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Failure is Not Fatal: Actionable Insights on Service Failure and Recovery for the Hospitality Industry

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The service industry accounts for more than 70% of global GDP and continues to grow. This growth of the service sector in the foreseeable future is partly fueled by the rapid development of service technology (e.g., artificial technology (AI), chatbots, and automated self-service technology) in the digital age. Service performance is pivotal to consumer satisfaction, however, it is characterized by heterogeneity and intensive human involvement, and therefore service failure is almost inevitable (Chan and Wan 2008; Zeithaml, Parasuraman, and Berry 1990). Consequently, service companies must derive service recovery strategies that would help them mend the broken service promise in case of a service failure. For example, how can customer dissatisfaction be reduced in the event of a service failure? When a service was not performed well for a guest at a hotel, should the General Manager apologize in person? Or send a handwritten apology or an email to the customer? Is a private or public service recovery more effective? Does a service failure matter for an observing (potential) customer? How would a customer witnessing a service failure react to the situation and the service recovery effort by the hotel? Does service technology curb service failure due to its ability to offer standardization? Or does it create new challenges for service failure circumstances and service recovery strategy?

In this article, we seek to address each of these questions by discussing the most notable research findings concerning service failure and recovery. More importantly, we offer some actionable insights derived from existing academic research. The key takeaway is that while service failure is inevitable, proper service recovery effort will not only fix the problem but also enhance customer satisfaction beyond the current as well as potential customer's expectation.

Insights from Classic Service Failures and Recovery Research

Service failure refers to an instance when customers experience dissatisfaction as a result of an actual service performance not meeting expectation. There are some factors that can reduce consumer dissatisfaction in service failures. For example, a clean and organized service environment, a pre-existing customer-company relationship, and the type of service failure.

Service Environment

One classic research has showed that simply providing a clean, neat and organized service environment can reduce consumer dissatisfaction when service failures happen. (Bitner 1990). Interestingly, a clean and organized environment conveys a professional image that make consumers attribute the cause of the failure as a random event. Consequently, they are less likely to blame the firm for the mistake. If the service environment is unclean and disorganized, the reverse is true: consumers become more dissatisfied with the mistake.



Customer Relationship

Building positive and strong customer rapport is another important strategy because customers tend to be more forgiving of mistakes when they have a positive, pre-existing relationship with a service provider (Jones, Mothersbaugh, and Beatty 2000). This is especially true for consumers from Asian cultures (Hui, Ho, and Wan 2011).

If a customer treats a service provider as a friend (as opposed to a business partner), he/she will be even more tolerant of the service mistakes due to trust (Goodwin 1996). This trust, however, can be a double-edged sword. When customers have high trust for the service company and it fails to deliver on an explicit promise (e.g., “I guarantee you”), customers would feel betrayed and become angrier (Wan, Hui, and Wyer 2011). But if the service promise is implicit (i.e., “I try my best to help”), customers would be more forgiving. Perhaps counterintuitively, this implies

that companies are best to avoid offering service guarantees to loyal customers who consider them more than just a business partner, but as a friend.

The Type of Service Failure

Service failures can be classified into outcome and process failures (Chan and Wan 2008; Smith et al. 1999). An outcome failure involves a loss of economic resources (i.e., money, time) and a process failure involves a loss of social resources (i.e., social esteem). To illustrate, a flight delay would be an outcome failure but an inhospitable flight attendant would be a process failure.

Cross-cultural research has shown that when an outcome failure happens, Asian consumers are *less* dissatisfied than their Western counterparts. When a process failure occurs, however, the reverse is true (Chan and Wan 2008; Chan et al. 2009). The main reason is because, when compared to Western consumers, Asians are more sensitive to social resources and face concern (i.e., care about one's social image in front of others), but they pay relatively less attention to economic resources.

The two types of service failures also have implications for service recovery. Consumers prefer to receive recovery resources that match the type of failure that they suffer (Smith et al., 1999). Consumers prefer compensation and a speedy recovery when an outcome failure happens. However, they prefer an apology and an organization-initiated recovery when a process failure happens. Moreover, offering a compensation accompanied by a personal handwritten note (vs. an impersonal typewritten note) from the service provider would boost consumer recovery satisfaction and even reciprocal customer behaviors like more tips (Roschk and Gelbrich 2017).



In fact, the majority of previous research has focused on customers who are directly involved in service failures, scant attention has been paid to studying observers' reactions to service failures.

Observers are the potential customers for a service firm. In the digital age, it is very easy for an unhappy customer to post a negative review online via messaging apps, and this online complaint can be viewed by many others. Notably, customer online complaints have increased 800% over the years between 2014 and 2015 (Causon 2015), and this definitely captures much research and practitioner's attention.

Insights about the Role of Observers (Potential Customers) in Service Failure Recovery

Since service failure is defined as incidents between the focal service provider and customer, past service recovery strategies research has largely focused on the effectiveness of the various means of recovery efforts for the focal customer's loss and in restoring this customer's satisfaction level (Wan, Chan, and Su 2011). While it is important to know how a customer involved in a service failure responds to different recovery strategies, recent research suggests that it is also crucial to examine how an observer (potential customer) witnessing a service failure evaluates the recovery effort. Although there is no reported figure of the financial cost associated with service failure, the consequence of service failure and ineffective service recovery are expected to be increasingly costly due to the prevalence and influence of online distribution and social media channels (e.g., TripAdvisor, booking.com, Instagram, Twitter, etc.). The monetary costs of losing a hotel guest or restaurant patron can include a direct cost represented as in the short term as the value of a repeat customer and in the long term as customer lifetime value. But the prevalence of online channels, such as TripAdvisor, and Booking.com, implies that the monetary costs of a service failure could also include an indirect social cost due to negative word-of-mouth permeated through negative online reviews. As such, it is expected that the detrimental effects of ineffective service recovery may go beyond those impacts on the customer involved to the observers (e.g., potential customers reading online reviews; Chan, Wan, and Chu 2018; Noone and McGuire 2013; Wan, et al. 2011).

In general, the scant research which focused on the observer (potential customer) has found that a service failure which happened to another customer does have an impact on the observer's evaluation of, and by extension, intention to engage with the service provider (Chan et al. 2018; Wan, et al. 2011; Wan and Wyer, forthcoming). More interestingly, the contagion impact of a service failure to the observing (potential) customers has been shown to have psychological rather than rational underpinnings. One study showed that the extent to which an observing customer assigns blame to the service provider reflects a defensive mechanism. In particular, when the observing customer witnesses a negative event (i.e., saw or read about a negative service experience), feeling of threat would arise. This feeling would trigger a self-protective motive manifested as the observing customer's heightened motivation to avoid possible future harm by assigning more blame to the perpetrator of the negative event (i.e., the service provider; Wan, Chan, and Su 2011).



The robustness of the defensive mechanism in the role of an observing customer in service failure is further supported by the finding that an observing customer's perceived personal similarity with the customer involved accentuates the blame assignment for the service provider. Past research reported that when the observing customer perceived more personal similarity with the focal customer of the service failure, more blame was assigned to the service provider (Chan et al. 2018; Wan, et al. 2011). Moreover, the psychological state that drives this pattern of blame attribution is a sense of vulnerability felt towards the chance that the same failure would befall oneself, as opposed to negative emotions felt towards the negative experience associated with the observed service failure (Chan et al. 2018). In addition, this line of research suggests that personal similarity can be instigated by a variety of factors, such as the focal customer's age (e.g., a younger person vs. an elderly) and ethnicity (e.g., Asian vs. Cassian), customer status (e.g., VIP status at the focal service company). More importantly, the increased blame assignment to the service provider in the aforementioned studies would further hinders key customer outcomes, such as perceived service quality, likelihood to use the service, and intention to choose the focal service provider, which could hurt the company's bottom line.

Taken together, this body of research suggests that a company's service recovery should not be limited to the customer involved in the failure, but extended to those who observed it. For example, service firms can consider offering a public apology or recovery on social media channels after service failures, it may help in alleviating the feeling of threats that the observing customer may experience. Moreover, after the service recovery had been performed to the customer involved, extra attention maybe devoted to other customers as well. If a food order has been placed incorrectly, for example, after apologizing to the patron involved, the server may ask those sitting nearby about their orders and food. This act of concern may soothe any uneasiness emerged out of witnessing someone else's negative experience.



Service Failure and Recovery in the Technology-Infused Era

The recent surge in technology-infused services has brought new opportunities and challenges to the service industry as a whole. But what are the implications, if any, with respect to service failure, and by extension, service recovery? There is admittedly very limited research in this area. But we hope to offer a few key takeaways for managers based on our current knowledge:

1. Companies must remember that while technology-enabled service standardization does not curb service failure. But service failure resulted from service technologies may often be the customers' own fault (e.g., inability to use technology, not following instructions, etc.). Companies' must focus on how to better educate customers on the operations of the service technologies and assist customers to prevent such service failure.
2. Customers using self-service technologies tend to attribute success to themselves but failure to the company. To illustrate, a recent study found that Apple Pay users became more satisfied with the service provider if the payment was successful because it made them look *cool*; on the contrary, those users became more dissatisfied if the payment was unsuccessful because they felt embarrassed (Liu and Mattila, forthcoming). This suggests that companies' service recovery effort would not only need to fix the problem but also to alleviate the negative emotions (e.g., embarrassment, anger, etc.) the customer experienced.
3. Recent market studies have repeatedly found that many customers consider themselves reluctant participants in adopting service technologies. Companies may need to handle service failure and recovery differently for customers who are receptive to technology from those who are reluctant participants. One may expect that those who felt that they did not have a choice may be even more dissatisfied and thus require extra recovery effort.



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