

Analysing the importance of service recovery



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What is service recovery and why is it important for the long-term success of companies? There is general consensus among several practitioners and scholars (Anderson & Fornell, 1994; Spreng, Harrell, & Mackoy, 1995) that the cost of retaining an existing customer is usually lower than attracting a new one. This clearly indicates the importance of building long-term relationships with existing customers. It is nearly impossible for business enterprises, especially in the service industry, to eliminate any occurrence of service failure and achieve zero defection, because of diverse and ambiguous nature of service (Goodwin & Ross 1992; Hart, Heskett, & Sasser, 1990). Failure of any service may create a negative impact on the consumers ultimately leaving them dissatisfied. There may be many reasons why a customer may be dissatisfied with the level of service provided. For example, consider the case of the hotel industry. Service recovery is a vital feature for success in the hospitality sector. The emotional and personal quotient of consumers is higher in hospitality-based services and as a result, the impact of service failure is stronger. Additionally, hospitality sector also witnesses stronger impact of word-of-mouth recommendations as compared to other types of services. Dissatisfied customers often register their dissatisfaction with respect to unclean rooms, inadequate housekeeping, and uncomfortable beds among others, online or in the hotel guest book. If hotel management fails to show concern towards the problem from customer's point of view it may lead to serious implications. Dissatisfied customers in this case would not only mean customer loss but would also garner negative publicity for the business. Bitner et al. (1990) note that it is possible for firms to improve the consumer satisfaction levels through appropriate service recovery in order to create favourable impressions of both products and

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service. This essay aims at explaining the concept of service recovery and why it is important for long term business success.

Definitions of service recovery

There are several practitioners who note the dramatic increase in attention received by service recovery over the years due to the increase in competition and declining perceptions of customer service (Andreassen, 2001, Maxham, 2001, McCollough et al., 2000). Gronroos (1988) defines service recovery as an umbrella term for the efforts taken by organisations to rectify a problem following a service failure in order to retain and satisfy its customers. Drawing from this definition, in simple terms, service recovery refers to the systematic efforts taken by any service provider when any problem occurs leaving the customer dissatisfied. Maxham (2001) defines service failure as an issue or disaster that may hamper a consumer's experience with the firm. Tschol (2005) defines service recovery as a series of actions that include apologising, taking responsibility, and providing customers with some kind of compensation that may create customer value and ultimately lead to customer loyalty. Service recovery is critical, as it is important to retain customers. If a service provider fails to provide appropriate service to its customers due to any reason, it may leave a negative impact on the customers. It is important for a service provider to immediately take measures to mend relationships if any problem occurs with the service provided. For example, customer experience in a restaurant is greatly affected by the time taken by the service providers to interact with the customer and take note of their drink or food orders. Bitner et al. (1990) point out that customers are more dissatisfied if there is an impression that

failure was avoidable by the service provider. Hoffman & Chung (1999) are of the view that service defections like poor customer service is within the control of the service firms. Therefore, it is important for the management at restaurants to identify any such issues through continuous observation in order to reduce service delivery failure rates. As Colgate and Norris (2001) note, it may not be possible to completely make up for a service failure, but implementing effective service recovery strategies can surely help to minimise the impact of failure on customers. Therefore, in an event of any such failures, restaurant staff can maintain their relationship with the customers by immediately apologising to the customers and offer them free food or beverage service as a part of their recovery strategy. This will help the service provider to rebuild the confidence of their customers as this informs the customers that the staff at the restaurant considers customer service as a vital aspect of their success. Kelley et al. (1993) highlight that businesses can win back their customers and also increase their loyalty by developing effective service recovery strategies. Hoffman and Chung (1999) suggest that recovery strategy should not be considered as an opportunity to create goodwill but as means to strengthen relationships with customers.

Service recovery literature provides an in-depth understanding of the theoretical framework such as the social exchange theory, equity theory, attribution theory, and justice theory among others. According to Blodgett et al. (1997) the justice theory is relevant for providing a theoretical framework for the study of post complaint behaviour of dissatisfied customers while other theories help to explain the need for an immediate measure to recover

to deal with dissatisfied customers. These theories are discussed in aspect in the following section.

Theoretical concepts

Social Exchange Theory and Equity Theory

Adams (1963) notes that both, Social Exchange Theory and Equity Theory emphasise on balancing exchange relationships. These theories help in exploring the customer's evaluation of service recovery efforts. Social exchange theory asserts that it is important to have two equal partners in any transaction to develop a sense of justice. Smith et al. (1999) is of the view that in case of a service failure, customers incur an economic or social loss in a transaction. Therefore, it is important for organisations to make efforts to recover from negative effects by offering economic resources in the form of compensation such as a discount or social resources. For example, dry cleaning service providers, at times tend to be negligent in their daily operations, which might cause a piece of clothing to be damaged because of a number of reasons such as destroyed, burnt or torn. In such scenarios, the customer incurs economic loss. In an attempt to provide service recovery, the service provider should compensate for those losses by providing financial compensation in the interest of the customer.

Attribution Theory

Several experts are of the view that customers' emotions and attitudes are greatly influenced by their judgments about the cause and effect attribution (Swanson & Kelley, 2001). Attribution theory helps in explaining the customer responses to product and service failures (Richins, 1983).

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Dissatisfied customers who believe that the failure occurred due to some external error or fault and could have been controlled by the service provider are more likely to exit and to engage in negative word-of-mouth behaviour as compared to those customers who consider the problem as uncontrollable by the provider (Blodgett et al., 1993; Folkes, 1986). For example, airline industry is deeply affected by weather conditions. Any extreme change in weather condition may lead to several hours of delay in flights. However, since service failure in such a scenario is caused due to an external factor, customers may not engage in negative word of mouth behaviour as opposed to a scenario where a delay in flight occurs due to a reason internal to the service provider such as airline crew strikes.

Justice Theory

A multi faceted approach to the justice concept, also known as the fairness concept, has emerged from the equity theory. This concerns the distributional justice which is the observed judgement of material outcomes, procedural justice that focuses on the procedures that deliver the outcome, and interactional justice that reflect the fairness by which interpersonal activity affects the outcomes delivered (Blodgett et al., 1993; Smith et al., 1999; Tax et al., 1998). The observed fairness is not very different from that of equity, because the client's idea of what is fair is derived on the basis of their input characteristics (Oliver, 1997). There have been numerous studies conducted to identify the cause-effect relationship between the outputs and inputs of a transaction (Collie et al., 2000). But it is usually noticed that the clients are not only satisfied by the fairness of an output, but also in the way in which queries and escalations are being managed (Blodgett et al., 1993)

and also by the manner in which resource allocation takes place (Conlon and Murray, 1996). The other two facets of justice, viz. procedural and interactional, are widely used in recovery evaluation (Goodwin & Ross, 1992; Ruyter & Wetzels, 2000). More than 60% of the explained variation in service encounter satisfaction has been attributed to these three facets of justice (Smith et al., 1999). For example, consider the service delivery guarantee offered by a pizza provider. A pizza provider promises to offer free pizzas for any mistake made on a customer's order or in case of a late delivery. In addition, the pizza provider also promises to offer a discount on the next order made by the same customer. Customers may find this guarantee attractive because it satisfies their requirements, and offers them compensation for their inconvenience. This implies that all customers' "costs" are adequately and fairly refunded.

Importance of front-line employees

Dissatisfied customers and complaining customers require quick response to their complaints. Brown (2000) points out the importance of front-line employees in providing strong service recovery. Effective service recovery requires efficient front-line employees who are able to handle a service failure situation effectively by apologising and quickly fixing a problem by offering something of value. According to Brown (2000) customer loyalty is greatly affected by the ability of front-line employees to provide strong service recovery. If the front-line employees are not capable of resolving customer complaints in a timely manner, the service provider may lose their potential and current customers. Several studies indicate the importance of service recovery skills of the front-line employees in addressing customer

issues effectively. It is important for service providers to empower their front-line employees to recover service failures in order to enable them to handle service problems efficiently and be responsive towards their customer complaints. Many authors are of the view that empowerment of front-line staff is critical for effective service recovery (Normann, 2000; Boshoff, 1997). Additionally, it is noted that empowerment of front-line employees enriches their work role and hence employees are highly motivated to perform their responsibilities in a better manner. Since the front-line employees are the first point of contact between the customer complaint and the management, it is important for them to have the authority to respond immediately. A number of practitioners are in favour of providing workers with the tools and resources required by them to take on service recovery responsibilities. Further, facilitating front-line empowerment for service recovery clearly requires extensive training. It is important for service providers to invest in training of their front-line employees. Several service providers vouch for the importance of training for front-line employees in service recovery. Take the case of Marriott, the giant multinational hotel chain. The management at Marriot Hotel emphasises the importance of providing extensive training for its front-line employees. Hotel's front-line staff is provided with detailed support and coaching under its "whatever it takes" programme (Lashley, 2000). Tschohl (2005) points out the efforts undertaken by Southwest and JetBlue two US airlines, to empower their employees as a part of their service recovery strategy. These airlines empower their employees to provide the best possible service to their customers. Stoller (2005) notes that The Ritz-Carlton empowers all its employees to settle a customer dispute up to \$2, 000 per day. However, it is

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also noticed that Ritz Carlton provides extensive training to its employee and maintain high standards of service quality so that that no employee has ever had to provide a USD2, 000 credit (Stoller, 2005). Managers need to trust that their front-line staff makes correct and viable decisions in an attempt to balance the interests of both the organisation and the customers.

Service recovery paradox

Review of literature highlights the presence of several studies that indicate the existence of recovery paradox while others deny its existence (Michel, 2002). However, there are several studies that argue that no failure is better than an instance of recovered failure. The question remains what exactly is recovery paradox. Take the case of a customer travelling with family to Disneyland on an all inclusive package. The customer arrives at the check in counter at the hotel in Disney World late in the evening only to notice that the room booked by them is no longer available. In an effort to recover the loss, the front-line staff immediately upgrades the customer to a better room usually available at a higher cost, at the original price. This quick turnaround may create a positive impact on the customer and may lead to increased customer loyalty. In such a scenario, customer may refer the hotel and its staff to other friends. This is known as service recovery paradox. McCollough and Bharadwaj (1992) refer to service recovery paradox as a situation in which the customer satisfaction levels and the willingness to spread word-of-mouth publicity of consumers receiving service recovered is greater than those of customers with no event of any service failure with the initial service. In simple terms, service recovery paradox occurs in scenarios where customers are highly satisfied by excellent service recovery received due to

a service failure as compared to mediocre service received in case of an error free transaction (Bolton and Drew, 1992; Smith and Bolton, 1998). However, Berry et al. (1990) point out that in situations where excellent recoveries are compared with excellent, error free service transactions, it cannot be referred to as service recovery paradox. Etzel and Silverman (1981) developed the idea of recovery paradox almost three decades ago, based on their personal experience and anecdotal evidence. Further, Etzel and Silverman (1981) note that customers experiencing excellent service recovery are often more loyal to the business than others, who received an error free service. Nevertheless, it is not necessary that all service recovery efforts may lead to increased satisfaction. Bitner et al., (1990) note that negative impact may amplify when service failure is handled inadequately. This is referred to as “ double deviation” (Bitner, et al., 1990). For example, an airline provider provides service recovery to its customers due to cancellation of a flight as a result of the flight’s engine failure. It does so by offering them an alternative flight option. In case the alternate flight offered to the customers also causes severe disruptions in customer travel such as due to delays in the arrangement of an alternate aircraft, customer anger and frustration may magnify leading to increased dissatisfaction.

Impact of service recovery on variables such as WOM, loyalty.

Bitner et al., (1990) note that effective service recovery efforts may greatly affect recovery satisfaction. Satisfied customers are more likely to display positive and favourable behaviour towards any business and its products services. Such customers showcase their loyalty towards the service provider

by discussing about the services with their friends and families thereby leading to positive word of mouth publicity. Customers are more willing to revisit the service provider and are also willing to participate in surveys and research undertaken by the organisation to revolutionise its process and practices. Spreng et al. (1995) note that adequate service recovery can help businesses convert their service failure into a positive encounter and help them achieve customer satisfaction. Continued purchasing by current customers is an important concern because the cost of retaining an existing customer is far lesser than the cost required for attracting a new customer (Spreng et al., 1995). Researchers have found that customer satisfaction/dissatisfaction is a critical factor affecting repurchase intentions. Several experts (Blodgett et al., 1997) note that excellent service recovery can help in enhancing customer repurchase intention. One of the most important behaviour for post purchase has been the word of mouth behaviour. It has been identified by Mangold, Miller, and Brockway (1999) that interpersonal communication techniques like word of mouth has, in the past, been one of the most significant influence on purchasing behaviour of the customer. It has been noted by Maxham & Netemeyer (2002) that word of mouth communication is positively impacted by service recovery. It should be no surprise that consumers who have had a positive experience in service recovery have been observed to have a willingness to share positive information to others (Blodgett et al., 1993; Swanson & Kelly, 2001). It is noticed that organisations that have effective service recovery strategies in place are able to significantly increase their post-failure levels of satisfaction, purchase intent, and positive word-of-mouth. On the contrary, if the level of service recovery is inadequate, it may further worsen the discontent among

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the customers that experienced a service failure. Many studies (Johnston & Hewa, 1997; Tax & Brown, 1998) demonstrate the positive impact of service recovery strategies on customer loyalty. As discussed earlier, consumer satisfaction levels with respect to the way a service provider handles consumer complaints are influenced by the distributive and interactional justice perceptions of the service recovery. Additionally, this influences the consumer's level of trust. Santos and Fernandes (2008) note that customer satisfaction, trust and their perceived value of a service provider impact customer loyalty. Tschol (2005) notes that service recovery has a major impact on the bottom line performance of an organisation as highly satisfied customers generate word of mouth publicity for the service provider.

Conclusion

The above discussion clearly indicates the importance of service delivery for long term business success in this competitive business environment. Today, customers' demands are increasing more than ever, and they expect their service providers to respond immediately in a friendly, efficient and professional manner to their queries and concerns. Service recovery is a series of actions that include apologising, taking responsibility, and giving customers something of value as a way of retaining customers and ultimately creating customer loyalty. Customers experiencing excellent service recovery are often more loyal to the business than others who received a mediocre error free service. This may create service recovery paradox. Organisations need to implement consistent and standardised processes and strategies to effectively deal with service failures. There is a need to train and empower the front-line employees to enable them to

effectively handle customer complaints and service recovery experience. It is noticed that implementing appropriate service recovery strategies may require investment and hence may seem to increase costs. However, the key point to remember here is that, in the long run, such strategies can improve the service system and result in relational benefits. This will help the firms in creating an environment where customers are welcomed to complain and this will build the trust and confidence of customers towards the service provider. Customers may reward their service providers by helping them through word of mouth publicity, which may mean attracting more customers and hence improving business performance.