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A proposed multi-dimensional approach to evaluating service recovery

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Abstract

Purpose – The purpose of this paper is to extend thinking on service recovery processes and satisfaction with service recovery, using multi-dimensional consumer outcomes. The objective of the work was to propose that satisfaction with service recovery should be based on customers' expectations of the recovery encounter, which would be shaped by their expectations of “non-failed” encounters.

Design/methodology/approach – The paper adopts a theoretical approach. Using the existing service recovery literature as well as the traditional services literature, the conceptual framework and associated research propositions are developed.

Findings – The proposed framework suggests that service recovery is a service encounter in its own right. The effectiveness of recovery encounters will be based on how encounters operate relative to customer expectations and experiences with regard to the recovery activity.

Research limitations/implications – The research propositions and proposed framework need further empirical investigation.

Practical implications – The proposed framework suggests that managing service recovery should be undertaken in a similar fashion to managing any service, and thus managers need to understand customers' recovery expectations. Organisations also need to consider how a recovery action impacts on a range of customer outcomes, as focusing on one aspect will not capture consumers' full set of behaviours.

Originality/value – The proposed model identifies that service recovery should be evaluated with regard to consumers' recovery expectations and satisfaction is not based on expectations with regard to non-failed encounters.

An executive summary for managers can be found at the end of this article.

Introduction

Organizations experience an increased risk of losing customers when services fail (Zemke and Bell, 1990). It is acknowledged that occasional mistakes are inevitable in the service delivery process; however, negative post-failure consumer perceptions and behaviour may

be minimized and possibly even prevented if organizations undertake effective recovery actions (Tax *et al.*, 1998; Andreassen, 2001; Hart *et al.*, 1990; Bailey, 1994). Such actions can often turn dissatisfied consumers into satisfied customers (Boshoff and Leong, 1998), although in some cases attempts at service recovery may reinforce consumers' negative views (Hart *et al.*, 1990). This suggests that there may be significant discrepancies in customer expectations of service recovery and the attempted recovery actions undertaken by the service provider.

While there is extensive discussion of service recovery in the extant literature, it has generally not been considered as a “service encounter” in its own right. In this respect, studying the expectations of consumers who experience failed service encounters may be equally as important as studying consumer expectations of normal service encounters (i.e. non-failed encounters). In both cases, consumers will have a set of expectations regarding how they believe they should be treated within the encounter. Their reactions to the activities experienced will result in a complex and interdependent set of outcomes. All of these issues require consideration, from both the organizational and consumer perspective, when organizations evaluate the overall performance of service activities in relation to normal or recovery experiences.

In the examination of service recovery processes, existing studies mainly focus on restoring consumer satisfaction. In other words, consumer satisfaction is generally the only key element considered by the service provider when evaluating recovery processes (Wirtz and Mattila, 2004). This assumes that a customer is satisfied when the recovery attempt has brought consumer perceptions back to a level equivalent to the non-failure state. However, other outcomes also deserve consideration in evaluating recovery activities, as it is unclear whether “satisfactory recovery” is sufficient for consumers to repurchase the service in the future. Conversely, other consumer outcomes, such as re-patronage, should also not be considered as the sole determinant of successful recovery experience. For example, a consumer may be satisfied and thus decides to repurchase, but may still spread negative sentiment by word of mouth, which would not have occurred if failure and associated successful recovery had not taken place. That is, irrespective of outcome, the recovery process will influence future service expectations (Maxham and Netemeyer, 2002) and impact on how consumers believe they will be treated in any future failure situations (Gilbert and Wong, 2003; Walchi and Landman, 2003).

To measure consumer perceptions of recovery actions, researchers have followed various tracks. One approach has been based on equity theory, namely examining how customer satisfaction is influenced (Tax *et al.*, 1998; Austin, 1977; Lapidus and Pinkerton, 1995; Blodgett *et al.*, 1995). However, this approach has some limitations. Recent research in this area demonstrates that compensation, apology, and employee response each impact on different types of justice outcomes (distributive, interactional, and procedural justice, respectively) (Wirtz and Mattila, 2004). Consequently, customers may be satisfied based on one dimension of justice but remain dissatisfied based on another. Another research perspective focuses on consumer responses to service experience and recovery actions as outcome measures (Zeithaml *et al.*, 1996; Weun *et al.*, 2004), where various different outcomes have been used to define successful encounters. The set of outcomes has most recently been expanded to include consumers' emotions as a mechanism to evaluate levels of “satisfaction” (Phillips and Baumgartner, 2002).

Conceptual framework of service and service failure evaluation

Our study proposes a conceptual framework for examining service recovery activities (see Figure 1). In the following sections, we develop the various components of the framework and identify research propositions for future conceptual and empirical consideration. Briefly, the framework assumes a series of customer-provider interactions during the service encounter and recovery process. Service encounters are intended to operate without failure (represented by the dashed line in Figure 1). When normal exchanges occur, the organization undertakes managerial actions to ensure the encounter operates satisfactorily. These will translate to consumers evaluating the overall service encounter based on the degree to which the encounter meets consumers' expectations. As mentioned earlier, the literature has tended to focus on one outcome, grounded in expectancy-disconfirmation theory.

The outcomes experienced by consumers are real, but will vary based on the specific encounter and the individual consumer. The overall evaluation of the service, whether successful or failed with recovery, results in various customer outcomes. As previously mentioned, we propose that consumers engage in a multitude of outcomes, which vary in regard to the individual consumer and the specific encounter experienced (discussed later in this paper). We suggest that overall set of consumer outcomes, rather than any one single outcome, determines a consumer's response to the encounter.

Service failure occurs when outcomes of service delivery (reliability) are inadequate, or if processes associated with service delivery do not meet expectations (tangible, responsiveness, assurance and empathy) (Parasuraman *et al.*, 1991; Spreng *et al.*, 1995). The impact of failure on the evaluation of the encounter will vary based on the specific service situation, individual consumer perceptions, and the type of failure involved (outcome and process). In addition, all of these factors will impact on consumers' evaluation of the service recovery (Smith *et al.*, 1999; Weun *et al.*, 2004). When failure occurs, consumers form a new set of expectations, which are based on consumer experience with past satisfactory encounters and past failed experiences (Smith *et al.*, 1999; Spreng *et al.*, 1995; Colgate, 2001; Andreassen, 1999; Singh, 1990). In situations where consumers do not have failed experiences to draw on, they will develop these expectations in a similar way to any "novice" encounter (McGill and Iacobucci, 1992). Other factors that affect consumer expectations may include cultural factors (Kanousi, 2005) or gender (Magnini and Ford, 2004). Variations in expectation may also be based on the specific industry context, for example airlines (Bejou and Palmer, 1998), hospitality (Schroefler and Ennew, 2002), or financial services (Lewis and Spyropoulos, 2001).

Organizational actions undertaken to deal with service failure are referred to as service recovery (Grönroos, 1988; Smith *et al.*, 1999). Organizations generally undertake recovery actions when they become aware that failure has occurred and then seek to design recovery processes to minimize the impact of the negative encounter. The objective of organizational action in a recovery situation is to ensure that a consumer's expectations of the encounter are met or exceeded, such as occurs in relation to expectations of "normal" service encounters (La and Kandampully, 2004). As can be seen in Figure 1, the degree to which recovery activities meet expectations will then determine the degree to which consumers have evaluated the recovery process as successful. We believe that this reflects a departure from traditional thinking in which recovery is considered "satisfactory" when customers'

recovery expectations are managed in regard to “normal” non-failed encounters. Instead, our framework is based on a combined set of consumer outcomes – repurchase intent, enhanced loyalty, complaint intentions, overall fairness, varying switching decision, expectation updates, emotional state, and referrals by word of mouth – in regard to expectations about recovery encounter.

In accordance with the framework adopted here, we propose that:

- overall evaluation of service experience is based on cumulative assessment of service performance and, if service fails, on the recovery performance; and
- recovery performance is evaluated in a (“tolerance”) zone ranging from dissatisfaction with the recovery process to satisfaction in relation to expectations arising from failure, not non-failure, experiences.

However, as discussed in later sections of the paper, it may not always be possible to achieve “satisfaction” in recovery of all failed service encounters. For example, a zone of satisfaction may not exist for recovery processes in situations of catastrophic failure, such as a negligent medical procedure.

In the following sections, we discuss various components of the conceptual framework as well as outlining some proposed directions for further research.

Customer expectations

Customers generally have pre-purchase expectations about what a service encounter will involve (Hepworth, 1992). These provide a normative standard for comparing the actual service encounter experience, which results in varying levels of satisfaction or dissatisfaction that are characterized by various outcomes. Customers have their own individual mental flowchart of how the service experience should operate (Lovelock *et al.*, 1998) in relation to quality and standards (Broderick *et al.*, 2000). They form realistic expectations of standards of service in the recognition that flawless delivery is not always possible. Base level service expectations relate to issues such as employee's performance, courtesy, and various service delivery attitudes (Boshoff and Leong, 1998).

Literature on the character of consumer expectations is limited; however, several authors have examined the concept of “forming expectations”. Oliver (1980) identified the product, the context, and individual characteristics as three major factors contributing to customer expectations. This was expanded by Zeithaml *et al.* (1993) to seven categories, two of which are related to the desired type of expectation (enduring service intensifiers and personal needs) and five related to adequate service expectations (transitory service intensifiers, perceived service alternatives, customer self-perceived service roles, situational factors, and predicted service). In addition, Zeithaml *et al.* (1993) suggests four antecedents that also affect desired and predictive services:

1. explicit service promises;
2. implicit service promises;
3. word-of-mouth; and
4. past experiences.

Boulding *et al.* (1993) developed a framework for understanding how customers form expectations about what they believe *will* happen in their next service encounter as well as what *should* happen; i.e. in terms of what they believe they deserve. In relation to novice consumers or customers with no previous experience of failure in particular service contexts, the existence of information, such as prior exposure to (competing) services, word of mouth, expert opinion, publicity, and communications controlled by the company (e.g. advertising, personal selling, and price), helped customers form expectations about anticipated standards of service delivery (Boulding *et al.*, 1993, p. 9).

We propose that while consumers may not anticipate or expect failure to occur in general, there may be certain situations, such as arise in airline services (Gursoy *et al.*, 2005), or in relation to service operations in developing countries (Dadzie, 1989), where there exists a higher expectation that service failure is likely to occur. In such cases, it is argued that consumers would have some expectation as to how any failure will/should be dealt with.

Service “failure” occurs when a service is not delivered as expected (Bitner *et al.*, 1990) and results in a reduction in customer satisfaction (Smith *et al.*, 1999). In addition, research into the psychology of the service encounter suggests that consumers may use negative expectations as a coping mechanism or to minimize prospective disappointment (Miceli and Castelfranchi, 2002; Walchi and Landman, 2003).

Consumers will also have a range of expectations in relation to “acceptable” service encounters. The lowest level of acceptability has been defined as adequate service (Zeithaml *et al.*, 1993). The realm between desired and adequate service is the consumers' zone of tolerance, which is idiosyncratic and varies with individual consumer perceptions and the specific service encounter. In some situations, any service failure may be viewed as completely unacceptable (for example, in lifesaving medical procedures), while in other service encounters there may need to be a “high” degree of failure before consumers perceive the experience as unacceptable (for example, suffering food poisoning in a restaurant). Thus, the zone of customer tolerance will vary, but it may be very small or even non-existent in some cases (Weun *et al.*, 2004). Discrepancies in individual zones of tolerance are determined by customer-related factors, which are antecedents in the expectation formation process.

The evaluation of a service encounter will be determined in regards to how well the actual service experience matches customer expectations (Andreasen and Best, 1977; Lovelock *et al.*, 1998). The degree of customer satisfaction is therefore a positive evaluation of service experience (Parasuraman *et al.*, 1991) in which emotions play a key role in determining whether a customer's needs, desires and expectations have been met in the service encounter (Lovelock *et al.*, 1998). These affective states or feelings relate to the physical, social and psychological needs of customers (Zeithaml *et al.*, 1993).

As shown in Figure 1, service encounters that do not have process or outcome failure would progress to consumers making overall evaluations of the “non-failed” encounter. The actions undertaken by management, whether preventative or in redress of service failure, facilitate the delivery of the service encounter. In situations where some type of failure occurs, consumers develop a new set of expectations as to how the encounter, including recovery attempts, should proceed, as well as modifying their expectations of how future encounters will operate (Smith *et al.*, 1999; Tax *et al.*, 1998).

P1. Customer expectations of service performance are a composite function of perceptions in regards to service procedure, interaction with employee, anticipated outcomes, and the personal needs of customers.

Service failure

Service failure can occur for a range of reasons. These have been categorized in a variety of ways, including the following: the theory of attribution in which customers are perceived as rational information processors (Folkes, 1984); a typology of service failure in particular industries, such as retailing (Kelley *et al.*, 1993); service delivery failures, including the failure to respond to customer needs and requests, as well as unprompted and unsolicited employee actions (Bitner *et al.*, 1990; Schroeder and Ennew, 2002); outcome failures (Bitner *et al.*, 1990; Stauss, 2002); and process failures (Smith *et al.*, 1999; Grönroos, 1988; Stauss, 2002). The services marketing literature also distinguishes service failure not only by type but by the degree of severity or failure magnitude (Smith *et al.*, 1999; Weun *et al.*, 2004).

Understanding the source of the service failure is an important component in engineering and managing a service system. It allows organizations to identify bottlenecks (Shostack, 1992) or the root cause of failure (Zeithaml *et al.*, 1993) and is therefore essential in developing effective strategies of service recovery (La and Kandampully, 2004). Service failure is often associated with a customer's complaint; however, while a relationship between the cost of the service and the likelihood of complaint is often assumed (Andreasen and Best, 1977), complaints are not often related to the expense incurred by the customer in the service encounter (Gilly and Gelb, 1982; Hart *et al.*, 1990). Furthermore, in the recognition that up to two thirds of customers never complain or express dissatisfaction with failed service encounters (Stephens and Gwinner, 1998), it is important to study as many customers' responses to service failure as possible.

P2. Differentiation of service failure by type and degree of severity provides companies with insights into determinants and consequences of customer response.

Expectation of service recovery

All service encounters serve as a point of reference for customer expectations in regards to future experiences (Boulding *et al.*, 1993). Therefore, all encounters – whether satisfactory or failed, including those involving service recovery – shape future service expectations. In addition, all types of encounters influence the expectations of customers in regards to how organizations will deal with consumers in situations of failure and the likelihood of success in service recovery attempts. The framework outlined in Figure 1 assumes that consumers form a set of expectations regarding the recovery process just as they form expectations about non-failed encounters, even without prior experience. Customer expectations of service recovery will be conditioned by service attributes such as their individual experience of past encounters with the service or the firm (Singh, 1990), the nature of their current relationship with the organization (Morgan and Hunt, 1994; Halinen and Tahtinen, 2002), the severity of service failure (Weun *et al.*, 2004; Smith *et al.*, 1999), transaction costs (Colgate and Lang, 2001), the availability of alternative providers (Colgate, 2001), as well as a range of individual factors. This suggests that expectations of service recovery are likely to be more complex than expectations regarding successful service encounters (Kelley and Davis, 1994; La and Kandampully, 2004).

Various studies have found that attempts to recover from failure are not always successful (Gilly and Gelb, 1982; Hart *et al.*, 1990). This highlights the prospect that:

- managers have not measured the correct outcome variables;
- customer expectations of service recovery processes are likely to differ from management perceptions of appropriate recovery processes (as discussed below, managerial actions play a key role in the effectiveness of recovery attempts); or
- there are implementation failures.

Hart *et al.* (1990) suggest the formation of recovery expectations is based on the type of failure that occurs. For example, consumers believe that monetary types of failure can be easily remedied, through warranties, product replacement, or complimentary services (Gilly and Gelb, 1982). Similarly, a poorly prepared dish at a restaurant can be replaced at no cost. However, non-monetary failures create a range of difficulties for service-providers, which often require creative corporate solutions (Gilly and Gelb, 1982). For example, a medical patient who is already under anaesthetic, whose operation is delayed because the necessary equipment is unavailable on a scheduled day, still requires the operation. In these circumstances, monetary compensation will not restore the patient's trust in the doctor or medical service provider due to the psychological and emotional harm suffered.

The framework proposed by Boulding *et al.* (1993) in regard to customer expectations of service providers is extended by Kelley and Davis (1994) to service recovery expectations. Basically, customer expectations of service recovery have two fundamentally different antecedents:

1. customer perceptions of service quality; and
2. customer organizational commitment (Kelley and Davis, 1994).

Dasu and Rao (1999) also examined this issue in terms of health care services to determine what activities the provider *actually* undertakes after service failure in contrast to what recovery activities customers believe that service providers *should* undertake. Their findings suggest that a range of factors determine customer expectations in relation to the recovery actions undertaken, including industry reputation and personal experiences. Their research suggests that when developing expectations of the recovery activities that should be undertaken, consumers tend to rely on norms, perceptions of fairness, social contracts, and hospitality theories. As such, there is sometimes a significant gap between what consumers expect firms will actually do in recovery situations compared to what consumers expect firms *should* do in regards to service recovery, which is a feature generally identified within non-failed encounters as well (Colgate, 2001; Grönroos, 1988; Keaveney, 1995).

Research into service recovery suggests that customer expectations of a recovery encounter translate into an evaluation of recovery performance (Gilly and Gelb, 1982; Hart *et al.*, 1990). In the framework adopted here, we propose that evaluation will vary on a continuum ranging from a zone of satisfaction, through a zone of acceptance to a zone of dissatisfaction, which is similar to that which occurs in non-failed encounters (Bitner *et al.*, 1990). As discussed earlier, it is possible that the zone of satisfaction will be very small or non-existent in recovery processes related to extreme or non-recoverable failure. Of course, as with all service encounters, consumer evaluations of the actual recovery process in

comparison to their expectations will determine the level of satisfaction with the recovery process.

P3. The nature of service failure affects the customer's expectations of service recovery.

Managerial actions

The literature on service failure has generally focused on the attempts of firms to overcome customer dissatisfaction (Berry and Parasuraman, 1991; Blodgett *et al.*, 1997; McCollough *et al.*, 2000). When failure occurs, firms have two options:

1. investing effort into resolution of the conflict by proposing a compromise to achieve a favourable outcome; or
2. avoiding resolution of the incident (Wirtz and Mattila, 2004).

Davidow (2003) identifies conflicting results regarding organizational response and post-complaint customer behaviour within the research literature. In addition, Davidow (2003) suggests there are six aspects of organizational responses to customer complaints:

1. timeliness;
2. facilitation;
3. redress;
4. apology;
5. credibility; and
6. attentiveness.

The consumer outcome is linked directly to the recovery activity adopted.

For the conceptual framework developed within this paper (Figure 1), Davidow's (2003) suggestions support the idea that organizational responses need to match specific targeted outcome behaviours with a multi-faceted recovery strategy if firms expect to deal with the complex set of consumer outcomes. This view is also supported by Smith *et al.* (1999), who suggest that individual customer responses differ in relation to service failure/recovery and, therefore, consumer complaints should not be treated as homogeneous.

Within the service recovery literature various authors, such as Berry and Parasuraman (1991), Blodgett *et al.* (1997), Boshoff and Leong (1998), Davidow (2003), and Hart *et al.* (1990), studied recovery activity attempts to overcome the service failure based on both employee actions as well as organizational responses. Levesque and McDougall (1993) differentiated both actions in terms of "what is done" (organizational action) and "how it is done" (employee action) in order to ascertain how these influence customer perceptions of the service recovery effort.

Eccles and Durand (1998) suggest that organizational action should be further defined as the action responsible for ensuring "customers comment more positively about the organization" (p. 69). Recovery activities not only influence consumer perceptions but also allow organizations to learn how to operate more effectively in the future, both in failed and non-failed activities (La and Kandampully, 2004). A number of researchers have identified that recovery actions are implemented through a range of activities, including

compensation and empowerment (Bitner *et al.*, 1990; Boshoff and Leong, 1998; Hart *et al.*, 1990; Levesque and McDougall, 1993; Wirtz and Mattila, 2004). On the other-hand, employee action refers to “action taken by an employee for resolving the problem to the customer's satisfaction” (Mattila, 2001), which can be implemented by many employee activities. The most prominent employee activities for resolving customer complaints are apologies and the response speed in acknowledging/rectifying service failure (Karatepe and Ekiz, 2004; Wirtz and Mattila, 2004; Tax *et al.*, 1998).

Recent research suggests that organizational and employee actions are complementary and in fact interact (Wirtz and Mattila, 2004). The delineation of these actions is a critical point of focus for additional research. For example, customer satisfaction/dissatisfaction judgments can be cognitive in one situation and affective in others (Phillips and Baumgartner, 2002). This, in turn, will influence whether employee actions or organizational interventions should have higher priority. On other hand, customers may experience service failure in relation to dissatisfaction with a company's policies or norms but may “shoot the messenger” by targeting their complaint towards the staff member who implements the policies. The following sections expand the discussion of organizational and employee recovery activities.

Organizational actions

Many organizations define recovery actions in terms of a set of formalized policies. As stated earlier, these generally cover two main service recovery activities:

1. compensation; and
2. empowerment.

Compensation is designed to overcome negative consumer outcomes regarding the experience by providing tangible evidence that the service provider is fair (Kivela *et al.*, 1999). For example, compensation in any failed experience is considered an important tool to overcome negative disconfirmation (Deutsch, 1975). It can restore equity to an exchange relationship (Berscheid *et al.*, 1973) or connote associations with distributive justice (Smith *et al.*, 1999). Compensation can comprise a range of actions including, refund, replacement or both (Boshoff and Leong, 1998, Lewis and Spyropoulos, 2001) and some suggest that it is the most important tool for dealing with service failure (Tax *et al.*, 1998).

A second organizational recovery action is employee empowerment, which is the authority for an employee to present a solution that meets the needs and expectations of the individual customer (Eccles and Durand, 1998). Empowering staff to deal with customer dissatisfaction is an important service recovery strategy (Boshoff and Leong, 1998). “Empowerment means giving frontline employees the desire, skills, tools, and authority to serve the customer” (Zeithaml and Bitner, 2000, p. 302). The need to empower employees is commensurate with the need for service failure recovery (Hart *et al.*, 1990; Parasuraman *et al.*, 1991). However, the empowerment of employees also requires that they are able to understand and manage failure, as well as customer expectations of appropriate recovery actions. As such, empowerment (an organizational activity) is clearly linked to employee actions.

Employee actions

Organizations sometimes set goals in order to manage recovery expectations through employee actions, which involve moving beyond simply developing “policies” to deal with service recovery. The various recovery actions that employees can undertake serve as “a valuable reward that redistributes esteem (a social resource) in an exchange relationship” (Smith *et al.*, 1999, p. 359). An apology is an important recovery action available to an employee to rectify a failed encounter (Karatepe and Ekiz, 2004). Apologies are important for at least three reasons:

1. they can provide an instantaneous response and thus minimize customer anxiety (Boshoff and Leong, 1998);
2. they convey a willingness to attend to the problem and that the firm cares about the customer's wellbeing (Zemke and Bell, 1990); and
3. an apology can diffuse customer anger (Nguyen and McColl-Kennedy, 2003).

An apology is also often associated with customer perceptions of interactional justice so that they feel they are being treated fairly (Tax *et al.*, 1998).

The response speed, which refers to the “speed of reaction at which complaints are resolved” (Stauss, 2002, p. 176), is also important in dealing with service failure (Bitner *et al.*, 1990) because it enhances the prospect of a positive evaluation by the customer of how they are treated by the firm. That is, consumers feel they are important because they have been dealt with quickly (Donavan *et al.*, 2004). In addition, the speed of problem handling has been identified as an important dimension of procedural justice (Tax *et al.*, 1998).

P4a. Managerial actions influence customer evaluations of service recovery.

P4b. Managerial actions influence revisions of customer expectations regarding (a) the service process and (b) the service recovery.

Evaluation of recovery performance

Bolton and Drew (1992) suggest that efficient handling of problems may not completely offset the negative experience of consumers. In addition, Weun *et al.* (2004) found that severity of service failure also impacts on overall satisfaction, even if the recovery process is viewed as successful. As such, positive recovery experiences may not be sufficient to restore perceived outcomes to match “non-failed” experiences. However, non-failed encounters traditionally are used as a point of reference for evaluation of the effectiveness of the recovery process. We would disagree with this perspective and argue, in a critical departure in thinking, that recovery should be conceptualized in regards to expectations regarding the failed experience (see Figure 1), rather than measured against expectations arising in a “normal” encounter. Customer expectations of service recovery become the base for evaluation of the effectiveness of the recovery process. Understanding customer expectations and meeting them in regard to recovery is therefore necessary to improve customer outcomes.

Extending the work of Weun *et al.* (2004) and Zeithaml *et al.* (1993), we suggest that there is a continuum in regards to satisfaction with service recovery – zone of satisfaction, zone of acceptance and zone of dissatisfaction – just as there is in regard to satisfaction with non-failed encounters. This is depicted in Figure 1. The zone of acceptance is viewed as adequate

recovery. The zone of satisfaction reflects a post-recovery state that meets expectations and may even result in a level of satisfaction equivalent to non-failure satisfaction.

If the recovery process does not meet customer expectations, dissatisfaction is experienced with service recovery. The three zones are therefore directly linked to the success of service recovery attempts – satisfaction in successful recovery, acceptance in partial recovery, and dissatisfaction in failed recovery encounters (Weun *et al.*, 2004). However, customer outcomes are dependent on the service recovery evaluation, while the original failure experienced, customer loyalty, and barriers to exit are additional factors, all of which influence the behavioural decision-making and emotional dispensation of the customer (Colgate, 2001). Customer emotions experienced in response to managerial actions may also distort evaluations of service recovery activities and these emotional effects have generally not been examined extensively in the literature (Wong, 2004).

P5. The evaluation of service recovery performance may have equivocal effect on customer outcomes: (a) customer may be satisfied and still decide to terminate relationship with the service provider; or (b) customer may be dissatisfied but decide to remain with the service provider.

Overall evaluation of service experience

A consumer's overall evaluation of the encounter is frequently adopted in research as a core measure of the success of a service experience, even in service encounters that have failed and involve recovery processes. The recovery experience inevitably affects the service experience as well as expectations of other service recovery actions. In situations when management is not proactively engaged in the service recovery, the customer's overall experience will be more negative. Customers will learn from this experience, with all future expectations being altered, whereas positive past experiences will have the opposite effect. The overall evaluation of the recovery process by the consumer will translate into a range of specific outcome factors. Failure in a service encounter is not the sole issue on which the encounter will be evaluated, as the effectiveness of the (attempted) recovery process is also a critical component of the overall experience (Kelley *et al.*, 1993). Service failure has a significant impact on the way in which customers will evaluate subsequent service encounters (successful and failed) and shapes the post-purchase behaviour of customers. However, managerial activities (organizational and employee recovery actions) designed to bring about recovery have a larger influence on overall satisfaction and behavioural intentions than the original service outcome factors (Spreng *et al.*, 1995). As was suggested above, there are a range of managerial actions available which affect how customers evaluate recovery attempts; the success of these will vary based on individual experiences and expectations (Folkes, 1984; Stephens and Gwinner, 1998) and the type and severity of service failure (Weun *et al.*, 2004; Smith *et al.*, 1999).

Evaluations of successful encounters are also influenced by consumer experiences and perceptions of failed service encounters. For example, it has been suggested that customers often compare the outcomes of failed encounters to those of unaffected (i.e. non-failure) encounters, and *vice versa* (Swanson and Kelley, 2001). As the research literature suggests, the initial or prior expectations of service encounters affect subsequent evaluation of both successful and failed encounters. However, in evaluating specific experiences, as proposed in Figure 1, the failed state becomes the basis of comparison for the evaluation of the

recovery encounter. Expectations regarding failed encounters and non-failed encounters both are essential in evaluating overall evaluations as well as consumer outcomes.

Emerging literature has also begun to discuss the role of customer emotions as a measure of the consumer experience with service encounters (Edwardson, 1998) and how consumers cope with negative emotional experience (Yi and Baumgartner, 2004) in the case of unfavourable encounters. This warrants additional research into emotions as both an outcome and moderating factor of encounters. Therefore, we include emotional response in the set of outcomes.

P6. Overall service evaluation is moderated by evaluation of service recovery performance and prior expectation of non-failed service performance.

Outcome measure of service encounter

The impact of service recovery on consumers is not always clear (Hart *et al.*, 1990), which might be explained by the fact that researchers tend not to examine the full range of possible customer outcomes, focusing instead on a limited number of outcome variables (Wirtz and Mattila, 2004). For example, researchers such as Hart *et al.* (1990), Mittal and Lassar (1998), Nguyen and McColl-Kennedy (2003), Smith *et al.* (1999), and Tax *et al.* (1998), each investigate various sub-sets of outcomes in regards to service recovery. This seems inconsistent with research findings that indicate customer outcomes are contextual, in that they are situation-specific and related to individual factors (Yen *et al.*, 2004), which have both behavioural and emotional components (Stephens and Gwinner, 1998; Nyer, 1997; Bagozzi *et al.*, 1999). Therefore, the full range of causal factors cannot be ignored in evaluating service recovery attempts (Wirtz and Mattila, 2004; Yen *et al.*, 2004). A comprehensive review of the literature has identified a range of outcome measures frequently examined in individual studies. We suggest that these issues need to be considered as a comprehensive representation of the overall service experience of customers in regards to both traditional *and* failed encounters. These outcomes include the following:

- repurchase intent;
- enhanced loyalty;
- complaint intentions;
- overall fairness;
- varying switching decision;
- expectation updates;
- referrals by word of mouth; and
- emotional state.

The following provides a brief overview of each of these issues.

Repurchase intent is a key element of service recovery (Thomas *et al.*, 2004). Research has shown that a firm has a 60-70 percent chance of successfully repeat-selling to an “active” customer, and only a 5-20 per cent chance of successfully selling to a new customer (Griffin and Lowenstein, 2001). Re-patronage also increases profitability by reducing the expense of attracting new customers (Mittal and Lassar, 1998). Effective service recovery, therefore, should improve future repurchase intention (Andreassen, 2001).

Enhanced loyalty results in attracting consumers back to the business (Swanson and Kelley, 2001). Loyalty develops over time, when (normal, failed and recovered) exchanges meet or exceed customer expectations (Mittal and Lassar, 1998). Loyal customers “often cost less to service, spend more as their time with the firm lengthens, and provide a good source for new business” (Levesque and McDougall, 1993, p. 40). While loyal customers might accept some level of deviation from expected levels of performance, dissatisfaction will result in switching to alternative suppliers (Hirschman, 1970). Additionally, Kelley *et al.* (1993) provide evidence that successful service recovery (i.e. recovery that exceeds consumer expectations) results in increased customer loyalty as well as more complex revised service expectations.

Complaint intentions arise with the increased likelihood of complaint when customer expectations are ignored (Bailey, 1994). The intention to complain indicates a desire to get what has been denied (Eccles and Durand, 1998). Interestingly, it has been suggested that customers who complain are also more likely to repurchase services (Eccles and Durand, 1998). In addition, these motives are highly significant for the service provider as complaints provide valuable insight into aspects of the service encounter that require improvement (Boshoff, 1997). Therefore, complaint intentions and management responses are one of the important elements in service recovery and, subsequently, for developing customer retention strategies (Halstaed *et al.*, 1996).

Overall fairness is a composite measure of perceived justice, which is included as both an outcome and a component of the recovery process. Smith *et al.* (1999) point out that failure to include overall fairness generally limits the explanatory power of customer satisfaction models. In evaluating the fairness of a recovery process, consumers use the failed experience, rather than a “non-failed” experience, as their reference point (Smith *et al.*, 1999). Consumers evaluate fairness in terms of various notions of justice:

- procedural justice – to experience fairness throughout the entire process of dispute resolution;
- distributive justice – to receive a fair resolution; and
- interactional justice – to be treated with courtesy and respect in terms of management's recovery actions and outcomes.

An important aspect of the relationship between a customer and a service provider is the manner in which outcomes are achieved. Andreassen (2000) postulates that customers re-evaluate their own position towards initial perception of service failure during the recovery process, and therefore the perception of overall fairness as an outcome is potentially more important than the disconfirmation of expectations of service recovery. In addition, consumers who expect a “fair” response to failed encounters are also more likely to complain (Blodgett *et al.*, 1995), all of which supports the integrated nature of outcomes as a multi-dimensional measure.

Varying switching decision is an important outcome issue for service providers (Palmer *et al.*, 2000). Service failure has been found to be one of the key reasons that consumers switch suppliers (Keaveney, 1995) so that reducing consumer intentions to switch is an important measure of service recovery effectiveness. Switching between service providers has multiple damaging effects on the firm: market share is reduced, profitability is

undermined, and negative word of mouth increases (Broderick *et al.*, 2000; Lewis and Spyropoulos, 2001).

Expectation updates relate to how customers modify expectations based on failed service encounters (Hepworth, 1992). Successful recovery might result in minimal variation in future expectations and may even enhance expectations of quality and standards of service (Deutsch, 1975; Hart *et al.*, 1990). Recovery experiences can be exploited by service providers to potentially redefine customer expectations (Rust and Oliver, 2000), in regard to how they believe they will and should be treated in both normal and failed encounters (Boulding *et al.*, 1993; Kelley *et al.*, 1993).

Referrals (vox populi) relates to consumers encouraging or discouraging other consumers to purchase/consume the service (Hirschman, 1970). Word of mouth has been identified as an important form of referral as the face-to-face encounter provides highly credible and vivid information (Liu *et al.*, 2000). Minimizing any negative effects of word of mouth reporting can therefore improve the outcome of service recovery (Wirtz and Mattila, 2004). It has been suggested that loyal consumers are more likely to communicate positive referrals by word of mouth in successful recovery situations (Hart *et al.*, 1990, Richins, 1985). The emotions experienced by the consumer in the overall service encounter play an important mediation role between cognitive appraisal of the encounter and word-of-mouth referrals (Nyer, 1997).

Emotional outcomes play a significant role in the service encounter and the recovery process (Menon and Dube, 2004). It could be suggested that in failure situations consumers are under psychological stress (Lazarus and Folkman, 1984) and therefore experience negative emotions that lead to employing various coping strategies (Yi and Baumgartner, 2004). For example, customers may be dissatisfied with the resolution of the service failure but continue to repurchase the product in the future. In other circumstances, a loyal customer might feel let down or betrayed by the service failure of a once trusted provider. These emotional states are therefore direct outcomes of the recovery process and may also have extensive interactive effects with other outcomes (Magai and McFadden, 1996). For example, consumers who feel betrayed may repurchase, albeit with lower levels of loyalty to the service provider. While research into emotional states and their inter-relationship with other outcomes is relatively new, it is important that these factors are considered when evaluating the overall success of recovery outcomes.

P7a. Variations in combinations of outcomes will occur, based on the overall evaluation of services.

P7b. Variations in combinations of outcomes will occur, based on the evaluation of recovery performance.

P7c. Variations in combinations of outcomes will occur, based on the specific managerial actions undertaken.

P7d. Variations in combinations of outcomes will occur, based on the type of failure experienced.

Conclusions

The purpose of this paper has been to provide a framework that adequately addresses customer expectations of service recovery. By adopting this perspective, it more clearly emerges that organizations need to consider recovery activities as service encounters in their own right. The implication of such a shift involves more than simply a minor conceptual tweaking of recovery thinking. We have argued that consumers form a set of expectations as to how they should or will be treated when service failure occurs. These expectations may be based on past experience, or extrapolated from recovery experiences in radically different service settings. Even novices will have some expectations for the recovery of “failed” encounters, just as novice consumers have expectations of “normal” encounters. The implication of this conceptual shift in addressing the problem of service recovery is that the effectiveness of recovery encounters will be based on how encounters operate relative to customer expectations and experiences in regards to the recovery activity, not in regard to customer expectations and experiences in regard to “non-failed” encounters. This means that experiences with non-failed encounters will influence how expectations of failure form, and *vice versa*. Thinking of recovery as a “unique” encounter requires systematic planning and management of recovery actions (La and Kandampully, 2004).

If an organization is to consider recovery activity as a form of service encounter, then this requires that the organization has some predetermined set of actions and management activities for undertaking service recovery if it is to be successful by meeting consumer expectations. However, organizational planning of recovery actions is likely to be more complicated than it is for “normal” service encounters. The added complexity results from the fact that failure can occur at a multitude of stages of the service encounter as well as being process- or outcome-related. As more variables need to be considered it is more likely that developing a systematic approach to recovery management will pose some difficulties. It may be more effective, therefore, for organizations to design a set of scenarios regarding possible failures and recovery approaches. This could take the form of a service blueprint related to the operation of each possible recovery encounter. However, the question remains whether a well-defined recovery experience can be defined for all situations. Such a systematized approach might not be adequate to accommodate context-specific issues or consumer-related factors that impact on expected encounter performance, both in the recovery process as well as the traditional encounter.

This research suggests that the evaluation of a recovery encounter needs to be measured on a wider set of consumer outcome measures. Whereas the research literature has generally considered one or more outcomes in evaluating service encounters and recovery activities, a broad based multi-dimensional evaluation of consumer outcomes has been lacking, which may account for some of the equivocal findings in the literature. That is, focusing on only one or two outcome measures does not capture the full domain of customer responses. Instead, it is the full set of responses that will more adequately determine the most effective range of future actions. This means that more research needs to be undertaken to examine how varying organizational and employee recovery actions impacts on a cross-set of consumer outcomes. For example, changing one aspect such as compensation may reduce the likelihood of consumer switching but might not reduce negative word of mouth. Therefore, organizations focusing on single recovery activities and single outcome measures will risk overlooking other critical outcomes. In other words, a recovery strategy that is considered to be successful using one outcome measure may be less successful or fail completely in terms of another outcome measure. Future research will need to consider

how organizations can aggregate these multi-dimensional outcome states to allow a comprehensive understanding of the potential for overall success of the recovery process (as well as normal service encounters).

While not explicitly discussed in the current study, we suggest that dealing with failure will also vary in accordance with a range of other factors. For example, when failure is anticipated within the service process, this will influence the recovery actions taken and consumer evaluations of the recovery process. The threat of “service failure” caused by impending delays to an airline flight could, for example, be addressed by informing passengers of connecting departure gates in advance to expedite movement between planes on arrival, rather than simply suggesting that consumers contact ground staff or check monitors for updated information. Such recovery actions would require ongoing monitoring of the service encounter, but which may allow for service recovery prior to the failure becoming evident to consumers. Such innovative actions would require an ongoing and interactive management of service processes and recovery actions. In this way, it can be argued that recovery is not a separate service encounter but is built into the original service process. Of course, as proposed in this study, there would need to be an evaluation of all customer outcomes to identify the effectiveness of such strategies. This involves the recognition that, while some organizations may be susceptible to regular failures for which systemic recovery strategies might be developed, this may not be viable for all organizations.

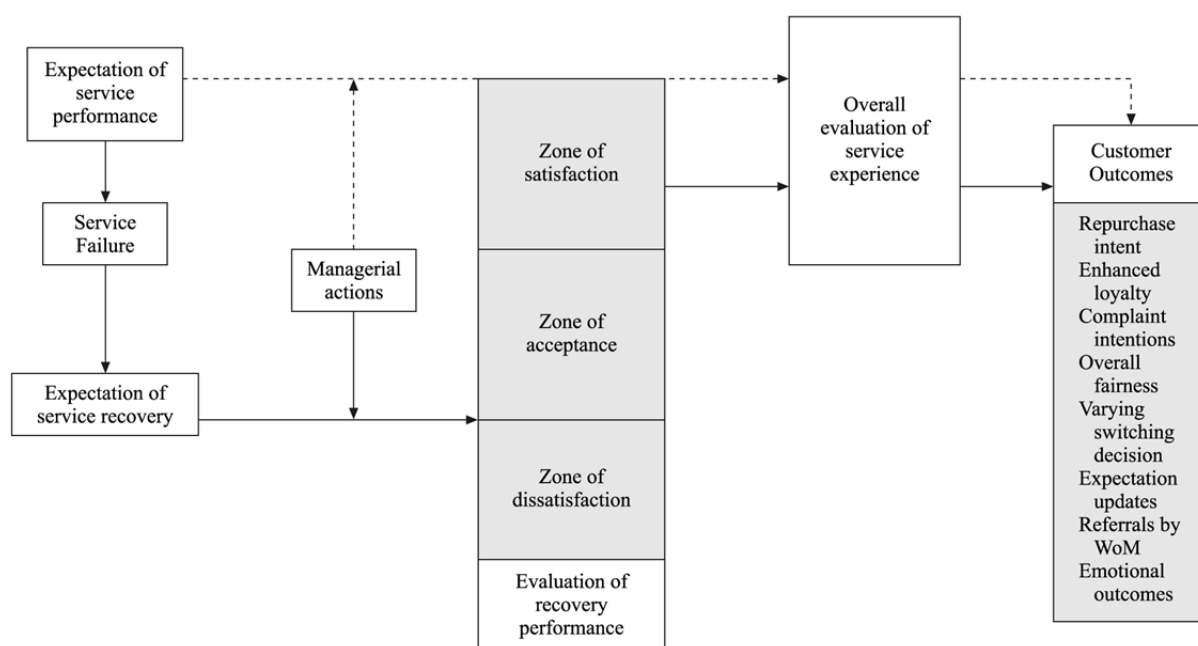


Figure 1 The conceptual framework of evaluation of service encounter

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Executive summary and implications for managers and executives

This summary has been provided to allow managers and executives a rapid appreciation of the content of the article. Those with a particular interest in the topic covered may then read

the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present. “If you're doing your best, you won't have any time to worry about failure” is one of a multitude of quotations compiled by American author H. Jackson Brown Jr. But where those particular words of wisdom might be less than helpful is in the services industry.

No matter how successful an organization is in providing what their customers want when they want it, life in the real world means things sometimes go wrong. And if you haven't spent any time worrying about failure, it means you haven't spent any time considering what to do to rescue the situation when things go wrong. Result? Failure could be catastrophic for your customers and your business, rather than being just an unfortunate event from which you can recover quickly with your reputation – and customer base – intact.

Doing your best in business involves knowing your customers and potential customers, and not just what they expect from the service you are offering but what they are likely to expect of you in the event that something goes wrong. In other words, a framework that adequately addresses customer expectations of service recovery.

Mahesh S. Bhandari, Yelena Tsarenko and Michael Jay Polonsky say that, by adopting this perspective, it becomes clearer that organizations need to consider recovery activities as service encounters in their own right.

Their framework is based on a combined set of consumer outcomes in regard to expectations about recovery encounter – repurchase intent, enhanced loyalty, complaint intentions, overall fairness, varying switching decisions, expectation updates, emotional state, and referrals by word of mouth.

They propose that:

- overall evaluation of service experience is based on a cumulative assessment of service performance and, if the service fails, the recovery performance; and
- recovery performance is evaluated in a “tolerance” zone ranging from dissatisfaction with the recovery process to satisfaction in relation to expectations arising from failure, not non-failure, experiences.

It may, of course, not be possible to achieve “satisfaction” in recovery of all failed service encounters, particularly in distressing situations such as a negligent medical procedure.

While consumers might not, in general, anticipate or expect a service failure, there are some situations where they have a higher expectation of one – delayed flights, for instance.

The implications of recovery activities being regarded as service encounters in their own right involves more than simply a minor conceptual tweaking of recovery thinking. It requires that the organization has some predetermined set of actions and management activities for undertaking service recovery if it is to be successful by meeting consumer expectations.

However, organizational planning of recovery actions is likely to be more complicated than it is for “normal” service encounters. The added complexity results from the fact that failure can occur at a multitude of stages of the service encounter as well as being process or outcome related. As more variables need to be considered it is more likely that developing a systematic approach to recovery management will pose some difficulties. It may be more effective, therefore, for organizations to design a set of scenarios regarding possible failures and recovery approaches.

This could take the form of a service blueprint related to the operation of each possible recovery encounter. However, the question remains whether a well-defined recovery experience can be defined for all situations. Such a systematized approach might not be adequate to accommodate context specific issues or consumer-related factors that impact on expected encounter performance, both in the recovery process as well as the traditional encounter.

Mahesh S. Bhandari *et al.* say: “This research suggests that the evaluation of a recovery encounter needs to be measured on a wider set of consumer outcome measures. Whereas the research literature has generally considered one or more outcomes in evaluating service encounters and recovery activities, a broad-based, multi-dimensional evaluation of consumer outcomes has been lacking, which may account for some of the equivocal findings in the literature. That is, focusing on only one or two outcome measures does not capture the full domain of customer responses. Instead, it is the full set of responses that will more adequately determine the most effective range of future actions”.

They recommend further research to examine how varying organizational and employee recovery actions impacts on a cross-set of consumer outcomes. For example, changing one aspect such as compensation may reduce the likelihood of consumer switching but might not reduce negative word of mouth. Therefore, organizations focusing on single recovery activities and single outcome measures will risk overlooking other critical outcomes. In other words, a recovery strategy that is considered to be successful using one outcome measure may be less successful or fail completely in terms of another outcome measure.

Or, as Robert Schuller once said, “Failure doesn't mean you are a failure. It just means you haven't succeeded yet.” (*A précis of the article “A proposed multi-dimensional approach to evaluating service recovery”.* Supplied by Marketing Consultants for Emerald.)