

**Klaus Schöfer**

# Customer Evaluations of Service Failure and Recovery Encounters

**Doctoral Thesis / Dissertation**

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**CUSTOMER EVALUATIONS OF  
SERVICE FAILURE AND RECOVERY  
ENCOUNTERS**

by  
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## **Abstract**

Although many firms may aspire to offer 'zero defects' service, the possibility of service failures cannot be wholly eliminated simply because of the variety of factors that may impact on the delivery process. Consequently, the manner in which firms respond to service failures is increasingly seen as a factor that may separate the more successful firms from the others. This response, termed service recovery, is defined as the process by which the firm attempts to rectify a service failure. Some researchers suggest that a firm's response to failures can either reinforce customer relationships or exacerbate the negative effects of the failure. In fact, some assert that it is often a firm's response to a failure, rather than the failure itself, that triggers discontent. Recoveries are critical because customers perceiving poor recovery efforts may dissolve the buyer-seller relationship and purchase elsewhere. Such customer turnover can be costly, especially given that it costs more to win new customers than it does to retain current ones. As a consequence, service failure and recovery encounters have been recognised as critical moments of truth for organisations in their efforts to satisfy and keep customers.

Although there is a substantial literature on customer (dis)satisfaction and complaining behaviour, relatively little progress has been made in developing a theoretical understanding of how consumers evaluate a company's response to service failure and recovery encounters. Using perceived justice theory as a conceptual foundation, the current research develops and tests a model that (1) explains how consumers evaluate service failure and recovery encounters and (2) how these evaluations affect customer satisfaction and subsequent post-purchase behaviour and attitudes.

The study employed a two-stage research strategy. The first phase of the research included an extensive literature review and exploratory research involving semi-structured interviews and experiments. This first stage resulted in the development of a research model establishing the links between the antecedents and outcomes of customer satisfaction judgments involving service

failure and recovery encounters. In the second phase, the proposed conceptual model was evaluated through a self-administered, cross-sectional survey. Respondents were requested to recall a time when they complained to a travel and tourism services provider about a failed product/service experience. Open-ended questions were asked to capture, in their own words, respondents' descriptions of the complaint incident and process. Structured questions were included to measure the independent and dependent variables and to test the hypotheses proposed by the conceptual model of customer evaluations of service failure and recovery encounters.

The results of this research provide empirical support for proposed conceptual framework suggesting that perceived justice evaluations play an important role in customer evaluations of service failure and recovery encounters. The findings contribute to our understanding of post-purchase decision-making, notably in travel and tourism services marketing settings. Managers should also find the results informative in developing complaint resolution procedures.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background to the Research

Service failure and recovery is a critical issue for both service managers and researchers. However, until recently, research on the nature and determinants of customer satisfaction following service recovery (i.e. the actions a service provider takes in response to service failure [Grönross, 1988]) has been limited. Therefore, recovery has been identified as a neglected area requiring additional research (e.g., Andreassen, 1999; McCollough et al., 2000; Tax et al., 1998; Swanson and Kelley, 2001). As a result of the limited attendance given to recovery, little is known about how customers evaluate recovery efforts, what constitutes successful recovery, and the potential (and limits) of recovery to convert customer dissatisfaction into satisfaction.

Understanding recovery is important for managers. Service failure is one “pushing determinate” that drives customer switching behaviour (Roos, 1999), and successful recovery can mean the difference between customer retention and defection. In turn, customer retention is critical to profitability (Stauss and Friege, 1999). Reichheld and Sasser (1990) maintain that, in certain circumstances, a service company can boost profits almost 100% by increasing customer retention just by 5%. For service providers, recovery has special significance. Fisk et al. (1993) argue that due to the unique nature of services

(specifically, co-production and the inseparability of production and consumption) it is impossible to ensure 100% error-free service

## **1.2 Research Objectives**

The rationale of this study is both academic and practical. Specifically, the research was conceived with the dual objective of both meeting the rigor of academic requirements and making a contribution towards knowledge and understanding that would be recognised and valued by services marketing scholars and practitioners.

The research problem, an investigation of customer evaluations of service failure and recovery encounters with specific reference to travel and tourism series, can be delineated by reference to a number of key questions – two primary questions and two secondary, more specific questions.

### *Primary Research Questions:*

- (1) What role do justice perceptions play in customer evaluations of a company's response to their complaint?
- (2) How do these evaluations effect customer satisfaction and post-purchase behaviour and attitudes?

*Secondary Research Questions:*

- (3) What is the role of perceived justice evaluations in the elicitation of emotions during and/or after service complaint handling experiences?
- (4) Is there evidence to suggest that satisfaction is a cognitive-affective construct?

Whilst other elements of the research plan were progressively altered and modified with time these questions remained largely unchanged throughout the research period – even if they became more focused as they were transformed into testable hypotheses. In broad terms the researcher knew what the research was about from an early stage. Perhaps this was a result of the initial effort put into the production of a simple, clear and complete research problem.

### **1.3 Research Context**

First and foremost, travel and tourism is an extremely important research context in itself. Travel and tourism is best understood as a total market reflecting the demand of consumers for a wide range of travel-related products. It is now widely claimed that this total market is serviced by the world's largest industry (e.g., Middleton and Clarke, 2001). In 2000, the number of jobs worldwide in the international tourism industry was approximately 250 million. According to a forecast by the World Travel and Tourism Council, this figure will have risen by 32% to 330 million jobs by the year 2010. Worldwide international arrivals reached a new record level of 698 million in 2000 and are

expected to increase by 130% to 1.6 billion in the year 2010. Sales also increased in 2000 to a total figure of 476 billion US dollars. As this figures show, travel and tourism not only remains an important economic factor, it is also the number one growth industry.

Furthermore, travel and tourism services represent a particularly good context for the study of service failure and recovery encounters. This is due two reasons. First, the distinguishing features of services account for a large failure potential, in that the variability in terms of outcome and in terms of processes of production causes a much greater problem compared to other goods and services. Because the customer usually participates in the production process for a service at the same time he or she consumes it, it can be difficult to carry out monitoring and control to ensure a consistent quality. Second, the fact that the product is a composite of several services offers more opportunities for service failure to occur. This higher likelihood of service failures, is also evident in statistical reports by the Office of Fair Trading (OFT) which show that dissatisfying service encounters are particularly relevant to tourism settings. Popular media programmes such as “Holidays from Hell”, and “BBC Watchdog” further emphasise this fact. Not surprisingly, therefore, researchers interested in service failure and recovery, frequently study service encounters in associated industries (e.g., hotels, airlines, and restaurants).

## **1.4 Research Methodology**

Rather than identifying a single paradigm for the overall design of the study, this research combined qualitative and quantitative designs to overcome the weakness of each of them and at the same time realise the benefits of their strengths (Strauss and Corbin, 1998; Creswell, 1994; Greene et al., 1989; Desphande, 1983). Of combined design approaches, this research used the two-phase design approach "The dominant-less dominant design" where the study is based on a single dominant paradigm (in this research the quantitative) with one small component of the overall study drawn from the alternative paradigm (the qualitative) (Creswell, 1994). This method has been used for development purposes, as it included the sequential use of qualitative and quantitative methods, where the first method is used to help inform the development of the second (Greene et al., 1989).

## **1.5 Research Contributions**

### **1.5.1 Conceptual and Empirical Contributions**

The section highlights the research and conceptual contributions of the present research. The areas that are addressed include: Customer Satisfaction following Service Failure and Recovery Encounters, The Role of Perceived Justice in Emotion Elicitation during Service Recovery Encounters, Cognitive-Affective Character of Customer Satisfaction Judgements, Travel and Tourism Marketing and Relationship Marketing.



*(i) Customer Satisfaction following Service Failure and Recovery Encounters*

In an attempt to fill the void in marketing literature concerning how customer evaluate service failure and recovery encounters, the current research develops and tests a model which suggests that outcomes, procedures and the enactment of procedures are major factors influencing consumer decision making. This provides a theoretical basis for understanding how managerial actions (i.e. recovery strategies such as reimbursing loss) in response to complaints impact subsequent consumer satisfaction and behaviour.

*(ii) The Role of Perceived Justice in Emotion Elicitation during Service Recovery Encounters*

Much of the service failure and recovery research has been conducted with rather little cross-reference to emotion research. This neglect is particularly salient with respect to appraisal theories of emotions. Addressing this gap within the consumer behaviour and marketing literature, cognitive appraisal theory is used to investigate issues of emotions elicitation following service complaint experiences. Specific focus is placed on the role of perceived justice as an emotion-antecedent appraisal dimension during recovery encounters. By establishing how consumption emotions are formed, the current research deepens our understanding of service failure and recovery encounters and allows a better incorporation of emotions into existing (dis)satisfaction models in general.

### *(iii) Cognitive-Affective Character of Customer Satisfaction Judgements*

Moving beyond a strictly cognitive view of customer satisfaction, the present research examines the complementary role played by affective responses in satisfaction judgements. More specifically, the emerging literature on the influence of affective responses on consumers' evaluative judgements is integrated into a coherent framework that facilitates a systematic investigation of the influence of affective versus cognitive factors in determining customer satisfaction judgements.

### *(iv) Travel and Tourism Marketing*

The current research reinforces the need for travel and tourism marketing scholars to look beyond mere outcome dimensions in modelling customer satisfaction during and/or after service failure and recovery encounters. More specifically, the current research aims at providing much needed evidence of how customer evaluate service failure and recovery encounters in a travel and tourism services context.

### *(v) Relationship Marketing*

The last decade has seen a rising interest in the study of long-term, buyer-seller relationships. An important aspect of understanding the process of relationship development concerns how individuals or firms come to decide whether to increase investment in, or pull back from a relationship. Issues of justice appear to be useful variables in explaining trust in and commitment to a relationship.

Building upon existing research, this study provides further insight into the complex linkage between service recovery and relationship development and dissolution.

### **1.5.2 Managerial Contributions**

Understanding the impact of justice perceptions on post-purchase behaviour and attitudes has great relevance for managers who must deal with customer complaints. If the justice constructs have the proposed impact, then how complaints are handled should assume greater priority. This could include: training customer service personnel on appropriate interpersonal behaviour, allowing customers input into the decision making process, and providing outcomes which customers perceive as just under the circumstances.

Managers who are interested in maintaining customer loyalty and building relationships should pay particular attention to developing fair procedures for handling conflicts. In this sense, a fair process for resolving disputes may be a possible competitive advantage as customers seek relationship partners.

Managers should also weigh the costs of addressing complaints against the potential costs of negative word-of-mouth, brand switching and third-party actions. It is important to consider the complete ramifications of consumer post-purchase actions. Many recovery strategies (e.g., explaining mitigating circumstances for service failures) which employ consideration of the justice

concepts are inexpensive relative to the cost of negative WOM or lost patronage. Overall, the study of justice and its effects on consumer decision making should be useful in helping firms improve their customer satisfaction and retention strategies.

## **1.6 Conclusions**

This chapter outlined the central questions addressed in the thesis. In doing so, it first provided the background to the present research arguing for the need and importance of further research into customer evaluations of service failure and recovery encounters. This was followed by the explicit statement of the research objectives. The next section then justified the usage of travel and tourism services as an appropriate research context for the empirical part of this study. This, in turn, led to the description of the methodological rationale of the study. A declaration of the contributions of this research to academia and managerial practice concluded the chapter.

Chapter 2 now goes on to present a review of several literatures relevant to the conduct of research within the field of service failure and recovery. The presentation of related exploratory interview findings in chapter 3 then leads to the development of the conceptual framework guiding the study (Chapter 4). This is followed by a detailed description of travel and tourism services as the research context for this thesis (Chapter 5). Next is the presentation of the methodology used to test the model and the associated hypotheses in Chapter 6. Chapter 7 then presents the results from an experimental study, where the

role of perceived justice in the elicitation of emotions was further explored. Following this, the thesis moves on to chapters 8 and 9 where the finding of the main empirical part of this research will be presented and discussed. Finally, chapter 10 concludes the thesis with a discussion of conceptual and managerial contributions, limitations and future research opportunities.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

A basic premise of marketing is that organisational performance is improved by satisfying customers. Therefore, delivering satisfaction should be at the heart of any marketing strategy. Customer satisfaction, however, is not always achieved. As a consequence, customer dissatisfaction needs to be recognised as an outcome. This is especially important in a service context, since the distinguishing feature of services account for a large dissatisfaction potential (i.e. service failure). With services, the variability in terms of outcomes and in terms of processes of production causes a much greater problem compared to goods. Because the customer usually participates in the production process for a service at the same time as he/she consumes it, it can be difficult to carry out monitoring and control to ensure a consistent quality (Zeithaml and Bitner, 1996; Palmer, 1998).

As a reaction to a service failure, customers often engage in behaviours which may not be beneficial for a firm. Service recovery is the now well-accepted term for what service firms attempt to do to offset a customer's negative reaction to a service failure. That is, when service firms fail to get it right the first time with the customer, what do they do the second time to "make the customer whole" (Bowen and Johnston, 1999). Effective service recovery can even produce a customer who is more satisfied, even delighted, than if he/she

had been served right the first time (see for example, Etzel and Silverman, 1981; Hart et al., 1990). Even small gains in customer retention facilitated by service recovery can lead to significant gains in profitability (Reichheld, 1996).

Given the importance of service recovery, there has been a considerable amount of research published in recent years. The aim of this chapter is to review this literature. As such, the chapter is organised around four sections. First, the nature of service failures is discussed and existing classification schemes are presented. This is followed by the presentation of responses to service failures. Section three, then discusses the process by which a firm attempts to rectify a service failure (i.e. service recovery). Finally, section 4 outlines the different levels of service recovery management.

## **2.2 Service Failures**

Despite the firm's best efforts, service failures are inevitable, Planes are late, employees are rude or inattentive, and the maintenance of the tangibles surrounding the service is not always perfect. The very nature of services means that failures are bound to occur. Customers perceive a "service failure" when a service is not delivered as originally planned or expected. Consequently, Alexander (2002) suggests that service failure requires dissatisfaction on the part of the service customer.

An important component of learning from service failure is identifying the root cause(s) and the underlying process(es) contributing to the problem.

Classifying failures is a key link to understanding both how specific customer problems can be resolved and what process improvements need to be made. Bitner et al. (1990) used the critical incident technique to identify a service encounter classification model that has implications for organising service failures. Based on this research, failures fall into groups including service delivery system failures, failures in response to customer needs and requests, and failures related to unprompted and unsolicited employee actions. Each group comprises multiple categories that further segment types of failures.

*i) Employee Responses to Service Delivery Failures*

In general, service delivery system failures consist of employee responses to three types of failures: (1) unavailable service, (2) unreasonably slow service, and (3) other core service failures. Unavailable service refers to services normally available that are lacking or absent. Unreasonably slow service refers to services normally available that are lacking or absent. Unfortunately slow service concerns services or employees that customers perceive as being extraordinary slow in fulfilling their function. Other core service failures encompass all other aspects of core service failure; this category is deliberately broad to reflect the various core services offered by different industries (e.g., food service, cleanliness of the aircraft, and baggage handling). Operations management and design and quality system approaches can try to reduce these failures but perhaps at the expense of the empowerment of the contact personnel, which may be necessary to successfully undertake service recovery.



## *ii) Employee Responses to Customer Needs and Requests*

The second type of service failure, responses to customer needs and requests, pertains to employee responses to individual customer needs and special requests. Customer needs can be explicit or implicit. Implicit needs are not requested; if an airline customer becomes ill and faints, his or her needs will be apparent. The airline can fail to meet an implicit need when a flight schedule is changed and the airline fails to notify its customers so that alternative connection flights can be arranged. By contrast, explicit requests are overtly requested. In general, explicit requests are of four types: (1) special needs, (2) customer preferences, (3) customer errors, and (4) disruptive others. Employee responses to special needs involve complying with requests based on a customer's special medical, dietary, psychological, language, or sociologic difficulties. Preparing a meal for a vegetarian would count as a special request. Employee responses to customer preferences require the employee to modify the service delivery system in some way that meets the preferred needs of the customer. A customer request for the substitution of a menu at a restaurant is a typical example of a customer preference. An employee response to a customer error involves a scenario in which the failure is initiated by a customer mistake (e.g., lost tickets or a lost hotel key). Finally, employee responses to disruptive others require employees to settle disputes between customers, such as requesting patrons to be quiet in cinemas or requesting that smoking customers not smoke in the non-smoking section of restaurants.

### *iii) Unprompted and Unsolicited Employee Actions*

The third type of service failure, unprompted and unsolicited employee actions, pertains to events and employee behaviours that are totally unexpected by the customer. These actions are not initiated by the customer, nor are they part of the service delivery system. Subcategories of this group include (1) level of attention, (2) unusual actions, (3) cultural norms, (4) gestalt, and (5) adverse conditions. Negative levels of attention to customers pertain to employees who have poor attitudes, employees who ignore a customer, and employees who exhibit behaviour consistent with an indifferent attitude. The unusual behaviour subcategory includes employee actions such as rudeness, abusiveness, and inappropriate touching. The cultural norms subcategory refers to actions that violate cultural norms such as equality, fairness, and honesty. Violations would include discriminatory behaviour, acts of dishonesty such as lying, stealing, and cheating, and other activities considered unfair by customers. The gestalt subcategory refers to customer evaluations that are made holistically; that is, the customer does not describe the service encounter as discrete events but uses overall terms such as pleasant or terrible. Finally, the adverse conditions subcategory covers employee actions under stressful conditions. If an employee takes effective control of a situation when all others around him or her are “loosing their heads”, customers are impressed by the employee’s performance under those adverse conditions. By contrast, if the captain and crew of a sinking ship board the lifeboats before the passengers, this would be obviously be remembered as a negative action under adverse conditions.

Since the work of Bitner et al. (1990), a number of other studies have been reported (for example Kelley et al., 1993; Hoffman et al., 1995; Armistead et al., 1995; Lewis and Spyropoulos, 2001; Lewis and Clacher, 2001). Two systematic efforts to identify, classify and assess service failures from the customers' point of view are the studies of Kelley et al. (1993) and Hoffman et al. (1995), both of which group service failures into the classification provided by Bitner et al. (1990). Kelley et al. (1993) used the critical incident technique to reveal 15 types of retail failure and 12 types of recoveries. It was evident that problems related to service delivery systems and product failures were the most difficult to recover from. Hoffman et al. (1995) used the critical incident technique in the restaurant industry, where some failures (e.g., out-of-stock, product defects) were easier to recover from than others (e.g., employee behaviour, facility problems).

More recently, Lewis and Spyropoulos (2001) identified types of service failure and recovery strategies from critical incident interviews with bank customers. These were investigated further through a survey questionnaire, to discover customer perceptions of the importance of particular failures and the effectiveness of the service recovery strategies. The research data provided evidence of several types of service failure, representing both the outcome measure of service provision, such as lack of reliability and mistakes, and process dimensions of the banking sector, such as poor interaction with a bank employee. These failures were of varying importance, although less important failures became more important when a customer actually experienced it. They suggest that bank customers are more reluctant to perceive a failure when they

think it is related to their own choices, such as a bank with insufficient branches, or ability, for example being unable to understand a statement.

In addition to focusing on the cause of the service problem, classifying complaining customers can help manage long-term satisfaction and loyalty. This is based largely on the damage that cumulative service failures can have on customer retention (Smith and Bolton, 1998). Customers who complain frequently and/or are rarely satisfied with the resolutions may be the "wrong customer" (Lovelock, 1994). Wrong customers may have needs that the organisation cannot meet, may require more resources to serve than the revenue that would be generated by their patronage, or may simply be criminals. To manage the potential for customers to take advantage of its service guarantee, Hampton Inn maintains a database of customers who have invoked the guarantee. If the company determines that a customer is violating it trust, rather than booking that customer a room, employees recommend another hotel (Tax and Brown, 2000).

### **2.3 Responses to Service Failures**

A necessary condition for service recovery is identifying when failures occur. One underappreciated opportunity is encouraging customers to complain following a failure. Research, however, indicates that customers rarely choose to inform the firm following a service failure; rather, they frequently engage in activities such as negative word-of-mouth and brand switching (e.g., TARP [Technical Assistance Research Program], 1986). Investigations into consumer