



RECOVERING FROM SERVICE FAILURE

Turning customer frustration into customer loyalty

By Professor Stefan Michel - November 2008

IMD

Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11

Fax: +41 21 618 07 07

info@imd.ch

<http://www.imd.ch>

RECOVERING FROM SERVICE FAILURE | Turning customer frustration into customer loyalty

Service failure isn't necessarily a disaster for a company. If the service recovery – the actions taken in response to the failure – is handled well, then customer satisfaction, trust and loyalty can actually increase. In this article, Professor Stefan Michel explains this apparent paradox and how companies can avoid service recovery failure.

Service failures are always occurring – but what matters more are the actions taken to recover from the failure, which have multi-dimensional impacts on the company. Indeed, service recovery is the acid test for customer orientation: if a company does not excel in this, then it is not customer oriented.

Good service recovery can build commitment and trust between the company and the customer, which increases customer satisfaction and loyalty. Customers are likely to talk positively about the company, which enhances its image. Even though it may seem like a paradox, the whole experience can generate more goodwill for the company than if nothing had gone wrong in the first place.

In contrast, service recovery failure – even for a relatively minor incident – can increase customer dissatisfaction and frustration. This makes them more likely to say negative things about the company, damaging its image and potentially turning other customers away.

My research and consulting experience indicate several areas where companies can improve their service recovery.

Recovery is proactive, complaint handling reactive

In practice and research, customer recovery is often confused with complaint handling. Companies need to understand that service recovery is not simply complaints management, but instead is much broader and more proactive. Ideally, service recovery will address service failures before any complaints are made. Or as one of my colleagues pointed out: only if missed the first opportunity to recover will the customers complain.

Provide the right type of justice

From the customer's point of view, good service recovery focuses on fairness and justice. This has three dimensions:

- Distributive justice – the outcome of a recovery situation (such as an apology, refund or product replacement)
- Procedural justice – how the recovery process works
- Interactional justice – how customers are treated

Customers are often dissatisfied with the recovery effort because managers over-emphasize the distributive justice but underestimate the importance of process and interactional justice. As a result, staff are often trained to deal with complaints in a formalistic way, but not trained in what the whole experience means for the customer. This leaves the customer still feeling frustrated, uncared for, distrustful, or otherwise unhappy despite receiving a refund or a replacement product.

For a customer to remain loyal, he or she must feel listened to and understood. His or her emotion – anger, disappointment, stress – should be dealt with first, before the service failure is addressed. Above all, the interaction must be authentic: the customer needs to see that the company is honestly trying to fix the problem or find a solution.

Understand the scale of the problem

Only by knowing the true scale of customer dissatisfaction can companies see – and proactively prepare against – looming service failure crises.

Companies often measure service failures by the number of customer complaints. However, this severely underestimates the problem as only a small fraction of dissatisfied customers actually make a complaint. Similarly, front-line employees often know where service failures are occurring, but are reluctant to tell their supervisor due to the bad reaction they may get.

RECOVERING FROM SERVICE FAILURE | Turning customer frustration into customer loyalty

Clearly then, companies need a service culture that engages with customers and front-line employees, asking for honest responses even if these are painful. It is also useful to track what's being said about the company in blogs, online reviews, and other websites. Once the company has a good idea of what kind of problems customers are experiencing, it can define and prioritize areas for improvement.

Encourage customer complaints

Similarly to the above point, many companies don't recognize the value of complaining customers – and the danger of dissatisfied customers who don't complain. Indeed, many companies actually provide incentives for reducing the number of customer complaints, falsely believing that fewer complaints mean improved service and more complaints mean worsening service.

In fact, dissatisfied customers who don't complain are much more of a problem than those who do –not only do you not know what is bothering them and have no way of fixing this, but chances are they are talking to other people about their negative experience. In addition, the act of complaining indicates trust and is therefore a sign of good service.

Know where you are failing

Companies also need to be careful about what they regard as a service failure. In one company I consulted with, management's response to what triggered a negative experience was often "That's not a failure – customers just don't get it!" However, I would argue that if the customer is not happy then a failure occurred. So it's not just a matter of getting feedback from customers – it's really listening to what they are saying.

Professor Stefan Michel teaches on the Orchestrating Winning Performance (OWP) program.

RELATED PROGRAMS



ORCHESTRATING WINNING PERFORMANCE - <http://www.imd.ch/owp>

The 6-day global business program

Program Director Bettina Buechel

- A unique energizer: boost your performance, broaden your perspectives and expand your global network
- Design the program that suits you