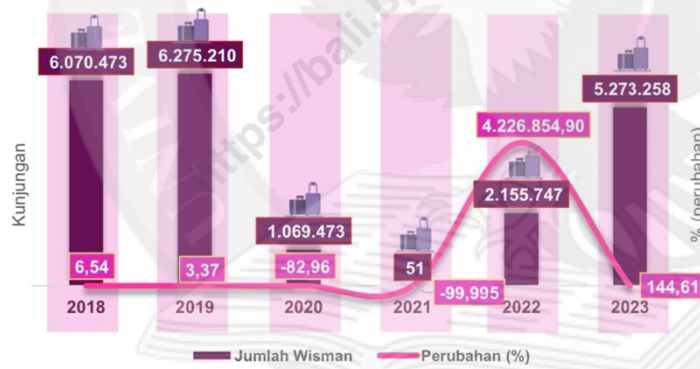


## CHAPTER 1 INTRODUCTION

### 1.1. Background Of Study

The tourism and hotel industry in Bali has experienced significant fluctuations over the past few years, particularly as a result from COVID-19. Before the pandemic, Bali was a global tourism hotspot, with international visitor numbers steadily increasing year on year. According to data from BPS (2023) the number of international tourist arrivals in Bali reached 6.27 million in 2019, a slight increase from 6.07 million in 2018. However, the pandemic caused a drastic decline in tourism, with foreign tourist visits dropping by 82.96% in 2020, reaching only 1.07 million visitors. The situation worsened in 2021, where Bali received only 51 international tourists, indicating the severe disruption in the hospitality industry. Despite this sharp downturn, the industry began to recover in 2022, with international arrivals increasing to 4.23 million, reflecting a growth rate of 99.99% from the previous year. As of 2023, Bali has continued its recovery, attracting 5.27 million international tourists, representing a 144.61% increase compared to 2022.



**Figure 1. 1 Growth of International Tourist Arrival to Bali, 2018-2023**

Source : Badan Pusat Statistik Provinsi Bali (2023)

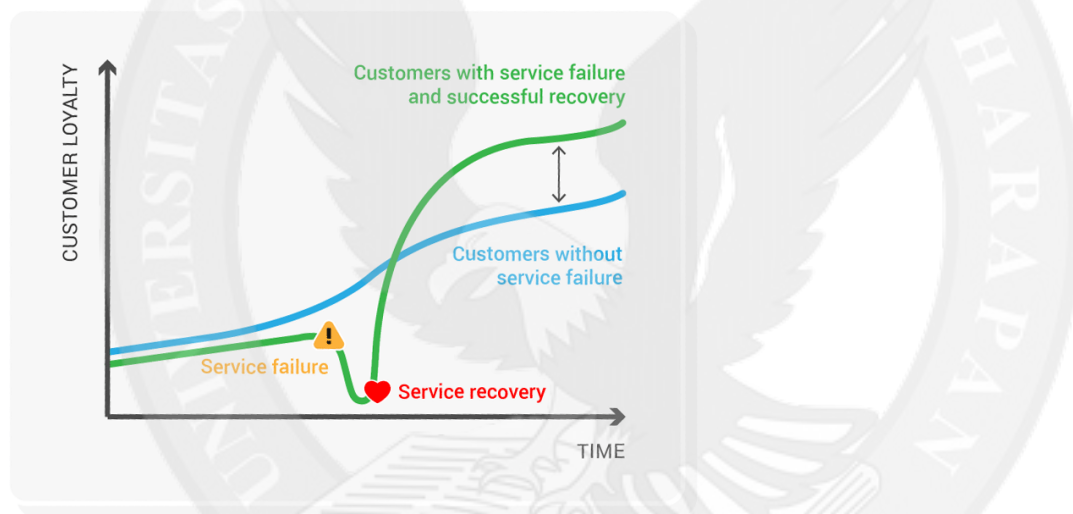
This recovery trend has positively impacted the hotel industry, with many new hotel developments and investments being made to accommodate the growing number of tourists. Bali's hotel industry is thus in a state of resurgence, positioning itself for further growth as global tourism continues to rebound from the pandemic. The resurgence of tourism in Bali and

the consequent growth of the hotel industry have also brought about heightened expectations from travelers, especially in the luxury hotel segment. As international visitor numbers steadily rise, hotels must not only focus on expanding their capacity but also on maintaining high standards of service to meet the increasing demand. However, this rapid growth can sometimes lead to operational challenges, including service failures, which can impact guest satisfaction and loyalty.

Service failures are inevitable in the hospitality and tourism (H&T) industry, where extensive human involvement and the complexity of services increase the likelihood of errors (Namkung & Jang, 2010, in Akarsu et al., 2022). Such failures, ranging from minor issues like delayed check-ins to severe incidents such as unsatisfactory handling of customer complaints, can significantly impact customer satisfaction and loyalty (Bitner et al., 1990, in Akarsu et al., 2022). Attribution theory suggests that customers seek explanations for service failures, which can lead to assigning blame based on factors like controllability, stability, and locus of control (Weiner, 2000, in Akarsu et al., 2022). If a service provider is seen as responsible and the failure is perceived as preventable, customers may experience stronger negative emotions, including anger and dissatisfaction (Nikbin et al., 2012, in Akarsu et al., 2022). Such failures, when not addressed promptly through effective service recovery, can result in lasting damage, including reduced customer retention, negative word-of-mouth, and ultimately, diminished market share (McCollough et al., 2000, in Akarsu et al., 2022). In fact, effective recovery efforts, which may include apologies, compensation, or prompt actions, are essential in mitigating the adverse effects of service failures and can sometimes even lead to higher post-recovery satisfaction, a phenomenon known as the service recovery paradox (Maxham & Netemeyer, 2002, in Akarsu et al., 2022).

Service Recovery Paradox posits that, under certain conditions, a guest who experiences a service failure but receives an effective and timely recovery may end up more satisfied and loyal than if no failure had occurred in the first place. However, as emphasized by Edström et al. (2022), the paradox is not without risks, it is a double-edged sword. If the recovery effort is mishandled or perceived as inadequate or poorly executed, it can lead to even greater dissatisfaction, known as a “double deviation,” where both the initial failure and the failed

recovery amplify negative customer perceptions and harm loyalty. Study points out that achieving Service Recovery Paradox requires finding a balanced approach : providing enough compensation or recovery effort to satisfy the customer without overcompensating, which could set unrealistic expectations for future incidents (Edström et al., 2022). On the other hand, a successful recovery that exceeds guest expectations can serve as a pivotal moment, transforming a dissatisfied guest into a loyal advocate for the brand. For The Ritz-Carlton Bali, mastering the art of service recovery is not just about damage control but about leveraging moments of failure as opportunities for creating memorable guest experiences that surpass initial expectations. Effective service recovery thus becomes a strategic tool that can distinguish the hotel in a crowded marketplace, turning potential crises into opportunities for enhancing guest loyalty and reinforcing the brand's commitment to exceptional service.



**Figure 1. 2 Service Recovery Paradox Graph**

Source : Customer Thermometer (2019)

The negative impact of service failures is magnified in a luxury hospitality context, where service excellence is not merely an expectation but a core brand promise, as the case with The Ritz-Carlton Bali. Unlike mid-range hotels, where guests may tolerate minor service lapses, luxury hotels face the constant pressure of delivering flawless service as the bare minimum expectation. Any deviation from this high standard can be particularly damaging. For The Ritz-Carlton Bali, where service excellence is ingrained as a fundamental value, a service failure can potentially undermine years of cultivated brand equity and erode the trust built with its

elite clientele. Moreover, in a marketplace saturated with choices, where every guest has the potential to shift their loyalty based on a single negative experience, the consequence of a service failure can extend beyond an individual incident to affect competitive positioning within the industry. As luxury hotels like The Ritz-Carlton Bali compete on the nuances of personalized experiences and superior service, the inability to address service failures effectively could lead to a significant competitive disadvantage, making service recovery efforts not just a corrective measure but a crucial strategy for survival and growth.

Given these stakes, the urgency to recover from service failures becomes vital. In this context, service recovery refers to the measures implemented by service providers to address service failures and rebuild the lost relationship between service firms and customers, aiming to restore customer satisfaction and mitigate negative consequences (Smith et al., 1999, in Shams et al., 2021). The process of service recovery is not just about fixing a mistake, it is about seizing an opportunity to turn a negative experience into a positive one. It's crucial for hotels to fix service failures properly because the harm caused by not doing so can be worse than the failure itself. If hotels don't have a good plan to recover from service failures, they risk losing unhappy guests to competitors who handle these issues better.

Unlike service recovery, which is action-oriented and focuses on quickly fixing a problem through immediate steps like apologizing, providing compensation, or resolving a specific issue, Service Recovery Performance (SRP) is outcome-oriented and a measure of how well these recovery actions are carried out and whether they meet or exceed customer expectations. It involves evaluating and assessing the effectiveness of recovery efforts in terms of timeliness, empathy, fairness, and overall impact on customer satisfaction. Instead of simply taking action to correct a service failure, SRP focuses on the quality of these actions and their ability to restore trust, retain customers, and build loyalty in the long term. According to Masadeh et al. (2020) SRP in the hospitality industry assesses both tangible and psychological recovery methods. Tangible recovery involves actions like providing refunds, discounts, or other forms of compensation, while psychological recovery focuses on efforts such as showing empathy, offering sincere apologies, and reassuring customers that the failure will not recur. The success

of SRP depends on how well these tangible and psychological methods are integrated and executed to align with customer expectations and the organization's service standards.

Service Recovery Awareness (SRA) refers to the degree to which frontline employees understand the importance of effectively handling service failures and view it as a core responsibility, rather than an additional task (Zhang and Geng, 2019) in (Zhang et al., 2020). SRA can directly influence SRP, as employees with a high level of SRA are more likely to proactively address service failures, demonstrating self-efficacy and seeking appropriate responses to customer complaints, which leads to improved recovery outcomes (Tsarenko & Strizhakova, 2013; Yoo & Arnold, 2016) in (Zhang et al., 2020). The significance of SRA in influencing SRP is also underscored by the role of Work Engagement as a mediating variable. When employees understand the importance of service recovery, they are more likely to be engaged in their roles, showing greater commitment and enthusiasm for resolving service issues. This is supported by the findings of Elziny and Mohamed (2021) which suggest that when employees are aware of the significance of service recovery, their work engagement levels increase, enhancing their ability to deliver high-quality service recovery. Moreover, according to Zhang et al. (2020) the influence of SRA on SRP is strengthened by high levels of work engagement, which helps employees manage the emotional and cognitive demands of handling service failures. Employees with high SRA who are also engaged are more proactive, empathetic, and effective in their recovery efforts, leading to better service recovery performance. In contrast, when SRA is perceived as an excessive burden without adequate support, it can lead to emotional exhaustion and negatively impact SRP. The mediating role of work engagement, as shown in multiple studies, emphasizes that SRA must be managed carefully to avoid burnout while maximizing its positive effects on SRP (Elziny & Mohamed, 2021; Zhang et al., 2020).

Employee Empowerment (EE) is the process of providing employees with the authority, resources, and autonomy to make decisions and take actions that improve service quality and customer satisfaction. According to Elziny and Mohamed (2021) empowerment significantly enhances SRP by allowing employees to take ownership of recovery situations and tailor their responses to meet the unique needs of each guest. Empowerment involves not just granting

decision-making authority but also providing the necessary tools, training, and support to ensure that employees feel competent and confident in handling service recovery scenarios. The impact of EE on SRP is further amplified by the mediating role of Work Engagement. Employees who are empowered often exhibit greater engagement levels, as they feel valued and trusted by their organization. This sense of empowerment leads to increased vigor, dedication, and absorption in their work, which positively influences SRP. For instance, the study by Masadeh et al. (2020) shows that empowerment, when combined with high levels of work engagement, results in more effective service recovery efforts. Employees who feel empowered are more likely to be engaged, leading to better problem-solving, more personalized recovery efforts, and higher customer satisfaction. Furthermore, as supported by findings in the study by Elziny and Mohamed (2021) and Zhang et al. (2020) employee empowerment mediated by work engagement, creates a positive environment where employees are motivated to go above and beyond in their service recovery efforts. The combination of empowerment and engagement is crucial for achieving high SRP, as engaged employees are more likely to utilize their empowerment effectively to handle service failures. This relationship is further corroborated by the study by Elziny and Mohamed (2021) which emphasizes that empowerment indirectly influences SRP through the pathway of increased work engagement.


Work Engagement as defined by Bakker and Demerouti (2017) in Zhang et al. (2020) is a positive and fulfilling state related to work, marked by vigor, dedication, and absorption. Engaged employees are more energetic, enthusiastic, and focused on their work, which directly enhances their ability to handle service failures effectively. According to Bakker and Demerouti (2017) in Zhang et al. (2020) high levels of work engagement lead to better problem-solving abilities, more empathetic customer interactions, and quicker, more effective service recovery actions, all of which contribute to higher SRP. Work Engagement not only directly affects SRP but also mediates the effects of both SRA and EE. When employees have a high level of awareness and feel empowered to make decisions and take action, they are more likely to be engaged in their roles (Zhang et al., 2020; Elziny & Mohamed, 2021). This engagement leads to higher SRP as engaged employees are more motivated and committed to delivering high-quality service recovery. On the other hand, if employees lack engagement,

even high levels of SRA or empowerment may not lead to improved SRP, as disengaged employees are less likely to exert the necessary effort to handle service failures effectively. To achieve high SRP, organizations must focus not only on empowering employees and increasing their awareness of service recovery but also on creating a work environment that fosters strong engagement.

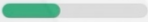

At The Ritz-Carlton Bali, any service failures or guest complaints are documented and tracked using Marriott platform called Guest Experience Platform (GXP), where these incidents are referred to as Guest Incident Actions (GIA). The Duty Manager is responsible for overseeing all GIA cases, ensuring timely follow-up and recovery from the complaints. Among the most common GIAs reported daily are issues such as rooms not being ready by the guaranteed 3 PM check-in time, often due to back-to-back room turnovers, rooms not being upgraded as per guest expectations, dissatisfaction with the room assignment, unpleasant odors, and broken facilities, delayed service, and etc. These complaints, if not handled effectively, could significantly impact guest satisfaction.


Below are examples of guest reviews from TripAdvisor highlighting service failures and ineffective service recovery at The Ritz-Carlton Bali :




< The Ritz-Carlton, Bali 


As I started, I continue to stay in Mariott properties (as a platinum bonvoy) and continue to be dissapointed by service. Upon checking out, I always get asked about how my stay was; as if staff are trained to think that guests will only ever say "Very good", when checking out I did mention it was a 5/10 stay, only to get a "Yes sir". That pretty much sums up the trip, over priced for the service, dirty rooms and for the price we paid, the consideration of another hotel nearby on my next visit to Bali. There is no attention to detail here other than the clearly obvious things that guests see, and maybe the landscaping.

Value  2.0 Service  3.0

Location  4.0

< The Ritz-Carlton, Bali 

random staff just come to me and asked me my room number. I was like "why you asked me for my room number? I have checked out already and am waiting for my driver". Then he asked if I am Mr. Lee and explained to me he is the assistant **manager** and he felt sorry for my experience so far... hey you guys should know I am the unpleasant guest Mr. Lee already when I checked out at front desk and shouldn't come to me abruptly and start the conversation by asking me for my room number (who would remember the room number after checking out by the way?)

< The Ritz-Carlton, Bali 

Talking to 5 different **managers** made NO difference as they have no **power** to do anything! The only time we seen the general **manager** was when we were in the club lounge but he avoided people doing just a brief walk through of the club.



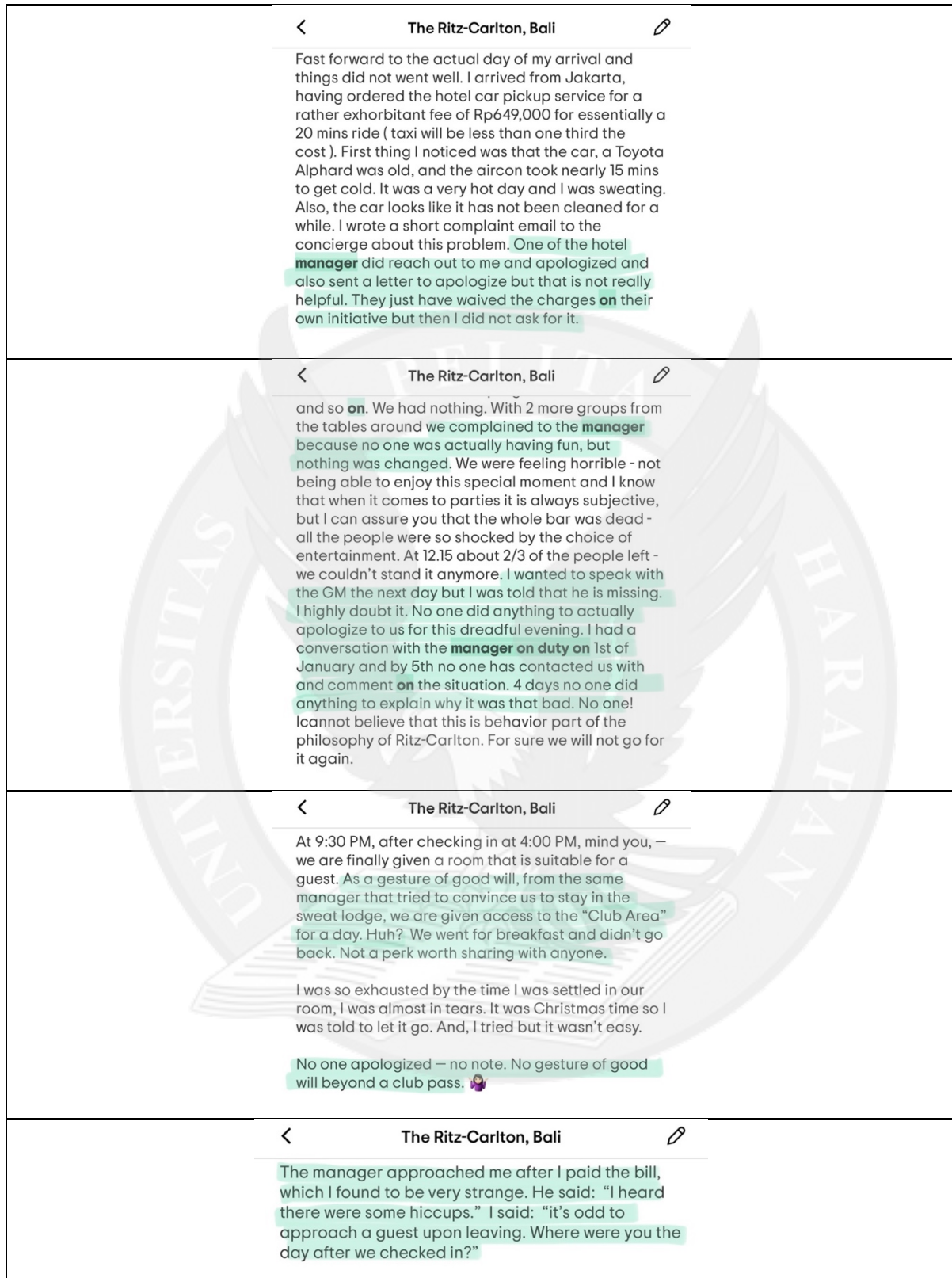


Figure 1. 3 Guest Reviews for The Ritz-Carlton Bali

Source : Tripadvisor

As seen from the reviews above, there are recurring issues with service recovery performance at The Ritz-Carlton Bali, where guests have shared their dissatisfaction through negative reviews. These reviews reflect cases where service failures were not addressed adequately, leading to guests leave the hotel with unhappy experiences, which not only diminishes their personal satisfaction but also leads to lasting damage to the hotel's brand reputation. The negative reviews highlight that despite efforts by management, the service recovery process remains ineffective in some cases. This shows a gap in how well employees that are aware, empowered and engaged to handle service failures. These shortcomings can escalate service recovery failures, leading to long-term consequences for the hotel. Recognizing the importance of addressing these issues, the writer has chosen to focus on this problem and title the study: **“THE MEDIATING ROLE OF WORK ENGAGEMENT BETWEEN SERVICE RECOVERY AWARENESS AND EMPLOYEE EMPOWERMENT ON SERVICE RECOVERY PERFORMANCE AT THE RITZ-CARLTON BALI.”**

### **1.2. Problem Limitation**

This research focuses on examining the mediating role of work engagement in the relationship between service recovery awareness, employee empowerment, and service recovery performance. The study is limited to The Ritz-Carlton Bali, specifically looking at how service recovery awareness and employee empowerment influence service recovery performance through work engagement. The scope is narrowed to the luxury hospitality sector, using data from employees involved in service recovery processes.

### **1.3. Problem Formulation**

Below are the problem formulation based on the background of study :

1. Does service recovery awareness positively influences work engagement at The Ritz-Carlton Bali?
2. Does employee empowerment positively influences work engagement at The Ritz-Carlton Bali?
3. Does work engagement positively influences service recovery performance at The Ritz-Carlton Bali?

4. Does service recovery awareness positively influences service recovery performance at The Ritz-Carlton Bali?
5. Does employee empowerment positively influences service recovery performance at The Ritz-Carlton Bali?
6. Does service recovery awareness positively influences service recovery performance through work engagement at The Ritz-Carlton Bali?
7. Does employee empowerment positively influences service recovery performance through work engagement at The Ritz-Carlton Bali?

#### **1.4. Objective Of The Research**

Below are the objective of this research :

1. To examine whether service recovery awareness positively influences work engagement at The Ritz-Carlton Bali.
2. To examine whether employee empowerment positively influences work engagement at The Ritz-Carlton Bali.
3. To examine whether work engagement positively influences service recovery performance at The Ritz-Carlton Bali.
4. To examine whether service recovery awareness positively influences service recovery performance at The Ritz-Carlton Bali.
5. To examine whether employee empowerment positively influences service recovery performance at The Ritz-Carlton Bali.
6. To examine whether service recovery awareness positively influences service recovery performance through work engagement at The Ritz-Carlton Bali.
7. To examine whether employee empowerment positively influences service recovery performance through work engagement at The Ritz-Carlton Bali.

#### **1.5. Benefit Of The Research**

##### **1.5.1. Theoretical Benefit**

This study contributes to the literature on service recovery by exploring the mediating role of work engagement in the relationship between service recovery awareness, employee empowerment, and service recovery performance. It expands the

understanding of how work engagement enhances the effectiveness of service recovery efforts, particularly in the luxury hospitality sector.

### **1.5.2. Practical Benefit**

1. For the Writer :

As an employee of The Ritz-Carlton Bali, a Guest Relations Officer, this research will provide the writer with deeper insights into the service recovery process within their own workplace. It will help the writer to improve their practical skills in handling service failures and enhance their ability to implement effective service recovery strategies. By understanding the roles of service recovery awareness, employee empowerment, and work engagement, the writer can contribute to improving guest satisfaction and performance outcomes at The Ritz-Carlton Bali.

2. For the Company :

The findings can help The Ritz-Carlton Bali refine its service recovery strategies by emphasizing the importance of work engagement, employee empowerment, and awareness of service recovery processes, potentially improving guest satisfaction and loyalty.

3. For the Reader :

The study offers a comprehensive overview of service recovery mechanisms and provides actionable insights for hospitality professionals interested in improving service recovery performance.

4. For Future Research :

This research opens avenues for future studies to explore additional variables that might influence service recovery performance and to investigate the role of work engagement in different hospitality contexts.