

Service Failure, Recovery Strategies and Effect on Service Performance – A Literature Review

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ABSTRACT

Managers of service organizations must work hard towards developing appropriate strategies that can lead to customer retention. It is inevitable 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 retention. Service failure is a very common scenario, but recovering from such failures is one of the most challenging tasks that management faces. There is always a hidden opportunity in a service failure, it just depends on the management whether it worsens or can set an example of recovery. Those retail organizations that truly value their customers prepare their employees with service recovery strategies that include an immediate and appropriate service failure response. The problem of service failure is further compounded by the fact that there is an increased competition in most service industries. Analyzing service failures and service recovery strategies is an extremely useful management tool. Earlier service marketing research concentrated on defining service failures; later research examined recovery strategies. However, previous literature paid little attention on how to establish the relationship between service failure, recovery and firm's performance. This study helps to establish relationship between speedy identification of service failure and service performance. This review aims to analyze literature related to service failure, recovery and service performance. Chronologically arranged literature is studied using relevance to the topic. This paper brings the contribution about service failure and recovery strategies stated by various authors so far in the literature. The strategies so identified in the present paper can give valuable insights to the managers in designing the policies for retention of customer, to have competitive advantage and to establish relationship with service performance.

1. Introduction

Despite the consensus regarding the importance of offering high quality services, service failure still remains problematic for almost every business in the world. The widespread presence of service failure in retail service settings and the growth in importance of the service sector in the world's economy both lay stress on the need for a better understanding of the role that service recovery should play in today's marketplace. There are always some expectations in the mind of customer when he/she buys some product or service, when expectations do not match with perceptions, service failure occurs (Shapiro, Nieman and Gonder, 2006). After facing service failure, customer evaluates this failure and shapes his/her response in terms of emotions and behavior (Bonifield and Cole, 2007). The severity of service failure does not matter at all even a minor mistake from the service provider can cause service failure and consequences can be worse (Lee and Park, 2010). Service failures have the ability to demolish the customer loyalty (Mattila, 2001). To reduce the service failures during service delivery is a challenging job because the reputation of the service provider is on the stake at service delivery time (Fr, 2008). Different researchers have worked out on the causes of service failure and point out number of

reasons and incidents results in service failure (Funches, 2011; Chung and Kates, 2009; Park, Lehto and Park, 2008; Bunker and Ball, 2008; Forbes, 2008; Beverland, Baker, Meyer and Johnson, 2008; Dutta et al, 2007). The last decade has been witness to an increasing attention in the literature to service failures and recovery (SFR) issues. The main reason for this has been the realization that organized service recovery programs are key tools to firms in their efforts to maintain satisfied and loyal customers. A successful recovery can lead to increased loyalty behavioural intentions, including repurchase intentions and positive word-of-mouth (Reichheld and Schefter, 2000). Specifically, understanding the impact of SFR on customer loyalty has important implications for the design of the service delivery and recovery systems (Miller et al., 2000). The purpose of this study was to review the last ten years' literature on service failure and recovery from the leading services marketing journals to summarize existent literature offering various strategies to tackle service failure. Some studies have confirmed service recovery is one of principal drivers of performance (Eklof, Hackl and Westlund, 1999; Zeithaml, 2000). Excellent service performance has gained in importance as a means of enhancing loyalty (Gouthier et al., 2012). Hence, understanding what influences service performance can help

firms design and deliver appropriate offers to meet market demand (Wu and Liang, 2009). Inherently, services are intangible, indivisible, variable and perishable (Fisk, Brown and Bitner, 1993). Thus, no matter how hard service planning and quality management tries to provide zero-defect services, and problems like delays, forgotten orders, or untrained staff may occur at any stage of a service process (Johnston and Hewa, 1997). Collier (1995) reported that customers who experienced a service failure told nine or ten individuals about their poor service experience. Halstead, Morash and Ozment (1996) revealed that a single service failure due to bad service performance could potentially lead to multiple complaints, and it may result in severe consequences (Johnston and Hewa, 1997; Smith, Bolton and Wagner, 1999). Some studies (e.g., McCollough, Berry and Yadav, 2000; Michel, 2004) have offered evidence that post-recovery satisfaction levels are not restored despite effective recoveries. Hence, damage of business image and financial losses are generally inevitable when service failures occur. The study therefore purposes the following hypothesis:

H1: Identification of Service failure positively influences Service Performance

H2: Service Failure Recovery positively influences Service Performance

2. Methodology:

The study used previous papers published in the journals that are specifically focusing services marketing and are published by Emerald group publishing. A brief summary of all the articles about how studies were conducted and the area of study is presented in data preview analysis. These studies were divided into themes for discussion. Themes among those studies were categorized into two broader categories of service failure, service recovery strategies and service performance.

3. Data Preview Analysis:

Service Failure

Services are typically intended to meet or exceed client expectations (Berry & Parasuraman, 2004). Services that fail to meet that standard are referred to as service failures. Failures are those encounters during which the user assesses the service as flawed (Maxham & Netemeyer, 2003; Palmer, Beggs, & Keown-McMullan, 2000), or improper (Maxham, 2001). Service failures arise when customers experience dissatisfaction because the service was not delivered as originally planned or expected. It is important to keep in mind that service failures are determined by the customer and not by the service organization (Ennew and Schoefer, 2003). It is defined as "the real or perceived breakdown of the service in terms of either outcomes or process" (Duffy, Miller and Bexley, 2006). Within the literature, there seems to be agreement that service failure can be classified into two types. For example, Bitner (1990) suggested that service failure can occur both during core service delivery and during the process of service performance. Core service is defined as the main reason why a firm and customer are in contact (Zeithaml and Bitner, 2000). A second reason for service failure is an unexpected result in the service delivery process (Boshoff, 1997). Therefore, a process failure is where a problem arises in the delivery process, which may or may not affect the final core service performance. Huang and Lin (2011) further argued that avoiding service

failure during service delivery is very difficult task for the organization even for the top best service providers. They use both qualitative and quantitative techniques to explore the effectiveness of compensation strategies for services.

Service Failure Recovery

Service recovery can be defined as actions designed to resolve problems, alter negative attitudes of dissatisfied customers, and ultimately retain these customers (Miller et al., 2000). Service recovery has received considerable attention from both academics and practitioners in the recent past and has also become an important topic of research within services marketing. Service recovery is the response of the service provider to a failed service experience. Failed service is the specific event that occurs when service providers do not fulfil the promise to their customers. Researchers seem to agree that failure of service is inevitable in most service settings. Once a service fails, customers react to service failure in various ways such as complaining, seeking redress, negative voice and stopping the business relationship with the service organisation. Tax and Brown (2000) define service recovery as a process-oriented approach. It is a process that identifies service failures, effectively resolves customer problems, classifies their root cause(s), and yields data that can be integrated with other measures of performance to assess and improve the service system. As observed by Michel (2001), service recovery differs from complaint management in its focus on service failures and a company's immediate reaction to it. Existing literature has also identified that customers' future intentions are likely to be negative towards the service organisation following an unsatisfactory service experience. This leads to negative consumer outcomes, which are unfavourable to the service organisations. In the literature it has been acknowledged that retaining existing customers in long term business transactions is more profitable than recruiting new customers. Therefore, to regain lost customer support, service organisations need to overcome the negative impact of poorly performed service. In other words, organisations need to have service recovery activities ready for action. There is a range of activities that a firm can include in service recovery. Further, service encounters are situation specific. Therefore, service recovery attempts shall vary with each failure situation. Existing studies do not seem to acknowledge that consumer outcomes could differ with service recovery activities in different failure situations. Service recovery is not limited to customers who voice their dissatisfaction (Smith et al., 1999). The purpose of service recovery is to 'seek out and deal with service failures (Johnston, 1995).' It is the 'seeking out part that distinguishes recovery from complaint handling, as a vast majority of dissatisfied customers do not bother to complain. Instead, they vote with their feet and switch to another service provider. Recovery management is considered to have a significant impact on customer evaluations because customers tend to be more emotionally involved in recovery service than in routine service encounters (Bitner et al., 1990).

Service Failure Recovery Strategies

Service failure and recovery encounters represent critical moments of truth for organizations in their efforts to satisfy and keep customers. Service recovery activities are initiated either

by service employees who are involved in service performance, or by the direction of management combined with managers' discretion and organisational guidelines. The recovery action including managerial involvement and a firm's policies are organisational recovery actions. Policies implemented at the organisational level could include compensation. Firms need to undertake recovery actions in order to deal with a service failure and regain consumer confidence (Kelley et al., 1993). The need to implement service recovery actions is particularly important to improve consumer outcomes (refer to Section 2.3). For example, service recovery improves consumer loyalty (Hoffman et al., 1995) and referrals to family and friends (Swanson and Kelley, 2001b), and reduces complaint motive (McDougall and Levesque, 1999; Davidow, 2000). Similarly, an effective service recovery action can help to meet consumer expectations (Kelley et al., 1993; Stauss, 2002), thereby increasing overall satisfaction (Spreng et al., 1995) and reducing switching intentions to competitors (Ranaweera and Prabhu, 2003). Service recovery strategies describe the actions that service providers take in response to defects or failures. These actions range from "do nothing" to "whatever it takes to fix the problem". Within this range, the most common and frequently used actions are: apology, compensation, providing solace to the customer by giving cognitive control (frequent updating on the progress made to resolve the service failure) or providing responsive service etc. The effectiveness of recovery strategies depends on the situation and is influenced by such factors as importance and type of service. Effectiveness is also dependent on the way in which the service provider handles the problem. To satisfy the customer and restore trust the service provider can provide cognitive control. Recovery strategies should be planned, analyzed, evaluated, and implemented as carefully and thoroughly as any other element in the organization's arsenal for competitive advantage.

The success of a service recovery strategy can also differ depending on other factors, such as the type of service failure (Zemke and Bell, 1990). Smith et al. (1999) suggested that failure to perform the service as promised by the organisation can be encounter-based (process failure) and outcome-based (outcome failure). Although the importance of the type of service failure is acknowledged in the literature (e.g., Smith et al., 1999; Zhu et al., 2004), existing studies have not investigated the impact of different types of service failure on consumer outcomes (Mattila 2001) also identified this gap in the literature and suggested it should be addressed in future research. According to these researchers, "different types of failures or different levels of atonement might produce differential responses". In their recent study, Dutta, Venkatesh and Parsa (2007, p.361) noted: Providing compensation seems to be a better strategy of handling service failures as they seemingly are most effective in reducing the sense of disenchantment that customers obviously suffer in the aftermath of a service-failure and ensuing recovery action. Both forms of compensation (refund and replacement) are found to be effective service recovery actions. For example, Hoffman et al. (2003) and Lewis and Spyropoulos (2001) found that cash refunds can retain customers that might otherwise be lost to the service organisation. A discount on bills can also improve customer intentions of repurchase, WoM referral and satisfaction (Wirtz and Mattila, 2004). An important aspect of

any service product is the speed of response in service failure situations (Schoefer and Ennew, 2005). This perspective is supported by Bamford and Xystouri (2005, p.307) who note that, "service failure and the subsequent complaints from customers are a likely occurrence over a product/service lifetime and the rapid, effective handling of these has proven to be vital in maintaining customer satisfaction and loyalty". Andreassen (2000) also suggests that a speedy recovery is important when things go wrong. McCole (2004) argues that the task of converting a dissatisfied customer into a satisfied one is best done by quick actions. Frontline staff can play a crucial role by responding quickly to a problem because the speedy recovery is particularly important to customers (Broderick et al., 2000).

Service performance and Service Failures

A primary challenge to business management in the service industry is providing quality service to customers and keeping them satisfied. The assessment of service performance for firms is crucial. Early service marketing research focused on defining and measuring service quality (e.g. Chen, Chen and Lin, 2012; Zeithaml, 2000). Kelley and Davis (1994) mentioned that the frequency and severity of service failures are both quite important factors affecting service performance except for the timing of service failure occurrences. When a service failure occurs, the failure severity will determine the level of recovery required to restore customers' satisfaction. Hence, the different frequencies and severities of service failures result in different levels of service performance losses for firms. Maxham III and Netemeyer (2002) suggested that firms cannot merely become recovery experts and need to get it right the first time. Since prevention is always better than cure, the frequency of service failure should also be monitored and controlled to pursue the better service performance. Clearly, the lower the frequency of failure categories, the better the service performance is. The larger the severity of service failure, the smaller the tolerable frequency of service failure is. Hence, reducing the frequency of severe failures can enhance service performance and customer satisfaction. Literature on service recovery suggests that a good recovery has a positive impact on Service performance. Effective service recovery could not only eliminate the loss of service failure, but also improve much higher service satisfaction on contrast with the situation without service failure. Some even argue that a good recovery can increase satisfaction to a higher level than if nothing had gone wrong in the first place. Santos-Vijande, Diaz et al (2013) show that organizations with a strong service recovery system have a better service performance. Smith, Fox, and Ramirez (2010) show that employees' perceived investments by the organization in a recovery system affect their individual perception of the recovery climate, as these investments signal that the organization is taking complaining customers seriously. Employees high in job resources are generally less likely to experience burnout, and are more engaged. These feelings ultimately benefit their performance (Babakus, et al., 2003; Rod & Ashill, 2009).

4. Conclusion:

Overall, the literature seems to agree on the possibility of improving consumer outcomes with service recovery activities

if firms are able to focus on a quick response to failure, with apologising, compensation and empowerment (e.g., Boshoff, 1997; Mattila, 2001; Schoefer and Ennew, 2005; Worsfold, Worsfold, and Bradley, 2007; Zhu et al., 2004). The implications of this conclusion are that managers and staff can use these recovery actions to deal with recovery issues of customers: (1) acknowledgement of the service failure; (2) acceptance of responsibility for the failure; (3) apology; (4) explanation; (5) correction; (6) compensation; (7) a prompt response to the

service failure; (8) attentiveness; (9) empathy and (10) effort. Also, the present literature supports both the hypothesis and therefore we conclude that Identification of Service failure positively influences Service Performance and Service Failure Recovery positively influences Service Performance. It worthwhile to point that the study was limited to the available literature and due to the time limitation, the study has used the accessible literature. Further research can be done in view of the hypothesis to determine service performance.

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