SERVICE RECOVERY MANAGEMENT: CLOSING THE GAP BETWEEN BEST PRACTICES AND ACTUAL PRACTICES

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EXECUTIVE OVERVIEW

"Best practice" in service recovery has been well documented in the past 20 years and is familiar to many throughout industry and academia. Nevertheless, overall customer satisfaction after a failure has not improved, and many managers claim their companies cannot respond to and fix recurring problems quickly enough. We therefore explore the apparent gap between best and actual practices in service recovery management. We summarize best practice principles— which we categorize as process recovery, employee recovery, and customer recovery—then illustrate how the tensions among those three discipline-based approaches inhibit a firm's ability to implement a cohesive service recovery strategy. Successful service recovery management instead requires top management commitment to integration around a "service logic," fitted to shared values and strategy, as reinforced by the seamless collection and sharing of information and recovery metrics and rewards. This integration can yield "best practice" in service recovery management which research indicates will lead to higher customer satisfaction, higher customer loyalty, and higher profitability.

SERVICE RECOVERY:

WHAT IT IS, WHY IT MATTERS—AND ITS UNREALIZED POTENTIAL

Service recovery refers to the actions a provider takes in response to a service failure (Grönroos, 1988). A failure occurs when customers' perceptions of the service they receive do not match their expectations. According to this definition, service recovery is not restricted to service industries, and similarly, empirical research shows that dealing with problems effectively constitutes the most critical component of a reputation for excellent (or poor) service for a broad range of industries (Johnston, 2001b). Thus, any company that serves external or internal customers must accept that failures happen and institute systems and processes to deal with them.

In recent years, various empirical studies have addressed service recovery in divergent industries around the globe. Interest in service recovery has grown because bad service experiences often lead to customer switching (Keaveney, 1995), which in turn leads to lost customer lifetime value (Rust, Zeithaml, & Lemon, 2000). However, a favorable recovery positively influences customer satisfaction (Smith, Bolton, & Wagner, 1999; Zeithaml, Berry, & Parasuraman, 1996), word-of-mouth behavior (Maxham, 2001; Oliver & Swan, 1989; Susskind, 2002; Swanson & Kelley, 2001), customer loyalty (Bejou & Palmer, 1998; Keaveney, 1995; Maxham, 2001; Maxham & Netemeyer, 2002b), and, eventually, customer profitability (Hart, Heskett, & Sasser, 1990; Hogan, Lemon, & Libai, 2003; Johnston, 2001a; Rust, Lemon, & Zeithaml, 2004; Sandelands, 1994). Although some studies show that good initial service is better than an excellent recovery (Berry, Zeithaml, & Parasuraman, 1990), other empirical work suggests that an excellent recovery can lead to even higher satisfaction and loyalty intentions among consumers than if nothing had gone wrong in the first place (Bitner, Booms, & Tetreault, 1990; McCollough, 1995; McCollough & Bharadwaj, 1992), in a phenomenon referred to as the "service recovery paradox" (Zeithaml & Bitner, 2003). In summary, considerable evidence indicates the importance of service recovery and the "best practices" associated with effective service recovery management.

The impressive and growing conceptual and empirical literature on service recovery makes recent empirical evidence about customer *dis*satisfaction and *in*effective service recovery both surprising and disturbing. According to representative, longitudinal, cross-industry data provided by the American Customer Satisfaction Index, the overall satisfaction score for U.S. companies moved from 74.8 in 1994 to 74.4 in 2006 (*American Customer Satisfaction Index (ACSI)*, 2007). In some industries, customer satisfaction has significantly decreased (O'Shea, 2007); for example, complaints filed with the Association of German Banks [Bundesverband Deutscher Banken] increased from 1,510 in 1993 to 4,136 in 2006 (*Ombudsmannverfahren der privaten Banken 1992–2007*, 2007). A recent study involving 4,000 respondents from nearly 600 U.S. companies concludes that 56% believe their companies are slow to respond to and fix recurring problems (Gross, Caruso, & Conlin, 2007), and 41% of respondents to a 2006 survey of Austrian and German firms indicate they have no complaint handling process in place (Brüntrup, 2006). In the United Kingdom, various organizations (e.g., holiday providers, train companies, police services) report complaint increases of 8–40% per year (Johnston & Clark, 2005). Although certainly some companies and industries have improved, the more widespread perception holds that modern "service stinks" (Brady, 2000).

We attribute this gap between knowledge of best practices and customer dissatisfaction with actual practices to tensions among discipline-based, functional groups (management, marketing, and operations), with their competing interests for managing employees, customers, and processes, which in turn limit service recovery effectiveness. We first describe best practices in service recovery, then detail the cross-functional tensions that can compromise their implementation, and finally propose a set of integrative perspectives and practices that may help close the gap between best and actual practices.

BEST PRACTICES IN SERVICE RECOVERY

Interdisciplinary services literature offers a rich source of research and insights into effective service recovery. For example, one pattern reflects a discipline-based bias toward the study of service recovery. Management literature focuses on employees and how to prepare them to recover from service failures (Bowen & Johnston, 1999), which we term an *employee recovery* perspective. Operations literature centers more on the processes and how to learn from failures to prevent them in the future (Johnston & Clark, 2005; Stauss, 1993), which we refer to as *process recovery* . Finally, marketing literature focuses on the customer experience and satisfying the customer after a service failure (Smith et al., 1999; Tax, Brown, & Chandrashekaran, 1998), which we call *customer recovery*.

In the following sections, we present some consensually held principles that constitute best practices in service recovery, structured according to the three types of recovery**:** customer recovery (reestablish customer satisfaction), process recovery (learn from failures to avoid them in the future), and employee recovery (prepare employees to deal with failures).

Customer Recovery

The vast majority of service recovery literature focuses on customer recovery. We do not attempt to summarize this entire rich body of research herein but instead highlight two key, far-reaching findings. First, perceived fairness is a strong antecedent of customer satisfaction with the recovery effort by the firm. Second, though companies may recover customers after one failure, it is very difficult to recover from multiple failures.

Fairness is key

Recent contributions show that perceived justice represents a significant factor in service recovery evaluations (Seiders & Berry, 1998; Smith et al., 1999; Tax et al., 1998). Because a report of a service failure implies, at least to some extent, “unfair” treatment of the customer, service recovery must reestablish justice from the customer’s perspective.

Justice consists of three dimensions—distributive, procedural, and interactional (e.g., Greenberg, 1990)—and all three types contribute significantly to customers’ evaluations of recovery (Clemmer & Schneider, 1996; Tax & Brown, 1998). For example, distributive justice focuses on the allocation of benefits and costs (Deutsch, 1985) and acknowledges that customers consider the benefits they receive from a service in terms of the costs associated with it (e.g., money, time). When they do not receive expected outcomes, they are dissatisfied, which demands service recovery.

However, the outcome of a service is not the only criterion. Because customers are involved in the service production/consumption process, procedural justice (Lind & Tyler, 1988) also is key, especially when something goes wrong. Employees must “fix” the customer before they fix the problem (Whitely, 1994; Zemke & Connellan, 2001). Fixing the customer means that during a service recovery encounter, the customer’s negative emotions (e.g., anger, hate, distress, anxiety) must be addressed before he or she will be willing or able to accept a solution. In service recovery, procedural justice and interactional justice thus must be reestablished before distributive justice can be addressed. In this context, procedural justice relates to the evaluation of the procedures and systems used to determine customer outcomes (Seiders & Berry, 1998), such as the speed of recovery (Clemmer & Schneider, 1996; Tax et al., 1998) or the information communicated (or not communicated) about the recovery process (Michel, 2003). Firms must describe “what the firm is doing to resolve the problem so that customers understand mitigating circumstances and do not incorrectly attribute blame to the service firm when it is not responsible” (Dubé & Maute, 1996, p. 143).

Finally, interactional justice pertains to interpersonal fairness. People are sensitive to the quality of interpersonal treatment they receive (Bies & Moag, 1986), and because emotions tend to overwhelm cognitions in recovery situations (Smith & Bolton, 2002), service managers should “manage consumers' emotional experience during and after a service failure” (Dubé & Maute, 1996, p. 141). In leading the customer through a negative experience, employees should act quickly, show concern and empathy, and always remain pleasant, helpful, and attentive (Bell & Zemke, 1987; Hart et al., 1990; Johnston, 1995). Furthermore, customers should be treated as individuals whose specific requests are acknowledged, because “‘token’ responses by a company resulted in the most vehemently negative responses” (Spreng, Harrell, & Mackoy, 1995, p. 20).

Do not fail twice

You will be forgiven—but usually only once. Service recovery is likely to work after a single service failure but not after the company has failed the same customer twice (Maxham & Netemeyer, 2002a). In addition, customers’ “zone of tolerance,” or how much variance they will accept between what they expect to receive and what they perceive they actually receive, is wider when they assess the firm’s service delivery but narrows when they evaluate its attempt at service recovery (Parasuraman, Berry, & Zeithaml, 1991). Thus, no recovery strategy can delight the customer if an initial failure progresses into a recovery failure (Johnston & Fern, 1999); we find support for this claim in a longitudinal study that indicates that a “recovery paradox”—when customers are even more delighted after an effective service recovery than if the service was failure-free in the first place—can occur after one failure, but no such outcome is possible after two failures. Recovery efforts thus become even more challenging, and even impossible, when two similar failures occur, especially in close time proximity (Maxham & Netemeyer, 2002b).

Process Recovery

Learning from failures may be more important than simply recovering individual customers, because process improvements that influence customer satisfaction represent the most significant means of creating bottom-line impacts through recovery (Hart et al., 1990; Johnston & Clark, 2005; Reichheld & Sasser, 1990; Schlesinger & Heskett, 1991; Stauss, 1993).

What seems to annoy, or even anger, customers after a failed service recovery is not that they were not satisfied but rather their belief that the system remains unchanged, which makes it likely the problem will arise again (Johnston & Clark, 2005). One acid test, failed by many organizations(Gross et al., 2007), is the ability to take problem data from customers or staff and turn it into real improvements. Service failures should identify problems and the associated actions that can ensure such failures do not happen again (Johnston & Mehra, 2002).

Collect failure data

Three methods to detect service failures emerge from existing literature: Total Quality Management (TQM), mystery shoppers, and critical incidents. Most manufacturing companies adopt some tools and concepts associated with TQM (Powell, 1995), as have many service companies (Lovelock & Wirtz, 2007). The most well-known approaches include ISO 9000 certification (Corbett, 2006), the Malcolm-Baldrige National Quality Award (MBNQA) (Lee, Zuckweiler, & Trimi, 2006), and Six Sigma (George, 2003). Although these programs differ in their scope and method, all require firms to monitor and measure service failures. Consequently, firms that apply TQM programs generate valuable data about service failures.

Mystery shopping offers another way to detect problems (Erstad, 1998; Finn, 2001), because it involves field researchers making mock purchases, challenging service centers with mock problems, and filing mock complaints. For example, the central reservation office of a large hotel chain contracts for a large-scale, monthly mystery caller survey that assesses the skills of individual associates during the phone sales process (Lovelock & Wirtz, 2007). Although these relatively few incidents cannot provide representative and statistically significant results, they help identify error-prone processes. Mystery shopping can also be useful for staff training and establishing service benchmarks.

The third approach to gathering service failure data requires customer surveys that explicitly ask about critical incidents (Bitner, 1990; Chung & Hoffman, 1998; Edvardsson & Strandvik, 1999). Critical incident studies combine the advantages of qualitative studies, because respondents describe what happened in their own words, with those of quantitative studies, because they can categorize incidents systematically. Although critical incident studies are well developed (Gremler, 2004), only a few companies use this approach for service recovery management. Such limited applications are surprising, because critical incidents may link more directly to customer behavioral outcomes, such as switching or recommending, than changes in average satisfaction scores (Bitner, 1990; Chung & Hoffman, 1998; Edvardsson & Strandvik, 1999).

Analyze and interpret service failure data

Service firms often suffer from a tendency to overcollect but underutilize data (Schneider & Bowen, 1995). Learning from failures moves service recovery away from a transactional activity, interested only in recovering and satisfying an individual customer, toward management activity that improves systems and processes to ensure future customers are satisfied and costs are reduced. Therefore, learning from service failures means improving the service process through traditional operations management improvement techniques, such as the Frequency–Relevancy Analysis of Complaints (FRAC), Sequence-Oriented Problem Identification (SOPI) (Botschen, Bstieler, & Woodside, 1996; Stauss & Weinlich, 1997), or fishbone diagrams. The FRAC approach help managers prioritize their process recovery efforts by indicating that more frequent problems become more relevant for immediate action, whereas less frequent or less relevant problems can wait to be addressed (Stauss & Seidel, 2005). In contrast, the fishbone diagram qualitatively links internal problems (causes) with service failures (effects), usually through four steps (Stauss & Seidel, 2005). First, it defines the customer problem, such as, “the phone is not answered.” Second, it identifies the main causes (e.g., people, method, machinery). Third, it breaks down the main causes into identifiable problems (e.g., “people are away from the desk, either because they took a break or because of personal reasons”). Fourth, by identifying the most important causes, the fishbone diagram develops a plan of action. Alternatively, using critical incident information, Quality Function Deployment (QFD) tools can be applied to transform problem information into problem solutions and problem prevention activities (Stauss, 1993).

Employee Recovery

The strongest correlate of frontline service employee job satisfaction is the belief that they can produce the results customers expect (Heskett, Sasser, & Schlesinger, 1997). We use the term “employee recovery” to refer to management practices that help employees succeed in their attempts to recover customers or recover themselves from the negative feelings they may experience in recovery situations. Research shows that effective service recovery leads to higher employee job satisfaction and lower intentions to quit (Boshoff & Allen, 2000); furthermore, “linkage” research reveals a significant correlation between employee attitudes and customer attitudes (Pugh, Dietz, Wiley, & Brooks, 2002; Schneider & White, 2004).

Practice internal recovery

Although most organizations are aware of external service recovery, they perform poorly in their internal service recovery—namely, supporting employees in the difficult task of dealing with complaining customers (Bowen & Johnston, 1999). A recent study in the retail sector, for example, shows that dealing with customer complaints has a direct negative effect on service personnel's commitment to customer service (Bell & Luddington, 2006). Even when failures are due to factors over which employees have little or no control, customers hold them responsible. In addition, their personal biases lead employees to underestimate their role in service failures and customers to overestimate the employee's role (Bitner, Booms, & Mohr, 1994; Folkes & Kotsos, 1986). Furthermore, poor internal service recovery leads to not only to dissatisfied and disillusioned customers but also to stress-filled and negatively disposed staff, who feel powerless to help or sort out problems (Johnston & Clark, 2005). This helpless feeling (known as "learned helplessness"; Seligman, 1972) encourages, or rather induces, employees to display passive, maladaptive behaviors, such as being unhelpful, withdrawing, or acting in uncreative ways (Bowen & Johnston, 1999). Employee alienation associated with such helplessness becomes compounded when employees believe that management does not attempt to recover them from this helpless state. Finally, management must invest in improvements to the service delivery process to avoid placing employees in recurring failure situations.

Limit negative "spillover" from employees to customers

A large body of evidence now links employee and customer attitudes and suggests various mechanisms by which employee attitudes can "spill over" on to customers (e.g., Schneider & White, 2004). For example, when employees believe they are treated fairly, they tend to display organizational citizenship behaviors (OCBs) toward customers, which results in customer satisfaction (Bowen, Gilliland, & Folger, 1999; Masterson, 2001; Maxham & Netemeyer, 2003). Alternatively, when employees believe management does not support them by failing to prepare them to engage in successful service recovery, they feel unfairly treated and therefore treat customers unfairly; In other words, fairness spills over, and justice emerges as essential for both external customers and internal employees.

Because procedural justice has the greatest influence on OCB (Colquitt, Wesson, Porter, Conlon, & Ng, 2001), managers should question and listen to employees when they design and alter recovery processes. In an application of the "golden rule" of customer service, managers must treat employees the way they want them to treat customers (Maxham & Netemeyer, 2003). But in the absence of process recovery, both customers and employees will be failed.

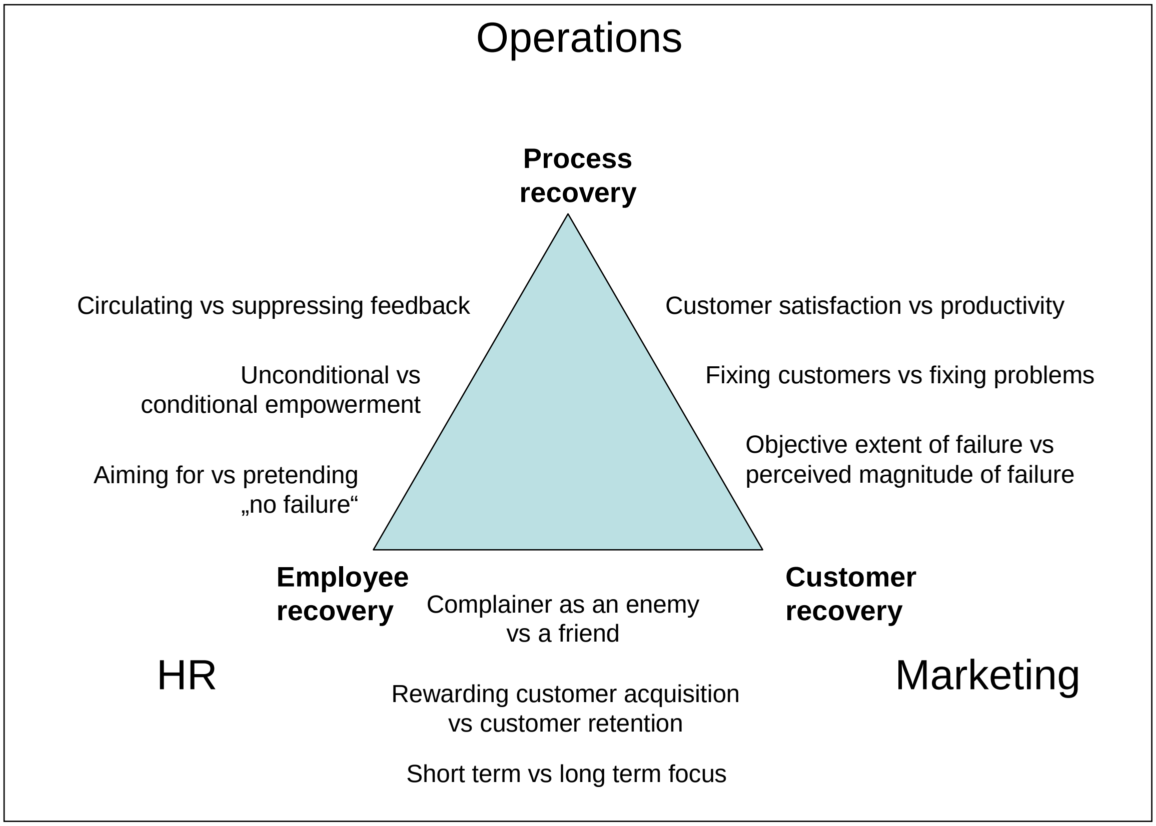
Employees may become so frustrated when they feel poorly treated that they resort to service sabotage. In other words, employee alienation arising from a lack of support can prompt employees to fail customers on purpose. Service sabotage (Harris & Ogbonna, 2002) clearly conflicts with the goal of service recovery management. According to one study, 85% of interviewed frontline, customer-contact employees had sabotaged service in the seven days prior to the interviews (Harris & Ogbonna, 2002); another study shows that 96% of employees sabotage their customers (Slora, 1991). A wealth of examples appear in the literature, including employees who brag, “You can put on a real old show. You know—if the guest is in a hurry, you slow it right down and drag it right out and if they want to chat, you can do the monosyllabic stuff. And all the time you know that your mates are round the corner laughing their heads off!” (Harris & Ogbonna, 2002, p. 170).

TENSIONS AMONG THE THREE SERVICE RECOVERY PERSPECTIVES

Despite accumulated, well-known evidence about best practices in service recovery, service recovery clearly remains poorly executed. What might explain this gap between best and actual practices? We attribute it to disciplinary-bound views that focus primarily only on customer recovery or employee recovery or process recovery. That is, the biggest challenge to the successful implementation of service recovery management is an ongoing lack of integration among the three disciplines, and the silo-ed perspectives of the organizational units responsible for employee, customer, and process recovery as evidenced by the often disparate priorities, practices, and language used by each (human resources management, marketing, and operations).

We address the many potential tensions among the three discipline-based perspectives according to the triangular relation among them (Figure 1). These challenges are likely to remain unless firms integrate service recovery management holistically and consider all three points on the triangle. We do not claim that all tensions are present in all firms, nor do we suggest that all are equally relevant. Rather, this list of tensions emerges from empirical and conceptual research and serves as a diagnostic tool for practicing managers.

Figure 1: The Tensions among Employee, Process, and Customer Recovery



Employee vs. Customer Recovery

By its very definition, employee recovery focuses on preparing employees to recover from service failures. This internal perspective differs from the external perspective of customer recovery, which considers satisfying customers after something has gone wrong its predominant goal. This overarching difference in perspective can give rise to some specific tensions.

Complainer as friend vs. complainer as enemy

From a marketing perspective, complaining customers represent an opportunity to create satisfaction rather than just an expensive nuisance (Berry & Parasuraman, 1991; Johnston, 1995). An appropriate attitude considers a customer who complains a true friend (Zemke, 1995) and recognizes complaints as “gifts” from customers (Barlow & Moller, 1996). However, in many companies, such perceptions are far from the norm, and, “Unfortunately, complaining customers are often looked on by business as being ‘the enemy’” (Andreasen & Best, 1977, p. 101). Employees dislike complaints because of the negative attributions that ensue, especially if the employee has caused the failure (Barlow & Moller, 1996). Complaints also force employees to cope with cognitive dissonance (Festinger, 1957), because they are trained that "the customer is always right" and yet may face a situation in which the customer is wrong (Stauss & Seidel, 2005).

Rewards for customer acquisition vs. customer retention

Rather than rewarding employees to recover, traditional service quality reward systems actually impede recovery by rewarding low complaint rates, which are assumed to indicate high customer satisfaction. In response, frontline employees become tempted to send dissatisfied customers away instead of admitting a failure has occurred, which would be the first step of recovery (Barlow & Moller, 1996). More broadly, traditional service quality measurement and reward systems focus on acquiring new customers but not preventing the loss of an existing customer because of a service failure.

When IBM Canada introduced a policy that allowed customer reps to write checks to satisfy customer problems, it failed. Despite the program's stated purpose, most IBM employees remained convinced the overriding IBM culture would ensure they got punished for spending that money (Tax & Brown, 1998).

Short-term vs. long-term focus

Effective service recovery requires an organizational willingness to invest in customer relationships for the long-term, with the objectives of customer recovery and retention. This requires a significant investment in the long-term, ongoing development of employees to deal with the unpredictable, real-time events and issues by which customers define failure.

However, the human resources (HR) function may be unwilling to invest this way in employees. For example, research on call centers reveals what the authors label a "sacrificial HR strategy," in which firms pursue the deliberate, frequent replacement of employees to keep a constant supply of fresh, still motivated employees at low cost (Wallace, Eagleson, & Waldersee, 2000). Unfortunately, such a strategy prevents employees from progressing on the learning curve so that they may understand how to deal with the more challenging moments of service failure and recovery.

Additional research evidence indicates that employee job experience relates positively to effective recovery (de Jong & de Ruyter, 2004). This study considers both proactive recovery, which refers to anticipating customer problems, taking preventive action to address weaknesses in service delivery systems, generating innovative ideas to deal with structural service problems, and actively scanning and monitoring demands for change, and adaptive recovery, which entails quickly providing alternative service offers for customers, apologizing for slow or unavailable service, and being flexible in solving customers' problems. In the context of bank employees and their customers, adaptive recovery behavior positively affects customer satisfaction and loyalty, whereas proactive recovery behavior benefits customer share. In other words, proactive and adaptive recovery behaviors complement each other (de Jong & de Ruyter, 2004). In controlling several external factors, these authors find that age relates positively to proactive behavior; therefore, they conclude that only more experienced employees possess the ability to address failure situations proactively. A similar result emerges in a business-to-business context; when shipping managers suggested ways to improve their freight company, they noted that better trained, knowledgeable, and cooperative staff would provide an important means to achieve proactive recovery (Durvasula, Lysonski, & Mehta, 2000). Furthermore, employees are less likely to engage in service sabotage if they desire to stay and pursue their career with their current firm (Harris & Ogbonna, 2006).

Customer vs. Process Recovery

Customer recovery, which is driven by marketing, has a central focus largely on the satisfaction of individual customers after a service failure and the maintenance of their loyalty. Operations management, to state the contrast most sharply, focuses less on pleasing and saving *individual* customers and more on balancing aggregate performance metrics by optimizing service processes.

Customer satisfaction vs. productivity

Although some proclaim quality is "free," offers a positive return on investment (Rust, Moorman, & Dickson, 2002), and relates positively to satisfaction, loyalty, and profitability (Heskett et al., 1997; Kamakura, Mittal, de Rosa, & Mazzon, 2002; Loveman, 1998), in practice, certain situations can increase quality and customer satisfaction at the *expense* of productivity and profitability. For example, employees may overcompensate a customer after a service failure, in a gesture referred to as "giving away the store." Similarly, service recovery may take too much of the employee's time and therefore decrease productivity. Furthermore, the costs of recovery usually are immediately visible and counted, whereas its returns are often delayed.

One cross-industry study indicates a positive relationship between productivity and satisfaction for goods but a negative relationship in the context of services (Anderson, Fornell, & Rust, 1997). A more recent study based on the Hong Kong Consumer Satisfaction Index also confirms the trade-off hypothesis between productivity and customer satisfaction in enhancing profitability (He, Chan, & Wu, 2007). These different relationships between productivity and satisfaction may depend on the difference between "standardization" and "customization." Improvements in standardized quality (e.g., reliability of manufacturing processes) enhance both productivity and satisfaction, whereas increasing customization (e.g., serving each customer differently) enhances satisfaction at the expense of productivity (Anderson et al., 1997). The very nature of service failures and recoveries means that delightful service recoveries decrease productivity, simply because they are highly customized. Thus, an obsession with fixing the problem may lead to insufficient attention to fixing the system.

Fixing customers vs. fixing problems

Firms' tendency to overemphasize distributive justice conflicts with research pertaining to the relationship of the three justice dimensions and service recovery effectiveness, as well as the connection to customer satisfaction. As we mentioned previously, all three dimensions of justice are good predictors of customer satisfaction and loyalty (Smith et al., 1999; Tax et al., 1998). For example, if a bank customer requests a deposit receipt but the machine fails to print one, the bank suffers a lack of procedural justice and leaves the customer quite worried. If the bank employee neglects this concern to focus instead on distributive justice (e.g., "your account was credited the right amount"), that employee has failed further by ignoring what, in the customer's view, is the most severe and critical aspect of the service failure. For some firms, the results from the National 2005 Customer Rage study (Grainer, 2003), with its more than 1000 respondents, may come as a surprise: For 53% of customers, the time lost in the recovery process represents the most severe damage, and only 30% cite financial loss as most important. Despite such findings, firms tend to assume that monetary compensation, a form of outcome justice, matters most. Furthermore, five of the six most common expectations of complaining customers relate to procedural and interactional justice (i.e., explain why the problem occurred, assure it will not happen again, state appreciation for customer's business, apologize, offer chance to vent), whereas distributive justice (i.e., repair the product) ranks third (Bitner & Broetzmann, 2005).

Objective extent vs. perceived magnitude of failure

Best practices in service recovery demonstrate the need to assess failure magnitude, severity, or criticality (Michel, 2004; Webster & Sundaram, 1998), not from the company's perspective (what did we do wrong?) but from the customer's (what consequences does the service failure have for them?). An interesting experiment illustrates the difference: In a car repair scenario, a car is not ready at the time promised (Webster & Sundaram, 1998). Respondents in the experiment experienced either a low criticality (no major consequences) or a high criticality (car needed to attend an important family reunion) situation. Although the company's service failure remained the same in both scenarios, respondents' preferred recovery strategy differed according to their perceived criticality. In low criticality situations, customers prefer a discount over an apology or reperformance of the service, whereas they indicate high criticality failures can be recovered most effectively by reperformance. Thus, severity of service failures, as defined by operations management, should not be confused with customers' subjective, context-specific evaluations of harm (Michel, 2001; Webster & Sundaram, 1998). Similarly, the customer-perceived "acceptability" of a service failure may be a stronger predictor of failure than a provider-defined "failure magnitude" (Michel, 2004).

Employee vs. Process Recovery

Whereas both employee and process recovery focus internally, they differ in their approaches to service recovery. Process recovery tends to focus on the design of procedures and systems that, ideally, customer, employees, and managers will use as intended, given a common goal of improving service processes. However, employee recovery approaches acknowledge the many intra- and interpersonal processes that may facilitate or inhibit employees' willingness and capability to improve and apply processes.

Circulating vs. suppressing feedback

Managers might agree that learning from customer feedback is an important, efficient, and effective tool for process improvement, but most also confront a lack of information flow between the business division that collects and deals with customer problems (e.g., customer service department) and the rest of the organization. As one study reveals, most firms fail to collect and categorize complaints adequately, to the extent that "Employees showed little interest in hearing the customer describe the details of the problem. They treated the complaint as an isolated incident needing resolution but not requiring a report to management".(Tax & Brown, 1998). In addition, the more negative feedback the customer service department collects, the more isolated this department becomes (Fornell & Westbrook, 1984). Some organizations even create specialist units, often geographically separate from the rest of the organization, that can soak up customer complaints and problems but encounter no expectation of feeding this information back to the organization as a whole.

We might label this employee orientation "See No Evil, Hear No Evil, Speak No Evil" (Homburg & Fürst, 2005b), which arises from a defensive organizational behavior approach to complaint handling. Actual or potential threats to employees' self-esteem, reputation, autonomy, resources, and job security lead to the suppression of information.

Unconditional empowerment vs. a contingency approach

According to a point of view frequently expressed in service literature and interviews with managers, only empowered employees can react to and fix a problem right on the spot (Boshoff & Leong, 1998; Carson, Phillips Carson, Roe, Birkenmeier, & Phillips, 1999; Hart et al., 1990), but in reality, the effectiveness of empowerment is far from universal. For example, customers may be more confident about recovery justice if it is determined by policies and procedures rather than the judgment and discretion of an individual, empowered employee. Customers tend to believe that if the recovery depends on the employee, they must be fortunate enough to get the right employee to have their complaint resolved satisfactorily (Goodwin & Ross, 1990). Finally, managers may fall into the “HR Trap” (Schneider & Bowen, 1995) of believing that once they free the frontline and make it responsible for customers, they no longer need to invest as much effort in employee support and systems upgrades to enable their success.

Aiming for no failure vs. pretending to achieve no failure

Investing to prepare employees to deal with failures might seem to compromise the many other investments required to build a “no failure” culture (Schweikhart, Strasser, & Kennedy, 1993). Many organizations invest heavily in quality improvement programs such as TQM (Powell, 1995), ISO 9000:2000 (Corbett, 2006), or Six Sigma (George, 2003; Lupan, Bacivarof, Kobi, & Robledo, 2005) and commit to complying with formal, certificated standards. Although such efforts may decrease the variance of quality delivered (Woodard & Madison, 2005) and therefore increase customer satisfaction, managers and employees also become more reluctant to accept that failures will still happen. These shared values reinforce the belief that the company is providing “zero failure” quality, in which case customer complaints and negative feedback produce cognitive dissonance (Festinger, 1957), which then leads employees to engage in coping strategies in which they neither accept nor process any negative information.

CLOSING THE GAP BETWEEN BEST PRACTICES AND ACTUAL PRACTICES IN SERVICE RECOVERY

Literature addressing service recovery best practices is rich and growing, yet the evidence indicates that service recovery practices have not actually improved. The gap between best and actual practices appears throughout various organizational systems and practices, so any attempt to specify remedies could quickly become far-reaching or even endless. However, according to our analysis of the empirical evidence, the basic source of these gaps is a lack of integration among the HR, marketing, and operations functions, which exists because of the limited perspective each area applies to service recovery management. To close the resulting gap, and to overcome the isolation of customer recovery, employee recovery, and process recovery , top management must pursue integration in four areas: (a) focus on a “service logic” (b)shared values and strategy, (c) seamless information flow, and (d) recovery-relevant metrics and rewards.

Integrate Around a “*Service* Logic”

A service logic describes how and why a unified service system works and should guide management’s design of the service system for both service delivery and recovery (Kingman-Brundage, George, & Bowen, 1995) In this sense, a service logic represents the integration of the potentially competing logics in our proposed triangle—namely, customer logic, which asks, “What is the customer trying to accomplish, and why?”; technical or process logic that considers, “How are service outcomes produced, and why?”; and employee logic, which demands, “What are employees trying to do, and why?”

When the answers to these logic questions weave together synergistically, the result is service logic and a firm basis for service delivery and recovery. Thus, service logic can appear at the very center of our triangle model. The logic and its application to design require two key tools: (1) service maps (Shostack, 1984) and service blueprints (Kingman-Brundage, 1989; Zeithaml, Bitner, & Gremler, 2005), roughly similar approaches to detailing the service experience across time, structures, and processes, that identify likely failure points and the need for recovery management strategies, and (2) cross-functional teams that engage in problem solving by integrating the tensions we have identified, the competing logics that drive them, and the service maps that reveal them.

Integrate Around Shared Values and Strategy

The service logic must fit the shared values of the organization’s culture as well as the business strategy. In turn, shared values and strategy, not competing functional interests, should guide service recovery management strategies and help resolve competing tensions. For example, to effect a dramatic cultural shift in the company mindset, from a culture with an illusion of no failure to a culture of recovery and improvement, the firm must manage the components of culture (Schein, 1990). Leadership must espouse recovery as a core value that leads to desirable organizational outcomes and then transmit and reinforce that value through cultural forms and practices. For example, stories that recount the outcomes of a successful or failed recovery incident should find their way into company folklore and conversation; training programs should focus on building the employee competencies required for effective recovery. Such efforts become the evidence that employees use to infer that their firm takes recovery seriously and, ideally, makes recovery a shared value.

When organizational and employees' values align, employees are more willing to exert the extra effort required in a failure and recovery situation (Maxham & Netemeyer, 2003). Recovery of dissatisfied customers can be very taxing for employees, but employees who share the organization's core values likely persevere. Thus, firms must focus on employee selection and socialization techniques that build the recovery culture and thus facilitate extra effort.

As to strategy, it must align with culture and thereby propose a means to resolve tensions. For example, consider the tension around "unconditional empowerment vs. a contingency approach". When the business environment is unpredictable, the strategy entails differentiation, and ties to the customer are relational, total empowerment appears applicable, but in a low-cost/high-volume environment with standardized, routine, and predictable tasks and transactional customer relationships (e.g., fast-food restaurant), a more mechanistic approach to service seems appropriate (Bowen & Lawler, 1992). In other words, the question of empowerment requires a contingency approach that depends, for example, on the pertinent. business strategy.

In further support of a contingency perspective, a recent study investigates the effectiveness of an organic approach (i.e., creating a favorable internal environment through cultural values and human resources) versus a mechanistic approach (i.e., establishing specific procedures and rules) to customer complaint handling (Homburg & Fürst, 2005a). The associated cross-industry study, which measures justice, satisfaction, and loyalty, shows that the effect of the mechanistic approach, which pertains mainly to distributive and procedural justice, is stronger overall, but that the approaches complement each other. In other words, an overreliance on an organic approach, which considers mainly culture and is more applicable to interactional justice, is myopic. However, because it requires empowerment, an organic approach may be more successful for businesses that are not just pursuing a low-cost strategy but rather provide customized, complex offerings (Homburg & Fürst, 2005a). Again, a contingency perspective emerges with regard to empowerment.

Integrate with Seamless Collection and Sharing of Information

To resolve conflicting points of view, firms should undertake decision making based on data and information (Eisenhardt, Kahwajy, & Bourgeois, 1997), which also can help address the tensions associated with information suppression, how customers define failure, and the complainer as an enemy. All the information that customers, employees, and managers possess about service failures can paint a complete picture of what has gone wrong. Unfortunately, only a small fraction of this information usually gets shared or collected. Companies might take two complementary approaches to collecting more information. The first increases the number of customers and staff who give feedback about poor service, and the second ensures that customers' and staff's feedback gets recorded and is accessible for service improvement initiatives, with clearly designated responsibilities for driving those changes throughout the organization (Johnston & Clark, 2005).

Although complaints provide a valuable resource, many dissatisfied customers are reluctant to complain (Plymire, 1991), so firms must address the problem of unvoiced complaints by “market[ing] the complaint-handling system to customers” (Andreasen & Best, 1977, p. 110). Complaint processing must be as simple, fast, and hassle-free as possible for the customer (Bolfing, 1989), which requires toll-free telephone numbers and customer feedback cards, talking to customers during service encounters, and surveying them after encounters. Existing literature also offers comprehensive guidelines that include some available software solutions(Stauss & Seidel, 2005).

Managers and employees must receive training regarding how to “mine” communications with customers—not just customer complaints—for service failures. Service recovery training should include the skills necessary to recognize customer feedback and then address and catalog service failure information easily and quickly. A common understanding between employees and customers about the nature of failures and its consequences can clarify the potential economic returns of a complaining customer and motivate employees to become complaint-handling champions. For example, Hart and colleagues (1990) recommend simulated real-life situations and role playing to give employees appropriate recovery skills. Furthermore, because complainers tend to be a firm’s more loyal customers in the first place, rather than more indifferent noncomplainers (Dubé & Maute, 1996), they should be considered opportunities to create satisfaction rather than “expensive nuisance[s]” (Berry & Parasuraman, 1991; Johnston, 1995). To gain full value from consumers’ voices, companies must want to hear them and believe that the customer is right until proven otherwise. In an ideal situation, the company and its employees proactively address service failures even before the customer realizes that something went wrong, which reduces the number of dissatisfied customers who never mention their complaint to the company before they switch to another service provider.

Finally, information sharing is essential to implementing empowerment initiatives, not just in the right situations but also in the right way. Empowerment is not as simple as just sharing power with employees; rather, it comprises sharing four ingredients: power × information × training × rewards (Bowen & Lawler, 1995). In this context, power affords employees more discretion to respond to failures; information defines customer expectations for delivery and recovery if necessary, customer satisfaction data, and the firm’s cost structure; training indicates how employees should lead customers through service failures (Spreng, MacKenzie, & Olshavsky, 1996); and rewards foster accountability, such that if employees use their empowered status to enhance (lose) profits, they share in those profits (losses). Employees therefore must have sufficient information to make good business decisions about how to recover a customer, including how much compensation they viably can offer.

Integrate with Recovery Metrics and Rewards

Specific measures focus organizational attention on the kind of behaviors that they plan to reward; these rewards in turn can foster goal congruence among competing interests (Kerr, 1995). Service recovery metrics and rewards thus can help resolve tensions among customer satisfaction and productivity, information suppression, the lack of incentive to save a customer, and aspects.

The survey we mentioned previously, with 4,000 respondents from almost 600 companies, indicates that only 41% of employees receive compensation and only 36% get promoted on the basis of customer satisfaction ratings (Gross et al., 2007). However, measuring and rewarding customer satisfaction and retention targets could serve as incentives for service recovery (Reichheld & Sasser, 1990). As we show, productivity and customer satisfaction objectives can correlate positively, negatively, or not at all (Anderson et al., 1997), so both must be measured.

Service recovery demands a reward structure that "give[s] employees positive reinforcement for solving problems and pleasing customers—not just for reducing the number of complaints" (Hart et al., 1990, p. 155), as well as possibly negative rewards for poor service recovery (Stauss & Seidel, 2005). A balanced scorecard (Kaplan & Norton, 1992) represents one possible approach for aligning and optimizing multiple objectives, because it identifies competing objectives and establishes normative decision rules (Kaplan & Norton, 2004). To ensure top management's attention, the approach must measure the benefits and costs of service recovery, though most systems cannot capture the actual value of a loyal customer (Reichheld & Sasser, 1990). Rather, the benefits of service recovery depend on the assumption that recovery decreases customer dissatisfaction and thereby increases both customer loyalty and customer satisfaction, whereas its counterpoint, customer defection, destroys customer lifetime value (Reichheld, 1996). In addition, dissatisfied customers likely engage in negative word-of-mouth behavior, which deters both existing and potential customers. To balance their objectives, firms must start with a simple model for calculating the return on recovery (Zhu, Sivakumar, & Parasuraman, 2004) that estimates

- Improvements in customer satisfaction and decreases in customer dissatisfaction as a result of customer and employee recovery;
- Decreases in service failures resulting from process and employee recovery and the impact on customer satisfaction;
- The impact of the previous trends on loyalty in terms of the decrease in lost customers;
- The impact of the first two trends on word-of-mouth behavior in terms of the value of more positive and less negative word of mouth, as well as its impact on customer acquisition; and

- The impact on total customer lifetime value caused by loyalty and word of mouth changes (Hogan et al., 2003).

For example, if the average customer lifetime value, defined as the discounted future contribution margin per customer (Rust et al., 2004), is 5000€, and service recovery efforts can reduce the number of lost customers by 600, the gained customer equity is 300,000€. Although an exact return of recovery is difficult to calculate, it is important to define the key drivers for such an indicator and thus achieve a common understanding of how service recovery affects the company's bottom line (Stauss & Seidel, 2005).

CONCLUSION

Service failures happen, and managers must know how to recover from them. Empirical evidence suggests that customer recovery, process recovery, and employee recovery constitute important elements of any service recovery strategy. The resultant challenge for managers is overcoming the many tensions among these discipline-based approaches. We suggest an orchestrated approach that integrates customer, process, and employee recovery through a service logic, value and strategy-driven approaches, seamless information flows, and recovery-relevant metrics and rewards. The end result is an integrated system in which employees are equipped with recovery competencies and resources; information about failures and recovery flows freely across vertical and horizontal boundaries within the organization; all functional members have positive attitudes toward and encourage complaints; appropriate measurement systems are the basis for rewarding recovery behavior; and the customer understands and appreciates the recovery process—all consistent with the organization's core values and strategy. This integration requirement in turn demands top management attention and support to create successful service recovery management. Our suggestions can help organizations close the gap between best and actual practices in their service recovery management and thus gain returns in the form of higher customer satisfaction and loyalty, enhanced employee satisfaction, fewer failures, lower costs, and overall higher profitability.

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