

Role Of Organizational Service Recovery Actions On Customer Switching Intentions In A Process Based Service Failure: Does Speed Of Recovery Matters?

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Abstract

The study examines how organizational activities of compensation and empowerment impact on consumers switching intentions and also whether these differ based on the speed of service recovery. Data is collected using hypothetical scenarios in a situation of process failure. It is found that there is no direct effect of either compensation or empowerment on switching intent, although the interaction effect is significant when recovery occurs quickly.

Introduction

The term service recovery has passed a long way from the early definitions “attempt to offset the negative impact” (Gronroos, 1988) and “rectifying service failure” (Zemke and Bell, 1990) to more recent, “getting customer back to business” (Mattila, 2004). Service recovery has both outcome (or technical) and process (or functional) dimensions (Parasuraman *et al.*, 1988; Gronroos 1984). The outcome dimension is what the customer actually receives as part of the firm’s efforts to recover, whereas the process dimension of service recovery is concerned with how this is done (Lewis and Spyropoulos, 2001). Parasuraman *et al.* (1988) suggest that the process dimension of the service recovery is accentuated in regards to consumers’ experience, thus the focus of this study. Within the literature a range of organizational and employee factors have been examined in regards to the recovery activities. While there is also a range of customer outcomes in regards to the evaluation of recovery processes, we focused on switching intentions, which have been extensively studied in the literature (Boshoff and Leong, 1998).

In order to measure the impact of service recovery actions, literature seem to follow two separate tracks. One stream tends to identify such impacts in terms of behavioral theories such as justice theory (Smith *et al.*, 1999), attribution theory (Swanson and Kelley, 2001) and equity theory (Andreassen, 2000). Another stream tends to focus consumer outcomes in terms of future intentions (e.g. word of mouth). However, both streams agree that consumer evaluation of recovery is influence by the nature and level of efforts applied to failure (Zemke and Bell, 1990). Within this paper we focus on consumer outcomes rather than behavioral theories, although some limited reference to behavioral theory will be made.

Service Recovery Attributes

Recovery actions comprise an integrated set of recovery activities (Davidow, 2003) meaning attempts to deal with service failure is less likely to succeed without complex recovery actions being implemented (Smith *et al.*, 1999). There are different types of employee and organizational recovery activities that can be used to deal with service failure and we will briefly discuss these.

Organisational recovery actions have been defined as “the action responsible for ensuring customers leave with a positive impression of the organization” (Eccles and Durand, 1998). It

covers a variety of activities (Hart *et al.*, 1990), including compensation for failed encounters (Boshoff and Leong, 1998; Zemke and Bell, 1990) and empowering service employee to deal with service failure, albeit within predetermined bounds, rather than seeking managerial authority to rectify any failure (Levesque and McDougall, 1993; Boshoff and Leong, 1998; Harley, 1995). In regards to employee actions there are a more varied set of recovery actions available. This includes speed at which failure is dealt with (Boshoff and Leong, 1998; Mattila, 2001), whether an apology is offered for the failure (James and Richard, 2003), explanations of the failure reason (Poon *et al.*, 2003) and empathy of the employee with the customer (Gronroos, 1988).

In this study we followed second stream of research, which directly examines the consumer outcomes rather than examining in terms of behavioral theories. Outcome studies have tended to focus on how one or possibly two recovery actions impact on customers. The results of these past studies have been inconsistent. For example, Mattila and Wirtz (2004 p 161) suggested “offering compensation did not make up for a poor recovery effort” except in a particular mixed-bag recovery conditions. On the other hand, Bitner *et al.* (1990) found customers expect reasonable compensation in service failure situations, which was supported by Boshoff (1997), and Patterson and Smith (2001) as well. Further, there have generally been fewer studies focusing on institutional recovery activities (i.e. empowerment and compensation). This study focuses on how varying institutional factors impact on switching intentions and thus advances understanding of recovery actions.

Switching Intent

While a range of consumer outcomes related to recovery processes have been explored, one of the more prominent has been consumers’ switching intention. Service failure has been found to be one of the key reason that consumers switch suppliers (Keaveney, 1995) and thus reductions in intentions to switch are an important measure of service recovery effectiveness. Switching of service providers has multiple damaging effects on the firm; market share is reduced, profitability is reduces, and negative word of mouth increases (Lewis and Spyropoulos, 2001; Broderick *et al.*, 2000).

Within the literature the role of recovery processes have examined aspects of consumer switching intentions. For example, Wirtz and Mattila (2004) found that empowerment and compensation impacts on consumer responses for changing a service provider. Similarly, Boshoff and Leong (1998) mentioned the impact of empowerment and quick actions are positively related with customer loyalty and repatronage. Keaveney (1995) provided the evidence of direct influence of recovery attributes on switching intentions and shift in customer expectations. Therefore we proposed following hypotheses:

When controlling for speed of recovery consumer switching intentions will not differ based on:

H1a: The type of compensation (refund vs. replacement);

H1b: Whether employees are empowerment or not; and

H1c: The interaction between compensation and empowerment.

As discussed earlier, literature suggested that speedy response of employees affects the consumer perception of the service (Andreassen, 2000). Smith *et al.* (1999) also found that speedy recovery positively affected satisfaction and perceived justice. Whereas James and

Richard (2003) suggest that when recovery activities are carried out immediately, consumers are more likely to remain loyal to the service organization. However, offering compensation alone does not necessarily make up poor recovery effort (Mattila, 2004). Thus we propose following hypotheses:

Consumer switching behaviors will not differ with the speed (high verse low) irrespective of the

H2a: Type of compensation (refund and replacement);

H2b: Whether the employee is empowerment or not; and

H2c: Interaction between compensation and empowerment.

Methodology and Experimental Design

Hypothetical scenarios were used where the variables (compensation, empowerment and speed) were manipulated within the scenarios, i.e. a 2x2x2 design. 16 managers within a service organization were interviewed to ensure the scenarios reflected real world recovery incidents. In addition a sample of university students were asked to rate the realism of the hypothetical incidents as suggested by Swanson and Kelley (2001). The students identified the scenarios had a mean rating of 8.4 that indicate manipulations are highly effective (Writz and Mattila, 2004). A pre-test of the survey was conducted with 32 service staff to ensure face validity. The final survey was then distributed to 160 respondents (78 female and 82 male), with an average age of 39.8 years, who were purchasing the service (i.e. staying in one hotel). Each respondent evaluated one of the eight versions of the scenario.

Dependent items were examined customer outcomes in previous literature. Five items anchored as 1 (Definitely agree) to 7 (Definitely disagree) adapted from Keaveney (1995) and Boshoff and Leong (1998) were used to measure switching intention. The items were pre-tested with 50 service employees. Data for the study was collected where respondents (hotel guests) were randomly selected to complete the survey based on one scenario (Lewis and Spyropoulos, 2001). A block analysis approach was used as suggested by Johnston and Fern (1999) and 20 valid responses were sought for each scenario before changing the block.

In the experiment, we varied two types of organizational service recovery attributes – empowerment (employee is empowered to respond or not empowered and needs to seek manager approval) and type of compensation (refund or replacement) as 2X2 experiment. This was examined for both high-speed (recovery action takes place immediately) low speed (recovery action is delayed) situations, i.e. speed is the third factor. The recovery attributes were manipulated within a hypothetical scenario following the process suggested by Boshoff (1997) and Wason *et al* (2002). This allowed for a manipulation of levels of compensation, empowerment, as well as response speed within a process failure setting.

The data was first analysed using two ANOVAs (high speed and low speed separately) examining the direct organizational effects of Compensation and Empowerment, as well as the interaction between these two variables. Results of the two ANOVAS were examined to identify differences in relationships based on varying recovery speed on recovery outcomes. The second stage involved an ANOVA examining compensation, empowerment and speed on switching intentions. The interaction effects (i.e. speed*compensation, speed*empowerment and speed*empowerment*compensation) were used to examine hypotheses 2a through 2c.

Results

Table 1 shows the results for the first two ANOVAs. As can be seen in neither case (fast or slow response) did the direct effects, i.e. the type of compensation or level of employee empowerment, significantly impact on consumers' switching intention. However, the interaction effect for empowerment and compensation did appear to impact of consumers' switching intentions in regards to high speed recovery situations. This result confirms the work of Writz and Mattila (2004 p 161) indicating, "Offering compensation did not make up for a poor recovery effort (delayed response)."

Table 1: ANOVA Results for High and Low Recover Situations

Effect	Recovery Speed	Type III Sum of Squares	df	Mean Square	F	Sig.
Compensation	Low	1.013	1	1.013	.045	.833
	High	.012	1	.012	.001	.975
Empowerment	Low	.613	1	.613	.027	.870
	High	10.513	1	10.513	.800	.374
Compensation * Empowerment	Low	27.613	1	27.613	1.222	.272
	High	277.513	1	277.513	21.124	.000

Table 2: Overall effect of independent variables

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Empowerment	3.025	1	3.025	.169	.681
Compensation	.625	1	.625	.035	.852
Speed	270.400	1	270.400	15.135	.000
Empowerment* compensation	65.025	1	65.025	3.640	.058
Empowerment * speed	8.100	1	8.100	.453	.502
Compensation * speed	.400	1	.400	.022	.881
Empowerment * compensation * speed	240.100	1	240.100	13.439	.000

Table 2 examines the three effects of compensation, empowerment and speed, as well as all interactions. As can be seen both empowerment and compensation are not statistically significant, further indicating these do not affect switching intentions, as found in Table 1. Speed is found to have a significant impact on switching intentions overall ($F=15.135$ $p<.000$). In regards to the interaction effects with speed there was only a statistically significant effect in relating to the three way interaction of empowerment, speed and compensation ($F=13.439$ $p<.000$). The interaction effect of empowerment*compensation was also statistically significant at the $p<.01$ level ($F=3.540$ $p<0.1$), and looking at Table 1 we see that this interaction was only statistically significant in the high speed situation ($F=21.124$ $p<.000$).

All of these results taken together suggest that hypothesis H1a and H1b cannot be rejected, as there is no statistically significant effect of compensation or empowerment on switching

intention. H1c is however rejected, as there is an interaction between empowerment and compensation. We are also unable to reject H2a and H2b, as there is no interaction effect between speed and compensation or empowerment. However, there is a three-way interaction and thus H2c is rejected. In addition it should be noted that speed alone also did have a statistically significant effect on switching intentions.

Implications and Conclusions

The results have suggested that there are complex interactions in recovery activities. This type of result has also been found in literature focusing on behavioral theory as well. For example Smith *et al.* (1999) suggested that the type of recovery impacts on perceived justice. They also found that speed of recovery was important to how consumers viewed recovery attempts. Within our study we found that having an individual quick recovery speed does seem to reduce consumers switching intentions as well, although switching intentions may also be affected by the interaction of other organisational recovery activities. The importance of speed, in this study and earlier works, suggests that individual employee responses are a critical component of service recovery. This might explain why much of the previous research has focused on employee recovery actions rather than organizational actions.

It is however clear that organisational action for dealing with service failure are also important, when considered in conjunction with employee recovery actions, as employee empowerment and compensation interacted with speed. This means that managing recovery requires adaptive practices to allow complex recovery actions. From a practical perspective this finding shows that systematic processes for dealing with recovery, which do not allow for flexibility in the situation, may be less effective. Further, organizations may have difficulty in establishing well-defined recovery training programs, as employees will need to consider the specific situation and take adaptive strategies for resolving service failure.

Despite its important implications, there are some limitations associated with this research. First this study only examined process failure and thus the results may not apply to outcome failure. This would of course be expected and make systemizing the service recovery processes even more complicated. The study also only considered speed in regards to employee actions. The literature has identified other areas are also important such as apology and empathy. Future studies need to include them as recovery actions before generalizing these results. Lastly we only examined one type of consumer outcome, switching intentions. Given that there has been a suggestion that each type of recovery strategy will have differing outcomes, it may be useful for future research to broaden the examination across multiple outcomes, for example, word of mouth intentions and consumer loyalty.

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