

# **EXPLORING THE RELATIONSHIP BETWEEN ONLINE SERVICE FAILURE, RECOVERY STRATEGIES AND CUSTOMER SATISFACTION**

**Dipen Rai**

**University of the West of Scotland, UK**

**And**

**Wilson Ozuem**

**University of Cumbria, UK**

**Research in progress**

## **Abstract**

*This paper aims to analyse perceptions of online service failure-recovery and customer retention in relation to the creation of satisfactory experiences for both customer and providers in the banking sector. In specific, the negative impacts of service failures and the positive effect of recovery strategies are assessed. Online service failures can have adverse impacts on profitability, and on- and offline service failures are inevitable in the service industry. A number of observations are made with implications for customer and provider experience in the banking sector. The purpose of this paper is to divulge predominant academic insight into a consistent provider-customer interaction and unlocks new perceptions for future academic study by examining the phenomenon from the perspectives of both providers and customers.*

**Keywords:** Online service failure, Service recovery, Customer satisfaction, Customer retention, Post recovery behaviour, Banking sector

## **INTRODUCTION**

Service failures can be defined as faulty results which reflect a breakdown in consistency (Berry & Parasuraman, 1992). Similarly, service failures have been defined as “service

*performances that fall below customer expectation*” (Hoffman & Bateson, 2010, p.327). Others have described service failure as any service associated calamity or trouble that occurs during the experience of a consumer in their dealings with a company (Maxham, 2001). Some researchers have argued that it can be expensive for service providers to delay tackling service failures. Such failures can also lead to consumer refusal (Liu et al., 2000; Maxham, 2001; Kotler & Keller, 2011). The idea of online service failures is based on ECT (Expectation Confirmation Theory) and can be defined on the basis of the conventional “gap” framework of service quality (Oliver, 1980; Parasuraman *et al.*, 2005). Online service failure is defined as *“the gap that occurs when customers’ perceived quality of service delivery does not match their service expectations”* (Tate *et al.*, 2014, p. 2). E-tail consumers experience various online service failures as compared with their conventional retail counterparts (Kelley *et al.*, 2005). Consequently, novel failure recovery strategies are essential in order to deal with online service failures.

The literature on service failure and recovery strategies focusses on understanding the perspectives of customers surpassing explanations from the provider’s viewpoint (Parasuraman *et al.*, 2005; Zhu *et al.*, 2013). The provider’s outlook is often anticipated and can be approached from the perspective of two different types of performers which are enacted in order to enrich the experiences of customers (Grewal *et al.*, 2008; Huang *et al.*, 2013). Consumers have been conceptualised as entirely same experiences through the service failures and recovery strategies with limited exceptions that affects the subjective fact in the occurrence (Maxham & Netemeyer, 2002). Earlier studies have suggested that failure severity and critical failure have a substantial impact on consumer satisfaction. These can lead to adverse word-of-mouth communications and reduced levels of consumer loyalty. Previous studies (Jones *et al.*, 2004; Azemi & Ozuem, 2016) have investigated the effect of service failure severity on trust, loyalty, consumer satisfaction and negative word-of-mouth. Research has found that service failure severity has a substantial effect on consumer trust, loyalty and adverse word-of-mouth. Likewise, Kim and Ulgado (2012) investigated the perspectives of consumers in relation to service failure severity, repurchase behaviour and recovery satisfaction in hospitality services. They concluded that service failure severity has a substantial adverse effect on consumer repurchasing behaviour.

## **CONTEXTUALISATION: ONLINE SERVICE FAILURES**

A complete outline of the literature ascribes the experience of service failure-recovery to a five-stage procedure that is service failure occurs, recovery expectations, provision of recovery strategies, evaluation of recovery and post-recovery behaviour. Conversely, understanding of the consumer is prominently related with particular process stages affecting descriptions inherited to the missing stage (Mohr et al., 2006). Accordingly, experience of consumers accounts for particular backgrounds exceeding the possibility of further descriptive aspects (Rio-Lanza et al., 2009; Mattila & Choi, 2008). It is revealed from above-stated that the literature has been established in a context-free method from a positivist ontological view and responses of consumer are highly concentrated and organised. It indicates that the service failures and recovery strategies phenomena are related with a iterative experience. Moreover, the experience of the customer is anticipated during the service failure-recovery. Consequently, Miller et al. (2000) illustrated that the literature on the service failures and recovery strategies are recognised with the attempts of academics to assign the customers' perceptions in service failures and recovery to the objective fact.

Nevertheless, the literature sets out some contrasting and contradictory outcomes. It advises that consumers are heterogeneous and need to be managed subjectively (Diaz-Martin et al., 2008; Wang et al., 2011; Azemi & Ozuem, 2016). The existing literature on service failure and recovery strategies sets out a number of advantages associated with service recovery. Rust & Oliver (2000) argue that suggestive outcomes affirm that acceptable recoveries might be harmful to the service provider. This provides an indication of how distinctive consumers are from a realist perspective. The author suggests a contextual method for understanding service failure and recovery strategies which places the consumer at the heart of analysis. The literature on service recovery also follows a particular epistemological orientation (McCarthy et al., 2011). Electronic media literature appears to have established the underpinnings to research into service failure and recovery strategies, while the evolution of the internet has exposed offline service failures and recovery strategies from the perspective of traditional offline practices (Salle et al., 2015; Ozuem et al., 2016). It has been suggested that Computer-Mediated Marketing Environments (CMMEs) have empowered society, and have allowed consumers to develop insights highly individualised orientations to the world of consumerism (Ellis-Chadwick & Chaffey, 2012). This underscores the subjectivity of the insights of consumers and relates service failure and recovery strategies to experiences of impulsive results.

Moreover, the practice of providers observing consumers has also been highlighted and authors have related service failure-recovery occurrences to the combined experience created between the customer and the provider.

Ozuem & Lancaster (2013) attributed the service failure-recovery experience to interactions between consumers and others as part of the process of social constructivism. The present study suggests that service failure, recovery expectancy and appraisal, as well as after-recovery actions are formed through interactions between consumers and providers. This suggests that individuals constantly accept the latest information that matches and substitutes the inherited characteristics. This contrasts with work undertaken by Ringberg et al. (2007) since the present research does not separate out the inherited characteristics of customers before service failure occurs. This study views service failure and recovery strategies as combined initiatives that are carried out in concert between providers and consumers. It evaluates service failure-recovery from the perspectives of both customers and providers in order to develop an understanding of the topic. The study presents a contextual and inclusive conceptualisation of consumers during service failure-recovery procedures. The researcher is not isolated from the research context because a social constructivist approach is used. Strauss (1988) states that such an approach links data enrichment to the empirical data of the researcher. Maxwell (2012) illustrated that empirical data can include the personal and professional experiences of the researcher as part of the studied phenomenon. The personal, professional experiences and background of the researcher have therefore directed the current study which is produced in the context of online service failures and recovery strategies in the banking sector of Nepal. Nepal is a developing nation and Ringberg et al.'s study is limited to only the developed nations. Therefore, investigating online service failures and recovery strategies in the Nepalese banking industry represents a timely addition to the existing literature.

Academics have identified descriptions of service failure-recovery occurrences based on feedback from customers (Wirtz & Mattila, 2004; Vazquez-Casielles et al., 2008). Similar approaches and comprehensions of the scholars' tendency during the service failure and recovery strategies procedures overlook the literature (Cheng et al., 2012; Huang et al., 2014). This type of positivist orientation creates limited explanations as to the specific antecedents and process phases associated with service recovery (Chou & Lai, 2015). Furthermore, it is related the occurrences to an iterative experience as well as behaviour and reactions of consumers to an expectable one. The positivistic approach to understanding consumers appears

to have obstructed the clarifications inherent to the key theory. Regardless, academics have attempted to understand service failure and recovery strategy occurrences from various theoretical approaches such as justice and appraisal theory (Azemi & Ozuem, 2016; Mohr et al., 2006; Zhang et al., 2013). The above-stated developed contradictory outcomes in the studies relating the occurrence with complicated issues (Choi & Choi, 2014). It indicates, focus to customer's perspective, the descriptions on how in reality consumers acquire service failures insight and recovery expectation and assessment to construct after-recovery behaviour decisions are confined. Therefore, the present research paper approaches consumers as heterogeneous and it relates the conceptualisation of the customer's perspectives on service failure-recovery to state of their mind.

## **SERVICE RECOVERY IN BANKING SECTOR**

It is essential to rectify the problems of service failures in the banking sector on account of the costs associated with gaining new clients. Such costs are five times higher than the costs associated with the retention of current clients (Maxham, 2001; Gitomer, 2013). Such high costs are associated with the expensive nature of marketing activities required to attain new clients. Furthermore, service providers could harm the long-term success of their business if they are unable to recover service failure properly (Magnini & Ford, 2004). Accordingly, Tschohl (2013) stated that an effective recovery strategy can reduce negative feelings and increase positive sentiments amongst customers.

According to Jan & Younas (2012), service recovery is essential in the banking industry. They argue that "*customers may avoid complaining about minor service failures, however, in the financial institutions like banks there are no minor service failures as it is the dealing of money*" (Press et al., 1997, p. 74). Moreover, a study of the Australian banking sector found that customers do not tolerate minor service failures, for instance charging additional fees on their accounts. The findings of the study advised that banks must make an effort to deliver their services appropriately on the first occasion to avoid unsatisfactory service experiences (Valenzuela et al., 2013).

Consumers are likely to switch banking service providers if the service recovery they experience does not fulfil their expectations (Zeithaml et al., 2012). However, it has been argued that customers are likely to publicize more intense negative sentiments if they do not

perceive of a sufficient level of service recovery following service failure (Neira et al., 2010; Ayertey & Ozuem, 2017). Therefore, service recovery can be approached as a second opportunity for the service provider to address failings as soon as they occur (Bowen & Johnston, 1999). The efficient management of failure has an effect on the satisfaction of customers and their intentions to switch service providers (Ahmed & Amir, 2011). Service failure recovery is considered a key factor behind the customer's decision to switch service provider (Azemi & Ozuem, 2016).

## **MANAGERIAL IMPLICATIONS**

Studies of online service failure and recovery strategies first emerged earlier this century and so the topic has not been fully and adequately conceptualized (Boroumand et al., 2008; Fan et al., 2010). Researchers have attempted to transfer some of the conventional wisdom associated with offline failure recovery literature to online settings with mixed success (2014). Descriptions of service failures and recovery strategies emerge to be apparent as they affect the risks and opportunities accredited to the multifaceted type of digital setting (Piercy & Archer-Brown, 2014). The existing literature on service failures and recovery strategies shows that failing to understand the consumer is main reason for the ambiguity and complications that have been identified by academics and specialists (Netemeyer & Maxham, 2002; Lo & Wu, 2012; Zhu et al, 2013). This would suggest that comprehending service failures and recovery experiences from an online perspective is essential to create positive recovery platforms. The above discussion emphasizes the need to comprehend and relate service failures and recovery to hypothetical situations leading the present researcher to explore the phenomenon comprehensively.

The present study delivers substantial indicators for managers in the service sector. Apologizing, compensation, confirming a speedy response to the consumers and following-up have been acknowledged as effective recovery strategies in order to increase consumer satisfaction (Smith *et al.*, 1999; Gelbrich & Roschk, 2011). The findings advise that the businesses should have possible recovery strategies that they may implement in order to resolve service failures. Service failure is usual and consumers may experience disappointments in the service industry after failure occurs. Therefore, it is essential that managers should train employees to respond to disappointed consumers with a recovery compensation in a way that expresses sincere regret for the service failure (Lastner et al, 2016).

Other managerial implication, developing from the current study have in reaction to service failures is the usage of apologies, which are not just anticipated by affected consumers, but are also advantageous in reinstating organizational reputation particularly in the context of service failure. Such a gratitude may enhance and enable the process of managerial decision-making comprising communication selections expected at strengthening relationships with consumers (Salvador et al., 2012). Moreover, the impact of recovery strategies on the revenue of the firm can be important and maintaining decent relationships with existing customers is a crucial strategy (Ozuem *et al.*, 2017).

## REFERENCES

- Ahmed, I., & Amir, M. (2011). Service Quality, Service Features, and Customer Complaint Handling As the Major Drivers of Customer Satisfaction in Banking Sector of Pakistan. *International Review of Business Research Papers*, 7(1), 313-318.
- Ayertey, S., & Ozuem, W. (2017). Developing Compelling Online Recovery Strategies: Implications for the Fashion Clothing Industry. In *Digital Marketing Strategies for Fashion and Luxury Brands* (pp. 264-288). Hershey: IGI Global.
- Azemi, Y., & Ozuem, W. (2016). *Online Service Failure and Recovery Strategy: The Mediating Role of Social Media*. Hershey: IGI Global.
- Berry, L. L., & Parasuraman, A. (1992). Marketing Services: Competing Through Quality. *Journal of Marketing*, 56(2), 132-134.
- Berry, L. L., & Seiders, K. (2008). Serving unfair customers. *Business Horizons*, 51(1), 29-37.
- Boroumand, L., Aghdasi, M., Albadvi, A., Jamshidian, M., & Perzon, H. (2008). Service Failure-Recovery in Online Shops in Iran. *International Journal of Information Science and Technology*, 6(2), 61-75.
- Bowen, D. E., & Johnston, R. (1999). Internal service recovery: developing a new construct. *International Journal of Service Industry Management*, 10(2), 118-131.
- Bowen, D., & Johnston, R. (2009). Why service recovery fails: Tensions among customer, employee, and process perspectives. *Journal of Service Management*, 20(3), 253-273.
- Choi, B., & Choi, B.-J. (2014). The effects of perceived service recovery justice on customer affection, loyalty, and word-of-mouth. *European Journal of Marketing*, 48(1/2), 108-131.
- Chou, F. S., & Lai, M. C. (2015). The Relationships among Involvement Level, Service Failure, Service Recovery Disconfirmation and Customer Lifetime Value. *Journal of Economics, Business and Management*, 3(4), 452-456.
- Ellis-Chadwick, F., & Chaffey, D. (2012). *Digital Marketing: Strategy, Implementation and Practice* (5th ed.). London: Pearson Education Ltd.
- Fan, Y.-W., Wu, C.-C., & Wu, W.-T. (2010). The impacts of Online Retailing Service Failure Recovery and Perceived Justice on Consumer Loyalty. *International Journal of Electronic Business Management*, 8(3), 239-249.
- Gelbrich, K., & Roschk, H. (2011). A Meta-Analysis of Organizational Complaint Handling and Customer Responses. *Journal of Service Research*, 14 (1), 24-43.
- Gitomer, J. (2013). *Customer Satisfaction is Worthless Customer Loyalty is Priceless* (7th ed.). Texas: Bard Press.

- Grewal, D., Roggeveen, A. L., & Tsiros, M. (2008). The Effect of Compensation on Repurchase Intentions in Service Recovery. *Journal of Retailing*, 84(4), 424-434.
- Hoffman, K. D., & Bateson, J. E. (2010). *Services Marketing: Concepts, Strategies, & Cases*. Mason: Cengage Learning.
- Huang, M., Zhou, Y., Tsang, A. S., & Zhou, N. (2013). Recovery strategy for group service failures The interaction effects between recovery modes and recovery dimensions. *European Journal of Marketing*, 47(8), 1133-1156.
- Huang, M., Zhou, Y., Tsang, A. S., & Zhou, N. (2014). Group service recovery strategies effectiveness: The moderating effects of group size and relational distance. *Journal of Business Research*, 67(11), 2480-85.
- Jan, H., & Younas, A. (2012). *The Impact of Service Recovery on Customer Loyalty, Case company: Swedbank*. University of Gävle.
- Jones, M. A., Weun, S., & Beatty, S. E. (2004). The impact of service failure severity on service recovery evaluations and post-recovery relationships. *Journal of Services Marketing*, 18(2), 133-146.
- Kelley, S. W., Forbes, L. P., & Hoffman, K. D. (2005). Typologies of e-commerce retail failures and recovery strategies. *Journal of Services Marketing*, 19(5), 280-292.
- Kim, N., & Ulgado, F. M. (2012). The effect of on-the-spot versus delayed compensation: the moderating role of failure severity. *Journal of Services Marketing*, 26(3), 158-167.
- Kotler, P., & Keller, K. L. (2011). *Marketing Management* (14th ed.). New Jersey: Pearson Education.
- Lastner M.M., Folse J.A.G, Mangus S.M, & Fennell P. (2016). The road to recovery: Overcoming service failures through positive emotions. *Journal of Business Research*. (69) 4278–4286.
- Liu, B. S.-C., Sudharshan, D., & Hamer, L. O. (2000). After-service response in service quality assessment: a real-time updating model approach. *Journal of Services Marketing*, 14(2), 160-177.
- Lo, Y. H., & Wu, C.-C. (2012). Customer reactions to encountering consecutive service failures. *Journal of Consumer Behaviour*, 11(3), 217-224.
- Magnini, V. P., & Ford, J. B. (2004). Service failure recovery in China. *International Journal of Contemporary Hospitality Management*, 16(5), 279-286.
- Mattila, A. S., Cho, W., & Ro, H. C. (2011). The role of self-service technologies in restoring justice Author links open overlay panel. *Journal of Business Research*, 64(4), 348-355.
- Mattila, A., & Choi, S. (2008). Perceived Controllability and Service Expectations: Influences on Customer Reactions Following Service Failure. *Journal of Business Research*, 61(1), 24-30.
- Maxham, J. (2001). Service recovery's influence on consumer satisfaction, positive word-of-mouth, and purchase intentions. *Journal of Business Research*, 54(1), 11-24.
- Maxham, J. G., & Netemeyer, R. G. (2002). A Longitudinal Study of Complaining Customers' Evaluations of Multiple Service Failures and Recovery Efforts. *Journal of Marketing*, 66(4), 57-71.
- McCarthy, I. P., Kietzmann, J. H., Hermkens, K., & S. Silvestre, B. (2011). Social media? Get serious! Understanding the functional building blocks of social media. *Business Horizons*, 54(3), 241-251.
- Miller, J. L., Craighead, C. W., & Karwan, K. R. (2000). Service recovery: a framework and empirical investigation. *Journal of Operations Management*, 18(4), 387-400.
- Mohr, L. A., Harris, K. E., & Bernhardt, K. L. (2006). Online service failure, consumer attributions and expectations. *Journal of Services Marketing*, 20(7), 453-458.

- Neira, C. V., Casielles, R. V., & Iglesias, V. (2010). The effects of customer age and recovery strategies in a service failure setting . *Journal of Financial Services Marketing*, 15(1), 32-48.
- Netemeyer, R. G., & Maxham, J. G. (2002). A Longitudinal Study of Complaining Customers' Evaluations of Multiple Service Failures and Recovery Efforts. *Journal of Marketing*, 66(4), 57-71.
- Oliver, R. L. (1980). A Cognitive Model of the Antecedents and Consequences of Satisfaction Decisions. *Journal of Marketing Research*, 17(4), 460-469.
- Ozuem, W., & Lancaster, G. (2013). Recovery strategies in on-line service failure. *Marketing in the Cyber Era: Strategies and Emerging Trends*, 143-159.
- Ozuem, W., Howell, K. E., & Lancaster, G. (2008). Communicating in the new interactive marketplace. *European Journal of Marketing*, 42(9), 1059-1083.
- Parasuraman, A., Zeithaml, V. A., & Malhotra, A. (2005). A Multiple-Item Scale for Assessing Electronic Service Quality. *Journal of Service Research*, 7, 1-21.
- Piercy, N., & Archer-Brown, C. (2014). Online service failure and propensity to suspend offline consumption. *The Service Industries Journal*, 34(8), 659-676.
- Press, I., Ganey, R. F., & Melvin, H. F. (1997). What's Most Important to Customer Satisfaction. *BA Banking Journal*, 89(9), 73-75.
- Ringberg, T., Odekerken-Schröder, G., & Christensen, G. L. (2007). A Cultural Models Approach to Service Recovery. *Journal of Marketing*, 71(3), 194-214.
- Rust, R. T., & Lemon, K. N. (2001). E-Service and the Consumer. *International Journal of Electronic Commerce*, 5(3), 85-101.
- Rust, R. T., & Oliver, R. L. (2000). Should We Delight the Customer? . *Journal of the Academy of Marketing Science*, 28(1), 86-94.
- Salle, A., Tripp, T. M., & Grégoire, Y. (2015). Managing social media crises with your customers: The good, the bad, and the ugly. *Business Horizons*, 58(2), 173-182.
- Salvador, R.O., Folger, R. & Priesemuth, M. (2012). Journal of Managerial Issues.Vol. 24, (2):124-139.
- Smith, A. K., Bolton, R. N., & Wagner, J. (1999). A model of customer satisfaction with service encounters involving failure and recovery. *Journal of Marketing Research*, 36 (3), 356-372.
- Tate, M., Nili, A., & Gable, G. G. (2014). A typology of technological enablers of website service failure prevention. *Pacific Asia Conference on Information Systems (PACIS)* (p. Paper 78). Wellington: PACIS 2014 Proceedings.
- Tschohl, J. (2013). *Loyal for Life: How to Take Unhappy Customers from Hell to Heaven in 60 Seconds or Less* (5th ed.). Pasadena: Best Sellers Publishing.
- Valenzuela, F., Cooksey, R., Chandralal, L., & Hassan, R. (2013). Service Recovery in The Australian Banking Industry. *Contemporary Management Research*, 9(4), 463-482.
- Vazquez-Casielles, R., Rio-Lanza, A. B., & Diaz-Martin, A. M. (2008). Satisfaction with service recovery: Perceived justice and emotional responses. *Journal of Business Research*, 62, 775-781.
- Wang, Y.-S., Wu, S.-C., Lin, H.-H., & Wang, Y.-Y. (2011). The relationship of service failure severity, service recovery justice and perceived switching costs with customer loyalty in the context of e-tailing. *International Journal of Information Management*, 31(4), 350-359.
- Wirtz, J., & Mattila, A. S. (2004). Consumer responses to compensation, speed of recovery and apology after a service failure. *International Journal of Service Industry Management*, 15(2), 150-166.
- Zeithaml, V. A., Bitner, M. J., & Gremler, D. D. (2012). *Services Marketing* (6th ed.). McGraw-Hill Education.

- Zhang, T. J.-F., Siu, N. Y.-M., & Yau, C.-Y. J. (2013). The Roles of Justice and Customer Satisfaction in Customer Retention: A Lesson from Service Recovery. *Journal of Business Ethics*, 114(4), 675-686.
- Zhu, Z., Nakata, C., Sivakumar, K., & Grewal, D. (2013). Fix It or Leave It? Customer Recovery from Self-service Technology Failures. *Journal of Retailing*, 89(1), 15-29.