reason could not possibly have been controlled in advance. The controllability of service failures influences the level of discontent and complaints of customers towards enterprises and their repurchase intention. It is for this reason that customers who have experienced delayed services feel more anger when they believe that the delay was a failure that the enterprise could have controlled in advance than when they believe it was a failure that was impossible to control (Folkes, 1984). The more customers become aware of the fact that the enterprise could have controlled the reason for a service failure, the greater the customer dissatisfaction, which in turn influences their behavioral intentions (Bitner, 1990). On the one hand, the interaction of stability and controllability of a problem has a negative influence on the repurchase intention and the perceived fairness but not on the negative word of mouth (Blodgett *et. al.*, 1997), on the other hand, controllability and stability can adjust the relation between the service recovery strategy and satisfaction (Mattila, 2001). In this study, the following hypotheses have been formed based on the above research:

> H-1. The seriousness of service failures will have a significant negative influence on the perceived fairness.
> H-2. The controllability of service failures will have a significant negative influence on the perceived fairness.

Although the idea that fairness perceived in the process of recovering from service failures has a positive effect on the quality of relationship with regard to service recovery, such as in the aspects of trust and satisfaction, is unanimously agreed upon in the literature, many researchers assert that the degree of influence differs by type of fairness. Goodwin and Ross (1992), Tax *et. al.* (1998) asserted that distributive fairness has the most significant influence. Blodgett *et. al.* (1997) proposed interactive fairness as having a major influence on the quality of relationship. The quality of relationship is a concept comprised of trust and satisfaction, and it refers to customer evaluation of service providers in the long term. This formed the background for the following hypotheses:

> H-3. The more customers perceive fairness, the more significant the effect on their trust.
> H-4. The more customers perceive fairness, the more significant the effect on their satisfaction.
> H-5. The greater the customer trust, the more significant the effect on customer satisfaction.
> H-6. Customer trust will have a significant effect on customer loyalty.
> H-7. Customer satisfaction will have a significant effect on customer loyalty.

This study has been modified on the basis of researches (Goodwin and Ross 1992; Blodgett *et. al.* 1993, 1997; Tax *et. al.*, 1998; Maxham and Netmeyer 2002) that are applied with the fairness theory in the process of recovering from service failures for the sake of deriving operational definition of variables. In other words, this research includes seriousness (3 questions) and controllability (3 questions) of service failures as well as perceived fairness such as procedural fairness (4 questions), interactive fairness (4 questions), and distributive fairness (4 questions). Trust (4 questions), customer satisfaction (4 questions), and loyalty (5 questions) were set as dependent variables.
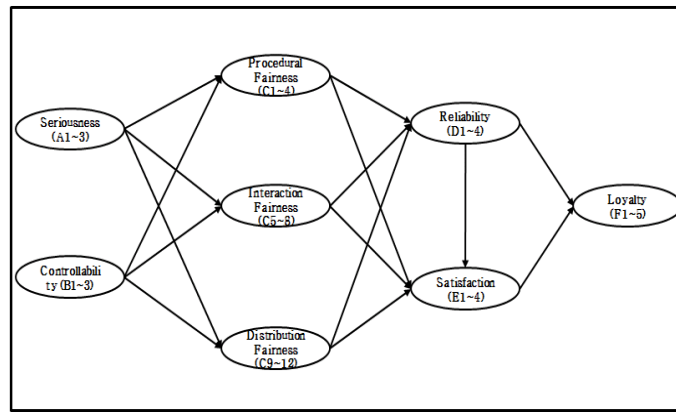
Figure 1. Research Model

3. Research Method and Analysis

The targets for this research were foreign visitors to Korea during the period between December 20, 2014 and May 20, 2015 who visited restaurants and five-star hotels near Incheon International Airport and Gimpo International Airport, and in Myeong-dong, Itaewon, Namdaemun traditional market, and Dongdaemun traditional market of Seoul city. A questionnaire written in English was distributed to 500 foreign visitors, and 450 questionnaires were collected of which 413 were used for the analysis. Questionnaires that had many blanks or that otherwise seemed untrustworthy were discarded. The CFA was executed using AMOS 7.0 to analyze the validity of the evaluation model created from the variables used in the demonstration model.

Table 1. Frequency Analysis

Variable	Contents	Frequency	%
Visit object	Tourism	262	63.4
	Business	77	18.6
	Acquaintance visit	23	5.6
	Study	35	8.5
	Etc.	16	3.9
Accompany	Friend	177	42.9
	Lover	35	8.5
	Family	66	16.0
	Colleague	54	13.1
	Travel colleague	32	7.7
	Etc.	49	11.9
Stay a period	Average 16.2day (Standard 52.66)		
Information acquired process	Internet	114	27.6
	newspaper/magazine	35	8.5
	public broadcast	11	2.7
	Travel company	98	23.7
	Tradition	143	34.6
	Etc.	12	2.9
Used food service	Korean restaurant	282	68.3
	Chinese restaurant	9	2.2

restaurant	Japanese restaurant	24	5.8
	Western restaurant(family restaurant included)	15	3.6
	Hotel/Lodgings in restaurant	59	14.3
	Fast food store	14	3.4
	etc	10	2.4
Average a meal expense	₩10,000(less than)	169	40.9
	₩10,000~30,000	180	43.6
	₩30,000~50,000	50	12.1
	₩50,000~100,000	12	2.9
	₩100,000(or more)	2	0.5
Restaurant choice a standard	Taste	222	53.8
	Price	57	13.8
	Kindness	47	11.4
	Language understood	31	7.5
	Atmosphere	25	6.1
	Cleanliness	24	5.8
	etc	7	1.7
Total		413	100

Table 2. Dissatisfaction a Clause

Variable	Contents	Frequency	%
Dissatisfactionan Item	Taste	74	17.9
	Price	44	10.7
	Kindness	92	**22.3**
	Language understood	55	13.3
	Atmosphere	37	9.0
	Cleanliness	101	**24.5**
	etc	10	2.4
Total		413	100

Table 3. Factor Analysis Confirmed the Results

Potential factors	Measurement variables	Loads factor	Loads of Standard factors	t(CR)	p
Seriousness	A1(This matter was serious to me.)	1.000*	0.798	-	-
	A2(I spent much time than the scheduled time because of this	0.935	0.677	12.305	0.000

	matter.)				
	A3(I was put to inconvenience because such matters happened to me.)	0.941	0.737	13.084	0.000
Controllability	B1(A food-service enterprises could prevent the matters from arising.)	1.000*	0.839	-	-
	B2(This matter happened by factor under the control of the food-service enterprise.)	1.054	0.846	18.987	0.000
	B3(If the food-service enterprise had been further attention, the matter wouldn't have happened.)	1.010	0.813	18.262	0.000
Procedural fairness	C1(The services of this food-service enterprise has been settled quickly and fairly though the matters were complicated.)	1.000*	0.802	-	-
	C2(My private affairs were taken with proper measures.)	1.090	0.823	18.640	0.000
	C4(This food-service enterprise in the process of solving of problems has fairly reflected policy and procedure of a provided services.)	1.061	0.847	19.354	0.000
Interaction fairness	C5(While the matter has been settling, the employee in charge of services of this	1.000*	0.784	-	-

	food-service enterprise has good manners.)				
	C7(I could offer my proposals for some solution of dissatisfactions)	1.009	0.784	16.947	0.000
Distribution fairness	C9(I felt a little inconvenience due to this matter though I contented myself with the result through a compensation of services in this food-service enterprise.)	1.000*	0.812	-	-
	C10(I felt a little inconvenience due to this matter though a compensation of services in this food-service enterprise was a proper measure.)	0.993	0.847	20.445	0.000
	C11(Such a dissatisfactory manner at services gained my requisite from the services provided by this food-service enterprise.)	1.112	0.884	21.832	0.000
	C12(The result of a services-recovery due to this matter was beyond my expectation.)	1.155	0.853	20.688	0.000
Reliability	D1(This service provided for customers was very honestly offered by this food-service enterprise.)	1.000*	0.858	-	-

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	D3(This food-service enterprise can enjoy the confidence of customers.)	1.218	0.899	25.332	0.000
	D4(The receiving of visitors in this food-service enterprise shows their good faith.)	1.260	0.893	25.014	0.000
Satisfaction	E1(The solution of matters of this food-service enterprise was settled to the satisfaction of me.)	1.000*	0.898	-	-
	E2(A service-policy to expressions of customer's dissatisfaction at services provided by this food-service enterprise was in a good mood.)	1.235	0.909	29.226	0.000
	E3(A service-policy to some matters provided by this food-service enterprise was beyond my expectation.)	1.177	0.905	28.966	0.000
Loyalty	F1(I will give a positive answer to others for this food-service enterprise.)	1.000*	0.908	-	-
	F2(I will recommend the Japanese tourists on a visit in Korea this food-service enterprise.)	1.121	0.889	28.475	0.000
	F3(When the selection of the restaurant enterprise we should make use of, firstly I will take this food-service enterprise into consideration.)	1.203	0.933	32.508	0.000

	F5(When a visit in Korea in future I will make use of this food-service enterprise.)	1.208	0.927	31.925	0.000

*Analysis will be given a value of 1.0
**All t values p<0.001 in the note indicates that the load factors

Table 4. Research Models for the Verification Results

X^2(df)	GFI	AGFI	NFI	RMR	TLI	CFI	RMSEA
636.267(236)	0.887	0.857	0.933	0.091	0.949	0.957	0.064
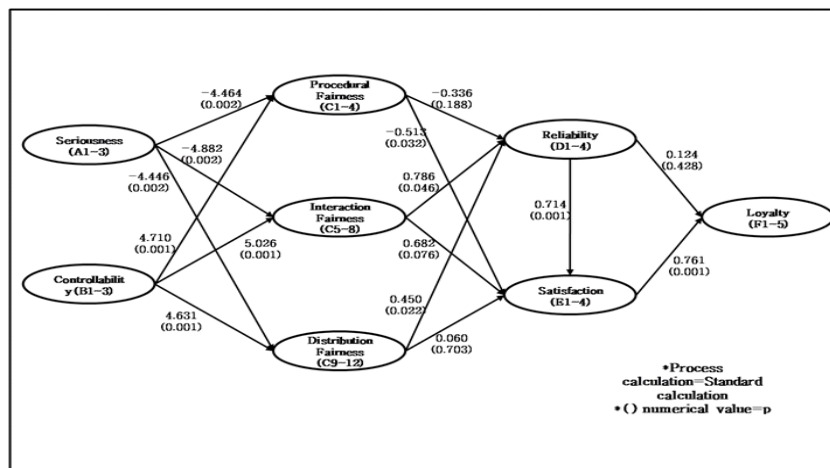
Figure 2. Demonstration the Results of Research Model

4. Conclusion

Seven hypotheses were finally selected after hypothesis testing. In general, covariance structure modeling is more reliable than correlation analysis because the former considers the relation between construct and measurement items at the same time as the effect of all variables.

The results of this research, which focused on responses from actual foreign visitors to Korea, highlight the importance of securing the trust and satisfaction of customers. Furthermore, it is expected that the research analysis of the seriousness and controllability of domestic services that foreign visitors are currently receiving in the county will help domestic food service enterprises, which are grappling to maintain and improve customer loyalty – so called the relationship with customers, improve their competitiveness by providing the theoretical groundwork needed for the establishment of new service strategies and the development of effective customer service programs.

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