

THE SERVICE RECOVERY PARADOX: DISPELLING THE MYTH

I cannot imagine any condition which would cause a ship to founder. I cannot conceive of any vital disaster happening to this vessel. Modern shipbuilding has gone beyond that.

Titanic Captain, Edward J. Smith¹

Service failures happen, and most are less dramatic than the *Titanic* disaster. However, even seemingly small failures can lead to customer dissatisfaction if they are not well addressed by the company. This dissatisfaction often leads to customer switching and negative word of mouth. To improve retention, companies increasingly engage in service recovery – either through a complaints handling process or proactively soliciting input via satisfaction surveys or informal feedback at the conclusion of the service (hotel check-outs, car rental returns, etc.).

Not All Service Recovery Is Equal

Research indicates that customers who have lodged a service complaint are typically concerned about fairness. Service failure implies unfair treatment of the customer, therefore recovery needs to re-establish justice from the customer's perspective.

There are three dimensions of justice which are the focus of service recovery:

- **Distributive justice** – the outcome of a recovery situation: A waitress spills red wine on your jacket and

subsequently covers the cost for dry cleaning.

- **Procedural justice** – how the recovery process works: You call your fitness center because the membership fee was debited twice this month. The call center agent informs you that you can either have the amount transferred to your account within three days or that the second payment will be considered as next month's payment.

- **Interactional justice** – how customers are treated: Due to a delay, you just missed your connecting train. The employee at the information desk in the train station is very empathetic and helps you to find out the next connection to your destination. She also recommends a bistro nearby and indicates that the grocery store at the train station is open until 11 pm.



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Companies too often focus on distributive justice to the exclusion of procedural and interactional justice. The result is front-line staff who treat complaints in a formal manner, without responding to the entire experience the customer has undergone. Customers don't just want an apology, they also want to feel that they have been heard, that their stress and inconvenience have been recognized. Customers need to feel that they have been understood, that the company genuinely cares that there has been a problem and is trying its best to fix it. [Refer to example in **Box 1**.]

Box 1: Ask yourself: Which recovery do you prefer?

I bought some household items for a total amount of CHF 650. Among these was a stool for CHF 10. At home, I discovered that the stool was missing a plastic cap. However, I did not return the stool immediately but only 35 days after the purchase. The receipt states that the store's policy allows returns within 30 days.

Nevertheless, I went back to the store and told the sales clerk that the plastic cap was missing. She looked at the receipt, saying that the return was overdue. She offered me a new stool in exchange. I told her that we had already bought a different chair, and that I would prefer to get my money back.

Which reaction from the sales clerk would you prefer?

- She tells me that she needs to check with the supervisor, disappears for 15 minutes, comes back and pays me out the CHF 10.
- She explains to me, in a friendly tone, that she already bent the policy rule when she offered me an exchange after more than 30 days. She directs me to the aisle where I can find a new stool and suggests that I might use it later or that I can give it to someone else.
- She gets very unfriendly, asks me in a harsh voice why I did not complain earlier, lets me wait for a minute, and pays me out the CHF 10 without comment or eye contact.

If you prefer a), it seems that you value distributive justice (getting the CHF 10) more than procedural justice (having to wait for 15 minutes). In b) while procedural and interactive justice occur, distributive justice does not. In c), and this is what actually happened, distributive justice is recovered, but interactional justice is not offered. Option c) is probably the worst combination of all: The retailer spent CHF 10 on recovery, and yet, I am still very unhappy.

Companies that fix failures engage in service recovery, and some companies have done this so well that they have been able to create happier customers than if there had been no failure in the first place. This is known as the service recovery paradox.

In sum, what is excellent service recovery in the eyes of the customer? A problem resolved within a reasonable time, together with information on how the failure occurred and what is being done to make sure it doesn't recur. Successful service recovery requires empowered employees, a strong customer orientation, celebrating success stories, systematic data collection and meaningful incentives to encourage such behavior.

The Service Recovery Paradox: Fact or Fiction?

Companies that fix failures engage in service recovery, and some companies have done this so well that they have been able to create happier customers (and positive buzz) than if there had been no failure in the first place. This is known as the service recovery paradox. (Refer to example in **Box 2**.)

Although there is much anecdotal evidence to support the recovery paradox, our review of the academic literature revealed mixed results. While about half of the studies supported the existence of a paradox, an equal number of empirical studies declined it, arguing that no failure is still better than a recovered failure.

For managers, the question remains: Where are your time and effort best spent? Empowering your employees to do the right thing in the event of a failure? Or improving the service quality upfront? Our novel research study suggests that investing in delivering very satisfying, error-free service upfront results in happier customers than relying on service recovery. Here's why:

Apples & Apples: Comparing Service Failures with Error-free Service

Existing research has tended to compare customers who have experienced a service failure *with recovery* with customers experiencing a failure *but no recovery*. It comes as no surprise that when there is a failure, customers with recovery are generally more satisfied than those with no recovery. In contrast, our research compared customers who experienced *an error plus recovery* with those who had an *error-free* initial interaction.

Excellent recovery wins out over mediocre service – but not excellent service

The study collected data from 11,000 customers of Swiss banks, and found that 90% experienced

Box 2: The service recovery paradox illustrated

A customer takes his family to DisneyWorld every other year. One year, he books a package including hotel and tickets. The family arrives at the hotel in the late afternoon, and wants to see an evening performance – the last one before the act goes to Europe. But no one at the hotel has their tickets, and the ticket offices are closed. The family visits the Customer Service Representative at the park, who immediately provides four passes for that evening. After he gets home, the customer writes a letter, thanking Disney for the way the incident was handled, and suggesting that the hotel ticket office stay open later to avoid frustration in the future. In response, he receives an apology and four 7-day admission tickets worth \$750. He is delighted. A few weeks later, he receives a full refund for the tickets he had bought for the trip – since their experience had been less than wonderful, Disney wanted to refund their money. The customer is elated – even happier than he would have been if there had been no error in the first place. He tells all his friends how great Disney is, and writes about it online.

Adapted from <http://www.infowhse.com/recovery/sample.htm>

no failure. Of the 10% who reported a failure, we asked them the following:

1. Did you complain? And if so, how (i.e. through which channel)?
2. How did you evaluate the recovery effort?
3. How likely are you to recommend the company?

The study found that customers who were **very satisfied** with the initial service and experienced no service failure were the most satisfied.

But if the initial service was **only satisfactory**, customers who experienced a failure plus a service recovery that greatly exceeded expectations were happier than those with just the original error-free service.

In summary, an excellent initial service creates more satisfaction than a service failure followed by an excellent recovery. But when initial service is just satisfactory, the service recovery paradox exists. Customers are happier with an excellent recovery than the error-free service. So what does this mean? Where should you focus your efforts?

Improving encounter satisfaction is more cost-effective than service recovery

The problem is that excellent service recovery is extremely rare – only 0.53% of respondents reported a service recovery episode that was “much better than expected” in the study. This is partly due to the fact that very few dissatisfied customers actually complain – most who are unhappy simply vow not to use the service provider again. So companies often have no idea that a customer is unhappy. When he or she does complain and there is a recovery, the customer rarely finds it to be satisfactory.

According to our research, each of the following has the same overall impact on a customer’s likelihood to recommend a company:

- A very strong improvement in recovery: 50% of all customers who write a complaint letter evaluate the recovery as improving one level
- A decrease in the incidence of failure by 0.29%
- A 0.2% reduction in failure incidents that

customers perceive to be “absolutely unacceptable”

- An increase in initial encounter satisfaction for 1.34% of customers who had no service failure.

The service recovery paradox is extremely rare, and therefore should not be the focal point for managers. Rather, investing in improving the encounter satisfaction (i.e. getting it right the first time) has a much larger impact than recovering customers when something has gone wrong, and is therefore the better strategy.

Small improvements in your initial service – to avoid failure in the first place – generate a great deal more customer loyalty and positive word of mouth than most service recovery efforts. It is much more cost-effective to concentrate on providing good service upfront than to have to invest a large amount of time and effort on correcting mistakes.

Using the Recovery Triangle

Although perfect service is the ideal, it can be elusive, and recovery is therefore needed. But unfortunately, most companies have the customer department service sort out the immediate problem, via some service recovery activity, and then assume all is well. This approach is particularly damaging because it does nothing to address the underlying problem, practically guaranteeing similar failures and complaints in the future.

What businesses should be doing is looking at service recovery as a mission that involves three stakeholders: customers who want their complaints resolved (customer recovery); managers in charge of the process of addressing those concerns (process recovery); and the front-line employees who deal with the customers (employee recovery). All three need to be integrated into addressing and fixing service problems.

Tensions naturally arise in and among the groups. For example, customers can be left feeling that their problem wasn’t addressed seriously, even

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when they've received some form of compensation. Service reps can start seeing complaining customers as the enemy, even though they point out flaws that need fixing. Managers in charge of service recovery, meanwhile, can feel pressure to limit flows of critical customer comments, even though acting on the information will improve efficiency and profits.

Our experience with managers interested in improving service recovery indicates that most hope for a quick fix of some specific tensions. But quick fixes only treat the symptoms of underlying problems. Real resolutions should involve closer integration among the three stakeholders, such as gathering more information from customers and sharing it throughout the company, and adopting new structures and practices that make it easier to spot problems and fix them.

Beyond Recovery: Creating a "Service Logic"

We suggest that companies develop a "service logic" that explains how everything fits together. This should be a kind of mission statement or

summary of how and why the business provides its services. It should integrate the perspectives of all three groups:

- What is the customer trying to accomplish, and why?
- How is the service produced, and why?
- What are employees doing to provide the service, and why?

The answers to these questions should serve as a guide both for delivering service and for service recovery. It should include a detailed study of internal operations, mapping out how the company responds to customer complaints, and describing how the company uses that information to improve service-recovery processes. Similar mapping should detail every step of customer experiences, including those of real customers with complaints, highlighting their thoughts, reactions and emotions along the way. Highly skilled managers and employees who can think outside the box are a must to implement the service logic for high quality initial service and excellent recovery.

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This *Perspectives for Managers* is based on the article "The Service Recovery Paradox: True but Overrated?" by Stefan Michel and Matthew L. Meuter, which was published in the *International Journal of Service Industry Management*, Volume 19, Issue 4, and won the Emerald Literati Network Awards for Excellence 2009.

The Recovery Triangle, developed by Stefan Michel, David E. Bowen and Robert Johnston, was first presented at the 10th Research in Services Conference in La Londe (F) in 2008, where it was recognized with the Conference Best Paper Award. It also appeared in the *Wall Street Journal* article "Making the Most of Customer Complaints," published on September 22, 2008.

1 Quoted in Lord, W. (1986) *The Night Lives On* [cited on <http://www.snopes.com/titanic/unsink.htm>] New York: Avon Books.

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