

RECOVERY STRATEGIES FOR SERVICE FAILURES

Andreea Budeanu

*Ph.D. student, Faculty of Economics and Business Administration, Management Department, Babeș-Bolyai University of Cluj-Napoca, Romania
suciu_andre@yahoo.com*

Abstract: Internationally, services represent the most important sector of the economy both in terms of economic performance and labor utilization. Becoming essential part of today society, they are considered the basis of a healthy economy, fact that has increased the importance of services and the research in the field. Through this work we intend to address a number of issues that require clarification and are relevant to this sector. Increased competition and customers higher demands lead to difficulties in service delivery, so managers of service organizations must work hard towards developing appropriate strategies that can lead to improved customers satisfaction and to increased efficiency. Because it is inevitably for service providers to face situations in which service failure occurs and their customers are not satisfied, understanding the nature of service failures and the ways in which an organization can recover after a failure are considered key factors for achieving customer satisfaction. Since the data suggests that over 50% of customers who are facing problems are not satisfied with the way they were resolved, we consider appropriate to approach this topic. We intend to draw attention to service providers to the importance of proper management of service failure. They can find ways to recover from these failures and even to turn them into some very pleasant situations that can contribute to customer loyalty. This paper begins by highlighting the various features specific to services which contribute to the increased chances of failure, it continues by presenting the concepts of service failure and service recovery and then it presents some links that exist between service recovery and other aspects of providing services that are demonstrated in the literature. We hope that this paper will significantly contribute to the knowledge and development of the sector under analysis and will highlight some practices that will lead to improved customer satisfaction and organizational performance.

Key words: Recovery strategies, service failures, customers perception

JEL classification: M100

Introduction

„Companies may not be able to prevent all problems but they can learn to recover from them” (Hart et al., 1990).

Internationally, services represent the most important sector of the economy both in terms of economic performance and labor utilization. Becoming essential part of today society, they are considered the basis of a healthy economy, fact that has increased the importance of services and the research in the field. Through this work we intend to address a number of issues that require clarification and relevant to the sector. Increased competition and customers higher demands lead to difficulties in service delivery, so managers of service organizations must work hard towards developing appropriate strategies that can lead to improved customers satisfaction and to increased efficiency. Because it is inevitably for service providers to face situations in which service failure occurs and their customers are not satisfied, understanding the nature of service failures and the ways in which an organization can recover after a failure are considered key factors for achieving customer satisfaction. Since the data suggests that over 50% of

customers who are facing problems are not satisfied with the way they were resolved, we consider appropriate to approach this topic. We intend to draw attention to service providers to the importance of proper management of service failure. They can find ways to recover from these failures and even to turn them into some very pleasant situations that contribute to customer loyalty. This paper begins by highlighting the various features specific to services which contribute to the increased chances of failure, it continues by presenting the concepts of service failure and service recovery and then it presents some links that exist between service recovery and other aspects of providing services that are demonstrated in the literature.

Services industry involves a high degree of interaction between employees and customers, which contributes to an increase number of opportunities for various errors to occur. The experience of purchasing a service is greatly influenced by the actions of frontline staff whose experience and commitment may be limited or differ from one time to another of the day or of the week. Inseparability of production and consumption is another factor contributing to increased opportunities for an error to occur because corrective measures generally cannot be taken without the client knowing. The problem is compounded by the fact that there is an increased competition in most service industries and so, the client has several options to choose from. So, in a market with intense competition and numerous chances of failure, we consider recovery strategies of great importance for the future of organizations in this field.

Service quality is a topic of great interest for researchers, so that numerous studies have been conducted to identify factors that influence the quality of service and the effect on customer perceptions (Parasuraman et al., 1988; Zeithaml, 1988). The importance of customer perception it is emphasized by the fact that studies have shown that attracting new customers is much more expensive than keeping the old customers. Customer dissatisfaction adversely affect loyalty and the reputation of the company. A major cause of dissatisfaction is solving problems in an unsatisfactory manner. Approximately 50% of customers who are facing problems are not satisfied with the recovery strategy applied (Levesque & McDougall, 2000).

SERVICE FAILURE

Berry & Parasuraman (1992) argue that organizations should consider failure as an opportunity to create satisfied customers and not as a problem and that a proper attitude leading to correct these situations will positively influence the long-term performance. In a study made by Johnston (1995) on services companies, it was found that most pleasantly surprising situations were the result of error correction actions.

Service failure relates to events that can lead to unsatisfactory experiences from the point of view of the customer (Bitner et al., 1990). Chung & Hoffman (1998) mention three categories of failures in the case of services:

- Service system failure (eg unavailable services, unfriendly customer treatment policy etc.)
- Customer requests failure (eg employees are not able to meet individual customer needs)
- Failure on slow and inappropriate actions of employees (eg rudeness, wrong delivery, incorrect billing, etc.)

Lewis & McCann (2004) mention the following consequences of service failure dissatisfaction:

- low customer confidence
- transmission of negative information to other potential customers

- loss of customers
- loss of revenues
- increased costs
- decrease in employee morale and performance.

SERVICE RECOVERY

Service recovery consists in the actions taken to deal with the possibility of failure (Zeithaml and Bitner, 2000), actions meant to solve problems, to change negative attitudes of customers and to keep them (Miller et al., 2000: 38). These situations occur when quality of service is poor, but the client does not make any complaint (Smith et al., 1999: 359).

In the quality model he proposed, Grönroos (1988) emphasize the beneficial effect of service recovery by saying that it affects customers behavior and that they can anticipate that the service provider shall immediately take the necessary measures to remedy unpleasant situation and find a new acceptable solution. So, if management gives importance of correcting these service failures, customers will have a better perception of the organization.

Service failure and recovery can be understood as a trade in which the costumer suffers a loss due to the failure and the company is trying to offer him a gain to compensate his loss (Smith et al., 1999, Levesque & McDougall, 2000). The evaluation of failure and how the problem was solved depends on the type and amount of resources lost and won during the exchange.

Recovery strategies have many advantages, Lewis & McCann (2004) listing the following:

- improve customer perception of service quality and organization
- lead to a positive communication from customers
- contribute to improved customer satisfaction
- customer loyalty and the impact on profits are positively affected

The way customers evaluate corrective actions of the organization is based generally on the principle of justice (Lewis & McCann, 2004 Tax et al., 1998, Smith et al., 1999) and includes three dimensions:

- distributive justice: perceived fairness of outcomes (eg compensation, repair or replacement)
- interactional justice: perceived fairness related to how the client is treated (eg, apologising)
- procedural justice: the perceived fairness of the actions used to correct failure (eg, response speed, accessibility and flexibility of procedures, organizations policies)

In 1999, Boshoff proposes an instrument (RECOVSAT) designed to measure customer satisfaction according to specific elements of recovery after service failure. This tool includes six dimensions:

- Communication: refers to the manner in which employees address to customers who have a problem or a complaint
- Empowerment: refers to the resources that employees have access to and the decisions they are allowed to make.

- Feedback: refers to the fact that once the issue is resolved, the company provides information about the problem and what is being done to resolve it.
- Atonement: refers to the compensation that company is giving to the customer to make up for the problem created.
- Tangible elements: refers to the appearance of the employee, the equipment used and the environment in which these situations are handled.

Action taken by services organizations in response to certain unpleasant situations, contain a number of psychological factors and concrete efforts of which the literature reminds (Lewis & McCann, 2004).

- apology
- corrective action
- empathy
- compensation
- confirmation
- providing explanations
- providing exceptional treatments
- managerial intervention.

These actions can be used separately or combined. Even if apologising is better than not to do this, using only this method is relatively inefficient because customers expect to win something instead. This method can be used successfully only when problems occurred are minor.

LINKING SERVICE RECOVERY WITH OTHER ASPECTS

Levesque and McDougall (2000) exemplifies various studies conducted to investigate the relative effects of apologising, compensation (25 % - 50% discount) and assistance (re-execution of the service). They found that apologising was the least effective strategy and customer loyalty was greatly enhanced when compensation and assistance have been added. In situations where the service was less important for the client, compensation was most effective, followed by assistance, while when the service was very important for customer, assistance was more effective than compensation.

In a study conducted by DeWitt & Brady (2003) it is demonstrated that developing relationships with customers improves the probability of recovery after a service failure, as customers are more forgiving with employees who have established a friendly relationship. Thus, adopting strategies that promote these relations can be an effective way to retain customers and to reduce their negative communication.

Another relationship that has been demonstrated (Kanousi, 2005) is the one between culture and customers expectations regarding the way organization handles service failures. The study showed that individualism is associated with higher expectations regarding empowerment and lower expectations regarding explanations. Masculinity is associated with high expectations on tangible elements and the need for explanations, and long-term orientation is related to the high expectations on tangible elements. Regarding the other two cultural dimensions, no correlation could be done.

Starting from the fact that different types of errors in the services sector are the source of customers negative emotions, Varela-Neira et al. (2010) indicate that age has a negative impact on customer emotions that arise after a dissatisfaction related to the service purchased.

Another analysis conducted by McColl-Kennedy et al. (2003) points out that women and men don't react in the same way to different aspects of the recovery process. Although both

women and men have expectations regarding the interest shown by employees to the problems, the study showed that the probability that women return was higher when there was a male provider than when it was a female . Another important aspect that was analyzed in this study refers to the fact that women prefer to be heard and to be involved in the correction of errors and men do not consider their participation as an important factor. Thwaites & Williams (2006) and Robinson & Neeley (2011) stress the importance of empowerment and of training employees for handling the situations in which customers are not satisfied. Having a good understanding of appropriate decision-making approaches, employees can effectively use the necessary actions to correct service failures.

Conclusions

Service firms have to face an increasing competition and higher demands from customers. Although efforts are made, mistakes and failures are unavoidable. Admitting that failures occur and establishing certain recovery strategies after these failures can bring considerable advantages. The most important is customer confidence in the organization and his belief that no matter what happens, the service provider shall immediately take the necessary measures to remedy that situation and to find a new satisfactory solution. To get the best response to these situations of service failure we consider appropriate to take into account all aspects involved in the service process that can influence the success of the recovery strategy.

Future research

We intend to analyze these concepts in relation to a specific area, such as treatment and entertainment centers which is an area of great interest for our work. The relation between these concepts and other aspects can also be tested for our chosen field. We consider appropriate for a better understanding to address these issues from the perspective of the customer and also of the manager who is in charge to handle this situation of service failure.

References:

- Berry, L.L. and Parasuraman, A. (1992), Prescriptions for a service quality revolution in America, *Organizational Dynamics*, Spring: 5-15.
- Bitner, M.J., Booms, B.H. and Stanfield, T.M. (1990), The service encounter: diagnosing favorable and unfavorable incidents, *Journal of Marketing*, Vol. 54 No. 1, pp. 71-84
- Boshoff, C. (1999), RECOVSAT: an instrument to measure satisfaction with transaction-specific service recovery, *Journal of Service Research*, Vol. 1 No. 3: 236-49
- Chung, B. and Hoffman, D.K. (1998), Critical incident, *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 39 No. 3, pp. 66-71
- DeWitt, T. and Brady, M.K. (2003), Rethinking service recovery strategies, *Journal of Service Research*: JSR 6.2: 193-207
- Grönroos, C. (1988), Service quality, the six criteria of good perceived service quality, *Review of Business*, Vol. 9 No. 3, pp. 10-13
- Hart, C.W.L., Heskett, J.L., Sasser, W.E. (1990), The profitable art of service recovery, *Harvard Business Review*, July/August: 148-56
- Johnston, R. (1995), Service failure and recovery impact, attributes and process, *Advances in Services Marketing and Management: Research and Practice*, Vol. 4: 211-28
- Kanousi, A. (2005), An empirical investigation of the role of culture on service recovery expectations, *Managing Service Quality* 15.1: 57-69
- Kirti, D. and Umashankar, V. (2007), Service failure and recovery strategies in the restaurant sector: An Indo-US comparative study, *International Journal of Contemporary Hospitality Management* 19.5:351-363

- Levesque, T.J. and McDougall, G.H.G. (2000), Service problems and recovery strategies: An experiment, *Revue Canadienne des Sciences de l'Administration* 17.1: 20-37
- Lewis, B.R. & McCann, P. (2004), Service failure and recovery: evidence from the hotel industry, *International Journal of Contemporary Management*: 6-17
- McColl-Kennedy, J. R., Daus, C.S., Sparks, B.A. (2003), The role of gender in reactions to service failure and recovery, *Journal of Service Research : JSR* 6.1 (Aug): 66-82.
- Miller, J.L., Craighead, C.W. and Karwan, K.R. (2000), "Service recovery: a framework and empirical investigation", *Journal of Operations Management*, No. 18, pp. 387-400.
- Reichheld, F. (1996), Learning from Customer Defections, *Harvard Business Review*, 74 (2), 56.
- Robinson, L. & Neeley, S.E. (2011), Implementing service recovery through customer relationship management: identifying the antecedents, *The Journal of Services Marketing* 25.2:90-100
- Smith, A.K., Bolton, R.N. and Wagner, J. (1999), "A model of customer satisfaction with service encounters involving failure and recovery", *Journal of Marketing Research*, Vol. 36 No. 3, August, pp. 356-89.
- Tax, S.S., Brown, S.W. and Chandrashekaran, M. (1998), "Customer evaluations of service complaint experiences: implications for relationship marketing", *Journal of Marketing*, Vol. 62 No. 2, April, pp. 60-7.
- Thwaites, E. & Williams, C. (2006), Service recovery: a naturalistic decision-making approach, *Managing Service Quality* 16.6: 641-653.
- Varela-neira, C., Vázquez-casielles, R., Iglesias, V., (2010), The effects of customer age and recovery strategies in a service failure setting, *Journal of Financial Services Marketing* 15.1 (Jun): 32-48.
- Zeithaml, V.A. & Bitner, M.J. (2000), *Services Marketing*, 2nd dition Boston, MA:McGraw-Hill