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

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EXECUTIVE OVERVIEW

Service recovery refers to the actions companies take when they have failed to provide the service customers expected, which makes it relevant for managers in any industry or organization that provides some sort of service to external or internal customers. Although the positive impact of service recovery on satisfaction, loyalty, and recommendation has been well documented empirically, evidence suggests that service recovery practice has not improved. Effective service recovery management requires a cross-functional approach that takes a marketing perspective (customer recovery), a management perspective (employee recovery), and an operations perspective (process recovery). By studying the three main recovery approaches in a variety of industries and countries, the authors identify eight hurdles that must be overcome to close the gap between actual and best practices and suggest how to do so.

THE GAP BETWEEN BEST PRACTICES AND ACTUAL PRACTICES

“Best practice” service recovery has been well documented in the past 20 years and is familiar to many throughout industry and academia. So why does evidence indicate that many firms do not have service recovery strategies in place or even attempt service recovery and that, among those firms that do make the attempt, customers tend to be dissatisfied with their service recovery efforts [1]? We explore the apparent gap between best practices and actual practices in service recovery management. We first summarize best practice principles in the literature, then provide incident-based examples of existing gaps, describe the hurdles that cause these gaps, and categorize them into distinct groups. Finally, we offer strategies for how organizations can overcome these hurdles.
SERVICE RECOVERY: WHAT IT IS AND WHY IT MATTERS

Service recovery refers to the actions a provider takes in response to a service failure [2]. 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 services industries. Empirical research also 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 [3]. 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, numerous empirical studies have addressed service recovery in various industries around the globe. Interest in service recovery has grown because bad service experiences often lead to customer switching [4], which in turn leads to a loss in customer lifetime value [5]. However, a favorable recovery has a positive impact on customer satisfaction [6; 7], word-of-mouth behavior [8-11], customer loyalty [4; 9; 12; 13], and, eventually, customer profitability [14-18]. Although some studies show that good initial service is better than an excellent recovery [19], 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 [20-22]. This phenomenon is usually referred to as the “service recovery paradox” [23].

BEST PRACTICES IN SERVICE RECOVERY

The interdisciplinary services literature offers a rich source of research and insights on effective service recovery. In the following sections, we present some consensually held principles regarded as best practices in service recovery, structured according to what we introduce as the three types of recovery: customer recovery (reestablish customer satisfaction),
process recovery (learn from failures to avoid them in the future), and employee (prepare employees to deal with failures) recovery.

**Customer Recovery**

**Fairness is the key**

Recent contributions show that perceived justice is a significant factor in service recovery evaluations [6; 24; 25]. Because a report of a service failure implies, 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 [26]. Distributive justice focuses on the allocation of benefits and costs [27] and acknowledges that customers consider the benefit they receive from a service in terms of the costs associated with that service (e.g., money, time). When they do not receive the expected outcome of a service, they are dissatisfied, which means service recovery is needed.

However, the outcome of a service is not the only thing that matters. Because customers often are involved in the service production/consumption process, procedural justice also is key [28], especially when something goes wrong. Thus, employees must fix the customer before they fix the problem [29]. Procedural justice relates to the evaluation of procedures and systems used to determine outcomes [25], such as the speed of recovery [24; 26]. Another factor in many recovery incidents is the information communicated about the recovery process, or the lack thereof [30]. 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” [31].
Finally, interactional justice pertains to interpersonal fairness. People are sensitive to the quality of interpersonal treatment they receive [32], and because emotions tend to be more important than cognitions in recovery situations [33], service managers need “to manage consumers' emotional experience during and after a service failure” [31]. In leading the customer through a negative experience, employees should act quickly; show concern and empathy for the customers; and remain pleasant, helpful, and attentive [17; 34; 35]. 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” [36].

All three types of justice contribute significantly to customers’ evaluations of recovery [1]. In addition, significant interactions among the fairness dimensions mean that poor performance on any one can dramatically limit customers’ overall satisfaction with recovery.

**Do not fail twice**

You will be forgiven, but usually only once. Studies show that service recovery is likely to work after a single service failure but not after the company has failed the customer twice [37]. Evidence also suggests that customers evaluate services with a “zone of tolerance” that frames how much variance they will accept between what they expected to receive in a service encounter and what they perceive they actually received [38]. Their zone of tolerance narrows from its initial size when they assess the firm’s service delivery to when they evaluate its attempt at service recovery after a failure. As a result of this narrowing, no recovery strategy can delight the customer if an initial failure proceeds into a recovery failure [39]. This finding has been supported by a longitudinal study that indicates a “recovery paradox”—such that 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 become even more challenging, and even impossible, when two similar failures occur, especially in close time proximity [12].

Accept that only the customer knows the “true” extent of the failure

Best practices in service recovery demonstrate the need to assess failure magnitude, severity, or criticality [40; 41] 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 [40]. The respondents in the experiment experienced either a low criticality or a high criticality situation. In the low criticality scenario, the delay had no major consequences, whereas in the high criticality scenario, the car was needed urgently to attend a family reunion. Although the company’s service failure was the same in both scenarios, the respondents’ preferred recovery strategy differed according to the perceived criticality of their situation. In low criticality situations, customers prefer a discount over an apology or reperformance of the service, whereas they indicate high criticality failures may be recovered most effectively by reperformance. These results clearly show that objective service failures should not be confused with subjective evaluations of harm [40]. Similarly, the customer-perceived “acceptability” of a service failure may be a stronger predictor of the failure than provider-defined “failure magnitude” [41].

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 [17; 42-45]. What seems to make customers annoyed, or even angry, after a failed service recovery is not so much that they were not satisfied but rather that they believe the system remains unchanged, which makes it
likely the problem will arise again [42; 46]. One acid test, failed by many organizations, is the ability to take problem data from customers or even staff and turn it into real improvements. Service failures should identify problems and actions to ensure such failures do not happen again [47].

Learning from failures also moves service recovery away from a transactional activity, concerned only with recovering and satisfying the individual customer, and toward management activity that pertains to improving systems and processes to ensure both that future customers are satisfied and that costs are reduced. Therefore, learning from service failures means improving the service process using traditional operations management improvement techniques, such as quality circles, cause-and-effect diagrams, and fishbone diagrams [46; 48].

**Employee Recovery**

Although most organizations are aware of external service recovery, they are poor at their **internal** service recovery—namely, supporting their employees in their difficult task of dealing with complaining customers [49]. Failures often occur due to factors over which employees have little or no control, yet customers hold them responsible. Furthermore, studies show that the strongest correlate of frontline service employee job satisfaction is their belief that they are able to produce the results customers expect [50].

The lack of internal service recovery leads 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 [46]. This helpless feeling (known as “learned helplessness” [51]) encourages, or rather induces, employees to display passive, maladaptive behaviors, such as being unhelpful, withdrawing, or acting in uncreative ways [49]. The employee alienation associated with this
helplessness becomes compounded when employees believe that management does not attempt to recover them, the employees, from this helpless state.

Preparing employees to deal with failures involves creating a service recovery culture, equipping them with the relevant competencies and resources, organizing the communication flow within the organization, developing a positive attitude toward complaints, creating appropriate measurement systems, encouraging complaints, and marketing the recovery process to customers.

**HURDLES IN IMPLEMENTING BEST PRACTICE**

In this section, we explore hurdles to the implementation of service recovery best practices. The impetus for this research emerged from a conversation among the authors, with backgrounds in three different academic disciplines, on service recovery management. As we determined, independent service recovery studies and consulting projects in different industries and across different countries\(^1\) provide a puzzling pattern: Although most managers in the studied companies understood the best practices of service recovery management, their actual practices lagged far behind. Furthermore, in a longitudinal study conducted by the first author, with 16,000 customers interviewed every four months over a period of two years, no improvement over time emerged.\(^2\) Intrigued by these results, we carried out an exploratory qualitative study in the setting of a leading bank in Europe with a decade-long history of measuring customer satisfaction and a reputation as a service quality leader. The banking industry is well suited for service recovery research because of its highly intangible service and formal relationships with customers. We interviewed 11 managers and 16 employees and collected critical incidents from a service

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\(^1\) Because of the double-blind review process, we do not cite our own work before publication.
provider perspective. Following standard procedure in the critical incidents technique (CIT) [52-54], we categorized the incidents into eight groups, each of which represented a hurdle to implementing best practice (see Table 1). To validate and generalize the emerging categories, we reviewed management, operations, and marketing literature and found evidence of all eight hurdles, which confirms their relevance for management practice. This listing of hurdles is not exhaustive, nor could it be because all aspects of organizational activity may influence service recovery, but those we list are common and central in impeding best practice.

Hurdles in Customer Recovery

Complaints are taken seriously, but the firm decides what a complaint is

According to our interviews, managers and employees define complaints very narrowly, whereas customers tend to categorize a much broader set of feedback as complaints. For example, when a customer tells an employee that the ATM did not work during the weekend, employees did not consider this comment a complaint. As one employee said,

I’d rather focus on things where we made a mistake.

Similarly, employees consistently denied that a customer who noted he or she was missing an account statement had issued a complaint and instead indicated,

These things happen. There is nothing we can do about it. We do not put it in into our complaint system.

First fix the customer, then fix the problem

Our interviews also indicate that, in general, frontline employees and managers overemphasize distributive justice (e.g., address the financial loss of the customer) at the expense of procedural and interactional justice. For example, in a case in which an ATM did not print a receipt, the bank representative told the customer:

2 Because of the double-blind review process, we do not cite our own work before publication.
The 100 Euros were debited correctly from your account. That is what matters.

The tendency of firms to overemphasize distributive justice is at odds with research on the relationship between the three dimensions of justice and service recovery effectiveness, as well as that with customer satisfaction. As we mentioned previously, research shows that all three dimensions of justice are good predictors of satisfaction and loyalty [6; 24]. In the preceding case, the failure to print a receipt worries the customer (lack of procedural justice), but the bank employee neglects this concern. The overemphasis on distributive justice remedies thus represents a hurdle to accepting the customer’s view of the most severe and critical aspects of the failure that should be recovered. Results from the National 2005 Customer Rage study [55], with more than 1000 respondents, show that for 53% of the customers, the time lost in the recovery process represents the most severe damage; for only 30% was it the financial loss. Despite such findings, firms tend to assume that monetary compensation as 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., explanation of why the problem occurred, assurance it will not be repeated, statement of appreciate for the business, apology, chance to vent), whereas distributive justice (i.e., having the product repaired and the service fixed) ranks third [56].

**Hurdles in Process Recovery**

**The suppression of information about problems prevents process improvements**

Although most managers might agree that learning from customer feedback is an important, efficient, and effective tool for process improvement, one of the biggest hurdles to doing so stems from the lack of information that flows between the part of the business that collects and deals with customer problems (e.g., customer service department) and the rest of the organization. Research shows that the more negative feedback the customer service department collects, the more isolated this department becomes [57]. Some organizations even have created
specialist units, often geographically separate from the rest of the organization, that are regarded as handy mechanisms for soaking up customer complaints and problems but have no expectation of feeding this information back to the organization as a whole.

Even when communication links exist, employees often are reluctant to enter complaint information into the firm’s data management systems. Many suppress and refuse to share the information. In our banking study, we asked employees and managers whether they followed established recovery procedures, which include mandatory entries of information into customers’ database files. We learned that these entries are performed very inconsistently by both managers and staff. Some respondents follow the procedure “very strictly,” some decide on a case-by-case basis what to enter, and others have no idea that the procedure even exists. One manager explicitly refuses to comply:

I know that there is a formal procedure in the handbook, but I have not read it and probably never will. I solve complaints immediately, preferably by phone or person-to-person, I don’t like to write things down…. Complaints are always problems; I want to avoid this as much as I can. However, I always try to show to the customer that I am concerned about solving his problem properly.

Employees such as this fail to comply for well-intentioned, but myopic, motives: They see their role as dealing with the problem and helping the customer but are not aware, or made aware, that by failing to log the information, they help prevent the underlying problem from being solved. As another employee put it:

To be honest, I never enter it into the system. I go directly to my supervisor with a complaint and try to solve it…. Probably, it should be entered.

In other organizations with a culture of blame and mistrust, problems and complaints are, not surprisingly, quickly suppressed. One employee admitted that despite the company’s formal complaint-handling process, complaints may not be admitted or communicated properly:

It’s clear, if bad things happened … if this goes to the top, it is more likely that it gets suppressed or covered…. It gets lost somewhere in the line of command, at the end; someone is responsible for the failure.

Another employee confirms this reluctance to admit mistakes:
I hated when I made a mistake and had to report it to my boss.

We might label this employee’s orientation “See No Evil, Hear No Evil, Speak No Evil” [58], which arises out of 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.

**Productivity pressure often favors a quick fix**

Although some proclaim that quality is “free,” offers a positive return on investment [59], and is positively related to satisfaction, loyalty, and profitability [50; 60; 61], 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 often referred to as “giving away the store.” Similarly, service recovery may take too much of the employee’s time and therefore decrease his or her 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 between the two constructs in the context of services [62]. These different relationships between productivity and satisfaction may be explained by differentiating between “standardization” and “customization.” Improvements in standardization quality (e.g., reliability of manufacturing processes) can enhance both productivity and satisfaction, whereas increasing customization quality (e.g., serving each customer differently) enhances satisfaction at the expense of productivity [62]. The very nature of service failures and recoveries means that delightful service recoveries decrease productivity, because they are highly customized. In the bank we study, a shortage of staff and high
administrative workloads was the reason most frequently cited for not having enough time to deal with real customer issues. According to one employee,

[Customers who use e-banking] ask me all this technical stuff I don’t understand. I tell them: I would like to help you but please try to reach [the hotline]. I do not call the hotline to tell them they should call my customers. I agree [customers do not understand this], but neither do I. But what shall I do?

Blaming efficiency pressures, one employee admitted:

The objectives are just too high, we are under time pressure. You know, you have to input a securities transaction and 110 [instead of] 120 is a likely typo. That’s the way it is.

A third respondent also blamed high productivity targets for poor recovery:

I think, there are some customer reps who take [the complaint] and disregard it purposely over time…. I think, we just learned how to live with that. There are new products, new services, and new strategies, etc. Customer reps learned how to live with that, with a certain frequency, complaints just come in.

Thus, an obsession with fixing the problem may lead to underattendance to fixing the system.

**Hurdles in Employee Recovery**

**Maintaining the illusion of a “no failure” culture**

Investing in preparing employees to deal with failures might be viewed by as compromising the many other investments required to build a “no failure” culture. Many organizations invest heavily in quality improvement programs, such as total quality management, ISO 9000:2000, or Six Sigma [63], and commit themselves to complying with formal, certificated standards. Although such efforts may decrease the variance of quality delivered [64] and therefore increase customer satisfaction, managers and employees also may become more reluctant to accept that failures still happen. These shared values may reinforce beliefs that the company is providing “zero failure” quality. As a consequence, customer complaints and negative feedback produce cognitive dissonance [65], which lead the employees to engage in coping strategies through which they neither accept nor process any negative information.
The false belief that empowering the frontline is effective in all situations

According to a point of view frequently expressed in service literature and in our interviews with managers, only empowered employees can react and fix a problem right on the spot [17; 66; 67]. However, research and theory on empowerment indicate that the effectiveness of empowerment is far from universal. For example, there is evidence that customers may believe that justice in recovery is best ensured if it is determined by policies and procedures rather than by 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 if their complaint is to be resolved to their satisfaction [68]. In addition, researchers provide several conditions in which employee empowerment will be effective, which are contingent on the situation, including the right mix of the business environment, strategy, and customer expectations [69; 70].

Even if empowerment is the right approach for a given situation, it is often implemented poorly—the right thing done the wrong way. Employees may be set free of rules and regulations to decide how to satisfy the customer but then receive little or no training, resources, or boundaries for how they might recover dissatisfied customers most appropriately. Management may tend to fall into the “HR Trap” [71] of believing that once it sets the frontline free and makes it responsible for the customer, managers no longer need to invest as much effort in employee support and systems upgrades to enable these empowered employees to be successful. We heard the following from frontline employees who felt they had been placed in this situation:

[In order] to deal with complaints, what we need, simply, is a lot more assistance in administration. It cannot be, well, it must not be the case that a relationship manager who is responsible for everything, for consulting his clients, has to spend 50% or 60% of his time on administration, on implementing tedious details. We need more resources to focus on what’s important.
[The headquarter] is committed to retail banking. However, they leave the problems of implementation to us…. I have to send employees to other branches all the time. If I do not get more staff, I cannot implement our customer satisfaction strategy.

Unfortunately, our employees do not have enough time to prepare themselves for those [recovery] situations. And then, when there is pressure, they make mistakes.

**Recovering a customer from a service failure does not explicitly appear in employee performance measures**

Common wisdom is that measures focus attention and organizations get the employee behaviors they reward. Recovery, in practice, has little support in this sense. Traditional service quality reward systems may impede recovery by rewarding employees, teams, branches, or service centers for their low rates of complaints, which are assumed to indicate high customer satisfaction. Therefore, frontline employees are tempted to send a dissatisfied customer away instead of admitting that a failure has occurred, which would be the first step of recovery. More broadly, traditional service quality measurement and reward systems focus on the acquisition of new customers but not on the prevention of a potential customer loss because of a service failure. Our study confirms this lack of emphasis on service recovery in the employee performance management system through a simple observation:

Saving a customer does not appear in any statistic.

**The worst case: Service sabotage causes service failures and precludes recovery**

The employee alienation that may arise from feeling unsupported can lead to employees who fail customers on purpose. This behavior, called “service sabotage” [72], clearly conflicts with the goal of service recovery management. A recent study reports that 85% of interviewed frontline, customer-contact employees had sabotaged service in the seven days prior to the interviews [72].

Several other examples can be found in the literature:
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! [72]

[As a flight attendant,] I served decaf coffee to the entire cabin instead of regular coffee, hoping they would all fall asleep [73]

There was a woman who came into the restaurant every morning. The one waitress on the floor didn’t like this woman and gave her minimal service. The women asked for a refill and marmalade, but the waitress wouldn’t go back to the table. I brought her what she wanted; the waitress came back to the table and began to verbally abuse the customer. [23].

Employees also publish their stories on the Internet:

Many years ago (when I was in high school) I worked at a fast food restaurant (Arthur Treacher's Fish & Chips). The customers could be horrible. The worst was this guy who was a pig and kept saying gross sexually harassing stuff to me while ordering. Then he went and stole salad from the salad bar. So I grabbed the microphone that we would use to give orders to the cook's and shouted, "That man is stealing salad from the salad bar!" I ended up getting in trouble and my manager apologized to the pig stealing the salad! It is my fondest memory of working there though, the look of horror on his face when I yelled that in the microphone and everyone in the place looked at him! [74]

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

The body of literature addressing the best practices of service recovery management is rich and growing, yet no evidence indicates the practice of service recovery has improved over the years [58]. Because the causes of the gap between best and actual practices in managing service recovery appear throughout many organizational systems and practices, any attempt to specify remedies could quickly become far-reaching or even endless. However, we believe many of the hurdles we cite, which compromise the implementation of the best practices we describe, can be overcome through several remedies (which we summarize in Table 1).

| INSERT TABLE 1 AROUND HERE |
**Foster a More Expansive, Customer-Driven Definition of Failure**

Managers and employees must be trained in how to “mine” all communications with customers—not just customer complaints—for service failures. Consider the following example, mentioned in our interviews:

Credit card call center employee: [Introduction]. How can I help you?
Customer: I have a question regarding my statement. I don’t understand why I have to pay 75 CHF annual fee for the card. I thought with my cumulative amount of spending, I get the card fee waived.
Employee: Let me check…. Yes, with a total transaction volume of 15’000 CHF, you don’t have to pay a fee. I will correct this and you will see it on your next statement. Anything else I can help you with?
Customer: No, thanks, that’s all.

Most likely, the customer’s perception after this interaction was that he successfully complained about a service failure. However, our respondents did not perceive this interaction as a complaint, partly because the customer phrased his complaint as a question. In turn, the employee is unlikely to report the incident, which suggests that the firm will not resolve the systematic issue that caused the charges to appear in the first place.

The second approach to avoid negligence of customer complaints requires customer surveys that explicitly ask for critical incidents [52; 75; 76]. Critical incident studies combine the advantage of qualitative studies, in that respondents describe what happened in their own words, with the advantages of quantitative studies, because the incidents can be categorized systematically. Although literature on critical incident studies is well developed [54], only a few companies use this approach for their service recovery management. This limited application is surprising because critical incidents may be linked more directly to customer behavioral outcomes, such as switching or recommending, than to changes in average satisfaction scores [52; 75; 76].

**Match Different Types of Recovery and Types of Failure**

Rather than focusing so exclusively on distributive (or outcome) justice, recent research indicates the need to match the type of recovery to the type of failure, such that an outcome
failure (e.g., bad meal) should be recovered through distributive justice (e.g., reduction in price), whereas a process failure (e.g., rude waitress) should be recovered by procedural or interactional justice (e.g., an apology). Such matching is based on the notion that losses weigh more than gains [77] and that customers use mental accounts [78]. Therefore, if the loss pertains to the outcome dimension, it is more efficient to make up for that loss with a similar gain instead of a gain on another, less critical dimension.

This general matching principle may be moderated somewhat by the service situation. In an operating room, after something has gone wrong, all the customer wants is to survive; the sedated patient could not care less about the friendliness of the staff. Therefore, in this scenario, a positive outcome (health) is much more important than the process (how well the doctor informed the customer about the surgery) or interactions. However, when throwing a wedding party, process failures (e.g., the cake is not ready when the wedding couple is, guests cannot park because of poorly instructed security guards) that remain unrecovered can cause major disappointments.

**Increase Customer and Staff Feedback and Ensure It Is Used to Drive Improvements**

The sum of all information that customers, employees, and managers have about service failures can give a complete picture of what has gone wrong. Unfortunately, only a small fraction of this information usually is shared and collected to improve the service by learning from failures. We discern two different approaches to collecting information within a company. The first increases the number of customers and staff who give feedback about poor service, and the second ensures that the customers’ and staff’s feedback is recorded and accessible for service improvement initiatives and that the responsibility for driving the changes through the organization is clearly designated [46].
Although complaints provide a valuable resource for improving services, many dissatisfied customers are reluctant to complain [79]. Therefore, the problem of unvoiced complaints should be addressed by “market[ing] the complaint-handling system to customers” [80]. Complaint processing must be as simple, fast, and hassle-free as possible for the customer [81], which can be achieved by providing toll-free telephone numbers and customer feedback cards, talking to customers during the service encounter, and surveying them after the encounter. The literature also offers comprehensive guidelines that include available software solutions [91].

When we asked our respondents if it were easy for customers to complain, the employees stressed that the personal relationship between the customer and the relationship manager makes all the difference. One employee even seemed annoyed by our question when he responded:

You always ask about what the ‘bank’ does. But I am the person in charge. I make it easy for the customer. I would react immediately, would use this as a hook, then you come and meet me, I invite you for a coffee, and we discuss the issue. I think I make it easy for you.

**Increase Employees’ Ability and Motivation to Solicit Customer Feedback and to Become the “Voice” of Failed but Silent Customers**

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 clarifies the potential economic return of a complaining customer and motivates employees to become complaint handling champions. For example, Hart and colleagues recommend simulated real-life situations and role playing to give employees the appropriate recovery skills [17]. Furthermore, because complainers tend to be more loyal customers than non-complainers [31] complaining customers must be regarded as opportunities to create satisfaction rather than as “expensive nuisance[s]” [35; 82]. People with the right attitude truly believe that a “customer who complains is your friend” [83] and that “[a] complaint is a gift” [84], or an opportunity to recover and improve rather than lose the customer. Unfortunately, in many
companies, these perceptions do not represent the norm, and “complaining customers are often looked on by business as being ‘the enemy’”[80]. To gain full value from consumers’ voices, the company 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 in turn reduces the number of dissatisfied customers who never mention their complaint to the company before they switch to another service provider.

**Use Service Guarantees to Increase Customer and Employee Feedback**

The use of service guarantees can decrease the number of dissatisfied customers who do not complain and simultaneously ensure that feedback gets recorded. That is, if customers receive a reward for telling the company when something is not up to their standards, they offer information. For example, a retail store that promises customers do not have to wait longer than five minutes at the checkout station or they will receive a $5 refund probably rarely loses a customer who simply leaves rather than waiting to pay for his or her purchases. In addition, with such policies, service failures are reported up the company ladder because the compensation must be paid to the customers. Although the compensation may become costly to the company, “paradoxically, spending money is the goal,” because these costs reveal the losses caused by service failures, which forces management to act [85].

**Manage Potential Trade-Offs between Productivity and Customer Satisfaction Goals, Both Short- and Long-Term**

As we have shown, productivity and customer satisfaction objectives can correlate positively, negatively, or not at all [62]. The balanced scorecard [86] offers one approach to align and optimize multiple objectives by identifying competing objectives and establishing normative
decision rules [87]. Essential to get top management’s attention, the benefits and costs of service recovery must be measured, but common accounting systems cannot capture the value of a loyal customer [45]. Rather, the benefits of service recovery are grounded in the assumption that it decreases customer dissatisfaction and thereby increases both customer loyalty and customer satisfaction, whereas the counterpoint, customer defection, destroys the customer’s lifetime value [88]. In addition to these losses of potential future revenues, dissatisfied customers likely engage in negative word-of-mouth behavior, which deters existing and potential customers. To balance their objectives, firms should start with a simple model for calculating the “return on recovery” [89] that would estimate the

a) Improvement in customer satisfaction and decrease in customer dissatisfaction as a result of customer and employee recovery;
b) Decrease in service failures through process and employee recovery and its impact on customer satisfaction;
c) Impact on loyalty of (a) and (b) in terms of the decrease in lost customers;
d) Impact on word-of-mouth of (a) and (b) in terms of the value of more positive and less negative word-of-mouth, as well as its impact of customer acquisition; and
e) Impact on total customer lifetime value caused by (c) and (d) [15].

For example, if the average customer lifetime value, defined as the discounted future contribution margin per customer [14], is 5000€, and service recovery efforts can reduce the number of lost customers by 600, the gained customer equity is 300,000€.

But service recovery also can have a broader effect on bottom-line performance in terms of staff attitude and retention [3]. If employees are not able to cope with customer problems and believe they are treated unfairly by the company, the customer, or both, they may treat their customers unfairly too [90].

Although an exact return of recovery thus is difficult to calculate, it is important to define the key drivers for such an indicator and thereby achieve a common understanding of how service recovery impacts the company’s bottom line [91].
Create a Culture of Recovery and Gain Employee “Extra Effort”

The challenge here is to effect a dramatic cultural shift in the company mindset from a culture with the illusion of no failure to a culture of recovery. A culture of recovery requires an internally consistent message about the value of recovery from visible components of the firm, including management’s espoused values, cultural forms, and practices [92]. Management must promote recovery as a core value and then help manage the evidence that employees and customers monitor to determine if this espoused value is being enacted. For example, stories that recount the outcomes of a successful or failed recovery incident should find their way into company folklore and conversation. Furthermore, to build a culture of recovery, managers should emphasize recovery-focused performance management systems and make the complaint process visible and accessible to both employees and customers. 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” [17]. Measuring and rewarding customer retention targets also could serve as incentives for service recovery [45]. One supervisor in our study even stressed the point that

Better customer service means higher loyalty, more business, and more word-of-mouth. This has an impact on meeting our objectives, which in turn pays off with higher bonus payments and salary. Not all employees see this connection. It is the supervisor’s job to communicate this.

Research also suggests that when organizational and employees’ values are congruent, employees are more willing to exert the extra effort required in a failure and recovery situation [93]. Recovery situations with dissatisfied customers can be very taxing for employees, but employees who share the organization’s core values are more likely to persevere. Thus, firms must focus on employee selection and socialization techniques that build the recovery culture and thereby facilitate extra effort.
Blend Organic and Mechanistic Approaches

Despite the valid appeal of culture-focused approaches to service recovery, recent research suggests the blending of an organic approach (creating a favorable internal environment through cultural values and human resources) and a mechanistic approach (establishing procedures and rules) [94]. A cross-industry study that explores the effectiveness of an organic versus a mechanistic approach to complaint handling in terms of justice, satisfaction, and loyalty shows that the effect of the mechanistic approach, which pertains mainly to distributive and procedural justice, is stronger overall, but the approaches complement each other. In other words, an overreliance on an organic approach, which considers mainly culture and is more applicable to international justice, is myopic, though because it requires empowerment, an organic approach may be more successful for customized, complex offerings [94].

Following a contingency approach [49], empowerment appears to be an appropriate approach when the business environment is unpredictable, the strategy is based on differentiation, and ties to the customer are relational. In contrast, a rule-driven, production-line, or mechanistic approach to service is appropriate for a low cost/high volume environment in which tasks are standardized, routine, and predictable and customer relationships are transactional (e.g., fast food restaurant) [69].

Implementing empowerment the right way in the right situations requires sharing not only decision-making power but also information, knowledge/training, and rewards with employees, in line with the equation empowerment = power \times information \times training \times rewards [70]. In this context, power affords employees more discretion in how to respond to failures; information pertains to quality expectations and perceptions, as well as the firm’s cost structure; training includes how employees should lead customers through service failures [95]; and rewards serve
to foster accountability, such that if employees use their empowered status to enhance (lose) profits, they share in those profits (losses).

**Search for and Reward Excellent Recoveries**

One of the most difficult hurdles to overcome pertains to individual incentives for providing excellent recoveries. Mystery shoppers offer one means to reward excellent recoveries [96; 97], because field researchers make mock purchases, challenge service centers with mock problems, and file mock complaints. Employees who do not perform well in these service recovery sessions should be better trained, and those who excel should be rewarded with public recognition.

**Apply the Logic and Practices of Customer and Process Recovery to Support Employees**

When employees believe management does not support them in their efforts to deal with dissatisfied customers, they feel unfairly treated. In other words, justice is essential for both external customers and internal employees. Theoretical and empirical support shows a strong link between organizational and customer justice [90; 93; 98], which clarifies that employees’ extra-role behaviors toward customers, or organizational citizenship behaviors (COB), mediate organizational justice and customer justice with satisfaction in a recovery context [93]. If employees perceive they are treated unfairly, they are unlikely to treat customers fairly. In this sense, “fairness spills over” [90]. Because procedural justice is the most influential in spurring COB [99], managers should question and listen to employees when they design and alter recovery processes. In an application of the “golden rule” of customer service, treat employees the way you want them to treat customers [93].

Finally, management must invest in improving the service delivery process to avoid repeatedly placing employees in recurring failure situations. In the absence of process recovery, both customers and employees have been failed, and employees may become so frustrated that
they resort to service sabotage. Whereas an excellent service recovery represents the acid test for an organization’s customer orientation, incidents of service sabotage mark the other extreme.

**CONCLUSION**

Service failures happen, and managers must know how to recover from them. This article examines the wide, puzzling gap between best practices and actual practices in service recovery management. Using critical incidents, we identify eight hurdles and suggest ways in which they might be overcome, drawing from management, marketing, and operations literature. We demonstrate that service recovery management cannot be delegated to one function within the company (e.g., customer service, marketing, operations, human resources) but rather requires an orchestrated approach that integrates customer recovery, process recovery, and employee recovery. Our suggestions thus can help organizations close the gap between best and actual practices in their service recovery management and thereby gain the returns of higher customer satisfaction, loyalty, employee satisfaction, and profitability.
<table>
<thead>
<tr>
<th>Customer Recovery: Reestablish customer satisfaction</th>
<th>Hurdles</th>
<th>Overcoming the Hurdles</th>
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<tbody>
<tr>
<td>Complaints are taken seriously, but the employee or manager decides what a complaint is.</td>
<td>• Foster a more expansive, customer-driven definition of service failures. Mine all customer exchanges for evidence of possible service failures. Use critical incident techniques.</td>
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<td>First fix the customer, then fix the problem.</td>
<td>• Match different types of justice-based recovery attempts to different recovery objectives and types of failure.</td>
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<th>Process Recovery: Learning from failures to avoid them in the future</th>
<th>Suppression of information about problems prevents process improvement.</th>
<th>• Increase customer and staff feedback and ensure it is used to drive improvements. • Increase employees’ ability and motivation to solicit customer feedback and to become the voice of failed but silent customers. • Use service guarantees to increase both customer and employee feedback.</th>
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<td>Productivity pressure favors a quick fix.</td>
<td>• Manage potential trade-offs between productivity and customer satisfaction goals, both short- and long-term.</td>
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<th>Employee Recovery: Preparing employees to deal with failures</th>
<th>Maintaining the illusion of a “no failure” culture.</th>
<th>• Create a culture of recovery and gain employee “extra effort.”</th>
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<td>The false belief that empowering the frontline will be an effective practice in all situations.</td>
<td>• Develop organic and mechanistic approaches to service recovery, then use a contingency approach to implement them.</td>
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<td>Recovering a customer from a failure does not explicitly appear in employee performance measures or rewards.</td>
<td>• Search for excellent recoveries and reward them.</td>
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<td>The worst case: Service sabotage causes service failures and precludes recovery.</td>
<td>• Apply the logics and practices of customer and process recovery to support employees in their recovery efforts.</td>
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