An Exploratory Investigation of the Effects of Service Failures and Recovery Efforts on Customer Satisfaction

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Service failures seem to be inevitable given the heterogeneous nature of services. In many cases, it is the service recovery efforts performed by service providers after a service failure that affect customer satisfaction. A model is proposed that considers the impact of service failures and service recovery efforts on customer satisfaction within restaurants. The findings indicate that while the severity of the service failure does not impact the preference for recovery efforts, recovery efforts do impact customer satisfaction. In addition, an analysis of various demographic factors suggests that gender plays a role in these variables.

INTRODUCTION

Customers today expect even better service than in the past. With a simple click of the computer, comparative shopping and pricing have risen to a whole new level. Affording convenience to the consumer has created a different mindset in the mind of the retailer. According to Hoffman, Kelley and Rotalsky (1995), the way in which a service provider reacts to a service failure has the potential to create a content customer, or an extreme problem. They further commented on the importance of a manager’s consideration of both service failure and service recovery potential and that these managers should create a viable plan regarding service recovery, should such customer service problems arise. In addition, Hoffman et al. (2005) point to the importance of proper employee training programs for the minimization of service failures.

The importance of service quality in customer satisfaction is inarguable. Parasuraman, Zeithaml, and Berry (1988) defined service quality as “a global judgment or attitude relating to the overall excellence or superioriety of the service.” Nadiri and Hussain (2005) stated that service quality was imperative in developing customer satisfaction, aids in guaranteeing repeat business and plays an important part in recommendations through customer word-of-mouth. These authors also commented on the importance of research in relation to the customer’s perspective.
Previous studies have indicated the importance of developing service recovery strategies based upon an understanding of service failures, with the goal to establishing better customer retention (Hart, Haskett, & Sasser, 1990; Lockshin & McDougall, 1998; Mack, Mueller, Crotts, & Broderick, 2000; Swanson & Hsu, 2009).

The present study’s purpose is to investigate the effectiveness of service recovery efforts following service failures, and the following effect on customer satisfaction from the customer’s perspective.

Service Failures

Service failures are merely a part of doing business in the hospitality industry, such as restaurants and therefore are quite a common occurrence (Smith & Bolton, 2002). According to Michel (2001), service failure occurs when the expectations set by the customer are not met by the service performed. This gap may be created by core service failures or service encounter failures. Core service failures are those problematic occurrences that are created by the service provider, such as poor products and facilities. Service encounter failures refer to the “negative and improper behavior by the service provider (e.g. being uncaring or impolite)” (Coulter, 2009, p. 144). The gaps that exist between customer expectations and service realities were found to be among the top reasons for customers to leave service providers on a voluntary basis (Keaveney, 1995).

The core service and service encounter failures outlined in this study are controllable in nature, meaning that “customers perceive that more input (i.e., effort or skill) on the part of the service provider might have prevented the failure” (Coulter, 2009, p. 147). According to Hess, Ganesan and Klein (2003), such failures create a large recovery expectation on the part of the customer.

Service Recovery Efforts

According to Miller, Craighead and Karwan (2000, p. 388), service recovery efforts are defined as “those actions designed to resolve problems, alter negative attitudes or dissatisfied customers and to ultimately retain these customers”. Of course, a service environment that lacks problems is quite desirable, but unlikely to achieve; therefore, restaurants must understand how to react should service failure arise. Recovery strategies have an undeniably dramatic impact upon a company’s profitability and revenue (Tax & Brown, 2012).

Service recovery efforts are of such importance that according to Bamford and Xystouri (2006), a majority of customers who have experienced a service failure that is either unresolved or dealt with in an inadequate manner will not return to the service provider. According to Choi and Mattila (2008), if a customer perceives that a service firm could have prevented a service failure and does not, the customer will exhibit a very negative reaction. Often customers choose to simply not complain. Approximately 90%-95% of dissatisfied customers choose to change providers rather than lodge a complaint (Dube & Maute, 1996; Singh, 1990; Tax & Brown, 2012). Two of the most cited reasons for this lack of complaining were customers’ non-confrontational attitude, as well as a belief that the company will not be responsive to the complaint if it were voiced (Dube & Maute, 1996; Tax & Brown, 2012).

Failure to properly offer appropriate service recovery may further extend the problematic situation and be viewed as a second service failure (Hoffman & Kelley, 2000). Coulter (2009) noted the additional importance of timing in service recovery efforts and that in order to provide a higher level of customer satisfaction, service recovery efforts should occur immediately. He further commented that if recovery efforts are occurring over a period of time that the customer gets to the point that the recovery efforts simply prove to be insufficient, causing dissolution of the customer-service provider relationship. According to Mattila, Cho and Ro (2009), effective service recovery efforts lead to positive tendencies in customer satisfaction.

Numerous studies identified specific service recovery efforts that can be successful. Specifically, studies have determined that efforts such as compensation and apology will lead to a level of customer satisfaction (Coulter, 2009; Goodwin & Ross, 1992; Smith & Bolton, 2002). Tax and Brown (2012) echoed the importance of compensation as the most important recovery effort in their study. Kelley,
Hoffman and Davis (1993) found that an apology was a positive enhancement of the service experienced by customers.

**Customer Satisfaction**

Customer satisfaction is defined by Oliver (1980, p. 463) as “when consumers receive service that is better than expected.” Customer satisfaction is a vital variable in relation to repeat business. In a study of the travel industry by Swanson and Hsu (2009), they found that customers were likely to give the service provider repeat business if the company responded to the service failure in an acceptable manner. Colgate, Tong, Lee and Farley (2007) stated that positive customer experiences were found to be the strongest deterrent to switching providers.

Previous research has addressed strategies for service failure and recovery, with mixed results. The offering of an apology has been found by various authors to placate the customer, leading to customer satisfaction (Bradley & Sparks, 2009; Goodwin & Ross, 1992; Lewis & McCann, 2004). McColl-Kennedy, Daus and Sparks (2003) agreed that apologies are an effective avenue to customer satisfaction, but only if such apologies are sincere and empathetic. On the other hand, Duffy, Miller and Bexley (2006) did not find apologies to be effective in developing customer satisfaction.

One method that customer use to express their level of satisfaction is through word-of-mouth. According to Kinard and Capella (2006), word-of-mouth is often important when consumers are choosing a service provider, such as a restaurant. Thus, customer satisfaction is important to maintain positive word-of-mouth. Eickins (1983) stated that patrons are quite open to use word-of-mouth when discussing their purchasing experiences with others. Once a service failure has been rectified and the customer is satisfied they are often quite likely to use positive word-of-mouth recommendations thereafter (Lewis & McCann, 2004; Swanson & Davis, 2003).

Prior to Hoffman et al.’s (1995) study, there is a lack of evident research that investigates the relationships between service failure, recovery efforts and customer satisfaction, leaving the authors to suggest that these relationships be included in future studies.

**HYPOTHESES AND RESEARCH QUESTIONS**

Mostert and Steyn (2010) investigated restaurant service failures in two countries, one of which was the United States. The study found that U.S. patrons citing food or service problems and problems with restaurant employees more likely preferred “some form of compensation as service recovery” (p. 255). The study also found similarities to the customers’ service failures and the recovery strategies restaurants offered to the patrons.

Previous studies have found that service failures experienced by customers affected their expectations of recovery efforts and the severity of the service failure resulted in negative impacts upon service recovery efforts (Hoffman et al., 1995; Liao, 2007). This leads to the following hypothesis (H1): Service Failures will have a positive effect upon Service Recovery Efforts.

Previous research findings have indicated that customers who were satisfied with a service recovery experienced “greater trust and positive word-of-mouth” when “compared with dissatisfied complainants” (Kau & Loh, 2006, p. 109). The study also found that customers viewed fairness of outcomes extremely important in relation to their level of satisfaction. In addition, Mattila (2001, p. 110) found that customer satisfaction in relation to service recovery is “positively related to trust”. This leads to the following hypothesis (H2): Service Recovery Efforts will have a positive effect upon Customer Satisfaction.

A perusal of the literature indicates a lack of research that investigates the effect of specific demographics upon consumer’s perceptions of the severity of service failures. Whilst demographics are often included in the literature so that the authors may identify the classifications of their sample, there is little to no evidence of in-depth research investigating the impact of these classification categories upon their perceptions of service failures (Bunker & Ball, 2008; Keaveney & Parthasarath, 2001).

A study by Hoffman et al. (1995) found no difference amongst demographics in relation to service failure and recovery ratings. Keaveney and Parthasarath (2001), however, did state that perhaps customers
with higher incomes and levels of education may be more accurate in what is expected from a service provider.

In addition, Kolodinsky (1993) commented that gender may play a role in service failure evaluations. He pointed out that this situation may exist because men and women display differing behaviors when registering complaints. Therefore, the following research question is posed (RQ1): What effect will demographics have upon individual’s perceptions of Service Failures?

Previous studies have shown that gender has an impact on how the customer will react to service recovery efforts (Mattila & Eng, 2002; McColl-Kennedy et al., 2003). According to Mattila et al. (2009), males indicated a significant increase in recovery satisfaction ratings when offered an apology and compensation. Their study also found that for women, satisfaction was significantly higher when apology and compensation were combined, and that compensation without an apology dropped the satisfaction level of the subjects to a lower level.

A study by Hoffman et al. (1995) found no difference amongst demographics in relation to service failure and recovery ratings. Wells and Prensky (1996) stated that demographics influence the consumer’s evaluation of their purchasing experiences, but not specifically in relation to services. According to McColl-Kennedy et al. (2003), the recovery process is of more interest to women than the actual outcome. This leads to the following research question (RQ2): What effect will demographics have upon individual’s perceptions of Service Recovery Efforts?

Studies discussing the importance of gender in relation to customer evaluations of service experiences are somewhat limited. According to Mattila, Grandey and Fisk (2003, p. 122), women, specifically, exhibit a higher level of interest “in the recovery process than the outcome”.

A study by Caruana (2000) found that gender and marital status had no role in customer perceptions related to service loyalty, but age and education did play such a role. In addition, Deng, Lu, Wei and Zhang (2010) found that age and gender did have an effect on the customer satisfaction ratings of their subjects. This leads to the following research question (RQ3): What effect will demographics have upon individual’s perceptions of Customer Satisfaction?

METHODOLOGY

The Operational Model

The theoretical framework of this study utilizes the operational model presented in Figure 1. This model suggests that there is an antecedent relationship that culminates in customer satisfaction for restaurants. Specifically, the effect of service failures on customer satisfaction is mediated by service recovery efforts. Customer satisfaction should vary indirectly based on the service failures within restaurants, and directly with the extent to which a restaurant has implemented service recovery efforts. Additionally, this study examines the effect that various demographic factors have on perceptions of service failures, service recovery efforts, and customer satisfaction, respectively, within restaurants.

FIGURE 1
OPERATIONAL MODEL
Sampling Procedure

Because this research is an exploratory investigation of the relationships that lead to the creation of customer satisfaction in restaurants, a convenience sampling procedure is utilized. The sampling units consist of university students from a large western university, and a questionnaire was developed and administered to these students in various undergraduate business classes by the authors. Students were sampled without replacement to ensure that a student only completed the questionnaire once. All items on the questionnaire were pretested with 35 undergraduate business students from the aforementioned university in order to identify and eliminate any ambiguities in the questionnaire. A total of 136 questionnaires were collected, of which a total of 126 were usable after eliminating unusable questionnaires due to significant omissions. The relevant characteristics of this student sample are presented in Table 1. While not included in this table, the average age of the respondents was 24 years, with 67.5% of the respondents between 22 - 25 years of age.

TABLE 1
STUDENT SAMPLE CHARACTERISTICS

<table>
<thead>
<tr>
<th>Demographics</th>
<th>Frequency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender:</td>
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<tr>
<td>Female</td>
<td>69</td>
<td>54.8</td>
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<tr>
<td>Male</td>
<td>57</td>
<td>45.2</td>
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<tr>
<td>Year in School:</td>
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<tr>
<td>Freshman</td>
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<td>3.2</td>
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<tr>
<td>Sophomore</td>
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<tr>
<td>Junior</td>
<td>34</td>
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<tr>
<td>Senior</td>
<td>74</td>
<td>58.7</td>
</tr>
<tr>
<td>Other</td>
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<td>4.8</td>
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<tr>
<td>Race/Ethnic Identity:</td>
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<tr>
<td>Caucasian</td>
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<tr>
<td>Hispanic</td>
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<tr>
<td>Black/African American</td>
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<td>13.5</td>
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<tr>
<td>Native American</td>
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<td>2.4</td>
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<tr>
<td>Other</td>
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<td>8.7</td>
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<tr>
<td>Marital Status:</td>
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<tr>
<td>Single</td>
<td>113</td>
<td>89.7</td>
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<tr>
<td>Married</td>
<td>10</td>
<td>7.9</td>
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<tr>
<td>Other</td>
<td>3</td>
<td>2.4</td>
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<tr>
<td>Household Income:</td>
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<tr>
<td>Less than $20,000</td>
<td>89</td>
<td>70.6</td>
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<td>$20,000 or more</td>
<td>37</td>
<td>29.4</td>
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<tr>
<td>Presently Employed:</td>
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<td></td>
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<tr>
<td>No</td>
<td>34</td>
<td>27.0</td>
</tr>
<tr>
<td>Yes</td>
<td>92</td>
<td>73.0</td>
</tr>
<tr>
<td>Average $ Spent in Restaurants:</td>
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<td></td>
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<tr>
<td>Less than $50</td>
<td>98</td>
<td>77.8</td>
</tr>
<tr>
<td>$50 or more</td>
<td>28</td>
<td>22.2</td>
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<tr>
<td>Average Restaurant Visits/Month:</td>
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<td></td>
</tr>
<tr>
<td>0-4</td>
<td>46</td>
<td>36.5</td>
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<tr>
<td>5-9</td>
<td>58</td>
<td>46.0</td>
</tr>
<tr>
<td>10 or more</td>
<td>22</td>
<td>17.5</td>
</tr>
</tbody>
</table>
Measures

Most of the scales used to measure the constructs in this study were derived from instruments that were designed from previous studies. Because the validity of many of these scales has been supported in other research (Hoffman et al., 1995), the primary goal in this study was to reaffirm the reliability of these scales in the scale purification process. The internal consistency of each scale item and the overall alpha score for constructs was assessed using Cronbach’s alpha.

The scale measuring service failures is adopted from the work of Hoffman et al. (1995). They developed 11 items that specifically measure the perceived severity of service failures within a restaurant scenario, including such events as seating problems, bad employee behavior, and wrong and/or lost orders. Overall, this scale received an alpha of .912, thus showing a very sufficient level of internal consistency. An analysis of the individual items for this construct shows that some items might be below the threshold of .6; however, all items were retained in the final instrument to provide a measure consistent with the original service failures scale as conceptualized by Hoffman et al. (1995). In addition, elimination of these items would not have improved the overall scale alpha of .912.

Eight items representing the preference for various service recovery efforts by restaurants are also adopted from the work of Hoffman et al. (1995). Examples included activities such as giving a discount, a coupon, or an apology. The scale as a whole received an alpha of .621, with many of the individual items receiving alpha scores at or around the .6 threshold. However, the removal of any individual items would not have increased the overall alpha for this scale and, therefore, all items were again retained in their original form in order to preserve the original scale in its original form.

Ten items representing customer satisfaction were developed to measure the unique satisfaction criteria that emphasize and measure satisfaction within restaurants that utilize service recovery efforts after service failures (i.e., “Employee reactions to a service failure are important to my satisfaction”). Because this scale was developed to measure a new construct to ascertain customer satisfaction within restaurants that employ service recovery efforts, the reliability analysis is particularly important regarding this construct. Indeed, the development of new items that have not been previously empirically tested requires that this new scale adhere to the requirements of the scale purification process. Accordingly, the reliability analysis for this newly constructed scale shows an overall alpha of .808, suggesting that this scale is reliable. In addition, elimination of all but one of the ten items would not improve the overall alpha significantly, suggesting that this scale is reliable for further analyses.

RESULTS

In order to test the two hypotheses and the three research questions, correlation analyses will be utilized in addition to independent-samples t-tests and one-way ANOVAs. For the two hypotheses, summated scores will be used in correlations to test the relationships between Service Failures and Service Recovery Efforts, and Service Recovery Efforts and Customer Satisfaction, respectively. The three research questions pertaining to demographics and their relationships to the three constructs (i.e., Service Failures, Service Recovery Efforts, and Customer Satisfaction) will be analyzed with independent-samples t-tests and one-way ANOVAs with selected demographic variables chosen for analyses.

Hypothesis 1

The relationship between Service Failures and Service Recovery Efforts was not significant ($r = .155; p = .084$), suggesting that restaurants perhaps do not employ the necessary recovery efforts in a timely manner or in a proper context that customers expect. Although this relationship was positive as anticipated, it is still not significant. Indeed, customer’s expectations of the proper service recovery effort may be contingent on the severity of the service failure and the individual restaurant itself. However, the severity of the service failure did not impact preference for recovery efforts. Therefore, the first hypothesis was not supported.
Hypothesis 2
An estimation of the relationship between Service Recovery Efforts and Customer Satisfaction was significant and in the hypothesized direction ($r = .403; p < .05$). It appears that Service Recovery Efforts do have a positive effect on Customer Satisfaction, thus indicating that this construct is very important in the perception of customers when service failures occur within restaurants. Customers who prefer recovery efforts tend to be more satisfied. Consequently, the second hypothesis was supported.

Research Questions 1 – 3
Using independent-samples $t$-tests and one-way ANOVAs, the relationships of the demographic variables listed in Table 1 and the three constructs (i.e., Service Failures, Service Recovery Efforts, and Customer Satisfaction) were analyzed. The only significant relationships occurred between gender and Service Recovery Efforts ($t = 2.54; p < .05$), and gender and Customer Satisfaction ($t = 3.64; p < .05$). In both cases, females had a higher mean as compared to males. Consequently, females were more likely to prefer that a restaurant perform service recoveries when a service failure did occur, and they were also more satisfied than males when a restaurant did perform a service recovery.

DISCUSSION
In this study, the impact of Service Failures and Service Recovery Efforts were investigated as antecedent variables leading to the creation of Customer Satisfaction within restaurants. The effects of various demographic variables on these constructs were also investigated.
For this sample of students, there was not a significant relationship between Service Failures and Service Recovery Efforts. It was expected that as the perceived severity of a particular service failure increased, so would the preferences for various service recovery efforts from restaurants. Given the heterogeneous nature of restaurant services in general, perhaps this sample has become accustomed to various service failures in restaurants and doesn’t necessarily expect to receive any service recoveries. However, there was a significant relationship between Service Recovery Efforts and Customer Satisfaction, suggesting that when restaurants do perform service recoveries after a service failure, customer satisfaction does increase.
An analysis of various demographic factors indicates that gender has an impact on the preference for service recovery efforts after a service failure has occurred within restaurants. Specifically, females are more likely to desire that a restaurant take action after a service failure by offering such things as an apology or a coupon. Gender was also related to perceived customer satisfaction of restaurants that employ recovery efforts after a service failure. Again, females were significantly more satisfied than males and indicated more willingness to recommend and return to a restaurant that properly performed service recovery efforts after a service failure occurred. Based on these results, the implication for restaurant managers is to understand that despite the inevitability of service failures, proper recovery plans are essential for the success of the organization. Properly training employees to deal with service failures is imperative and an important component of customer satisfaction. In particular, female restaurant patrons tend to prefer or expect recovery efforts more than male patrons, and their satisfaction is more a result of these recovery efforts. Male restaurant patrons are perhaps more indifferent or apathetic when it comes to service recovery efforts, and their subsequent satisfaction is not as strongly associated with these recovery efforts.
An opportunity for future research is to apply the model developed in this study to other service organizations, thus improving the generalizability of the results. Additional research could also attempt to use a larger sample or a probability sample of non-students. Finally, the model presented could be expanded to include other restaurant success factors such as positive word-of-mouth or customer loyalty.
REFERENCES


