SERVICE RECOVERY AND SERVICE GUARANTEE

Learning objective

- To understand the severity of service failure in service organizations.
- To suggest ways of service recovery and service guarantee to retain customers after service failure.
5.12 Service recovery

Complete avoidance of service failure in any organization is inevitable. Service failure can happen when service organization fails to deliver as per customer’s expectations. Service failure can result in the loss of customer forever. Any service organization puts maximum effort in retaining old or regular customers to enhance customer loyalty. It is well known fact that attracting altogether new customer is costlier than retaining old customers. Service failure may invoke feelings of mistrust in customer’s perception about service delivery.

5.12.1 Causes of service failure

Even after giving due consideration to the service quality, the world class organizations may also face service failure. There can be many reasons of service failures some of them are mentioned below.

- Inexperienced employee
- Indifferent or rude behavior of employee
- Delay in service delivery or slow service delivery
- Equipment breakdown
- Power system failure

From the above reasons of service failures we can see some of the causes are within the organization’s control but some of them are not. Whether a service organization can control or cannot control service failure, they can always prevent the damage due to service failure by solving the problem in quick and timely manner.

5.12.2 Defining service recovery

Service recovery involves what a service provider does in response to service failures (Weun et al., 2004). The service failure can happen in core service or
supplementary service. Any organization’s failure to timely respond to the customer’s problem may result in another service failure. Resolving the problem quickly and as soon as possible will help in avoiding second service failure and helps in retaining customers. Service recovery will also prevent losing customers to the competitors. Due to low entry barriers and high competition, it is very easy for the competitor to win over the dissatisfied customer or organization which fails to meet the customer’s expectation.

**Example of service failure**

Service failure can happen in a hotel in various following forms

- Defect in goods: Hotel fails to provide fresh and hot food and unavailability of food items mentioned in menu
- Failure due to facility problems: Cleanliness of facility and absence of right and appropriate signs and directions
- Failure due to unfriendly behavior: Rude behavior of employee at reception, limited options of modes of payments, long waiting time at reception.

**5.12.3 How service recovery is initiated?**

Some of the service failures can be noticed specially if failure occurs due to service providers. But in most of the instances failures go unnoticed. Customer complains can be a good opportunity to recover from service failure. It is very important for service organizations to attend to customer complaints and encourage customers to complain.

The situation becomes worst if customer does not complain at all. The unsatisfied customers will spread bad word of mouth which may result in loss
of any potential customer also. It is very important to understand why customers may feel reluctant to complain which is given in Figure 5.32.

- It is not worth the time, cost and effort
- Organization may not be responsive or interested in acting on failure
- I do not know where to go and what are the rights and obligations of organizations who default
5.12.4 Considerations for service recovery

It is very important to understand the customer’s efforts, expectations or role in initiating service recovery. At the same time service organizations must realize the needs of service recovery.

- Cost considerations of customers: Customers incurs time and money in writing letters and calling to the organization. Ambiguity in service recovery rules or recovery system of an organization adds to the frustration to the customer.
- Aims of service recovery: Satisfy the customers by listening to the customer’s complain. Aim to retain the customers and consider the service failure instances as learning to incorporate as preventive action.
- Customer’s expectations from recovery systems: Customers expect compensation equivalent to their dissatisfaction.

5.12.5 Service recovery strategies

1. Encourage customers to complain when they are not satisfied with service. The service organizations can have toll-free numbers for complaints and general queries and/or can offer rewards for suggestions. Effective complaint handling can help in improving customer loyalty as shown in Figure 5.33. The service organizations can also conduct regular surveys or interviews to know the reasons of lost customers.

   **Example:** Most of the telecom operators call the customer after they request to terminate that particular service. They want to know the reasons for termination of service.
2. The service organizations can take preventive action by anticipating the needs of service recovery. While designing service delivery process in service blueprint, service organizations can anticipate the potential failure points. Devising proper procedures to handle such failure points and providing training to the employees regarding such procedures will help in effective service recovery. For example scripts can be made for the common service problems which can guide employees for service recovery.
3. Training and empowering employees who are directly involve in handling the complaints. They must be trained regarding the potential problems they may face related to service failures. The employees need to be trained for good communication skills and decision making skills. At the same time empowering them by giving authority to take corrective actions on time. This can be practiced by encouraging simulated situations of possible service failures and role playing methods to explore the methods of resolving problems pertaining to service failures.

4. Close the loop from generation of complains to effective recovery of service failure. There can be three possibilities to respond to the complaints as given below.

- The service organization cannot solve the problem. In such case give full explanation to the customer to close the loop
- The service organization can solve the problem by bringing some change in the service delivery system. Close the loop by informing the customer about the changes in service delivery system.
- The service organization is ready to solve the problem but may not be aware of solution. In such case customers can be asked for the suggestions and any possible improvements in service delivery system. Close the loop by informing the customers about the incorporation of customer’s suggestions.

Adopt proper recovery action following appropriate ways to handle failure situation as shown in Figure 5.34. The service employees can apologize, assist the customer in rectifying the problem and compensate the unsatisfied
customer. The compensation can be in the form of discount, coupon, free of cost service.

![Diagram of recovery action and ways to handle service failure]

**FIGURE 5.34: RECOVERY ACTION AND WAYS TO HANDLE SERVICE FAILURE**

### 5.13 Service Guarantee

Service guarantee is one of the mechanisms to win customer’s trust and commitment about the quality service delivery that the customer’s
satisfaction is prime importance given by any service organization. A service guarantee is a commitment the service provider gives to the customer concerning all or part of the service process and may also include a compensation for the customer if the commitment is not honored (Kashyap, 2001).

5.13.1 Why service guarantee?

Focus on customer’s requirements

It is very important to understand what exactly customer expects from a service organization while planning for service guarantee. It helps in aligning guarantee with service concept and customer’s requirement.

Helps in setting clear standards of service

A guarantee should be clear and free from ambiguity then only it will focus on clear expectations of customers as well as employees of service organization.

Good source of feedback

As we have seen in service recovery section that many times customers do not feel comfortable to complain about service failures. Providing service guarantee increases the chances of attending to the customer’s problems when something goes wrong. Getting feedback from customers act as input to quality improvement process.

Helps in understanding failure points
The data obtain in the form of feedback can be utilized to understand the causes of service failure. Utilizing information on service failures instances will help in designing better service delivery systems and improving training and selection procedures.

**Act as a marketing tool**

Due to low entry barriers in services there is huge competition between service organizations. Companies can offer different guarantee schemes which will help in attracting new customers while retaining older customers as well.

### 5.13.2 Types of service guarantee

- **Unconditional service guarantee:** Guarantees 100% customer satisfaction without exceptions.
- **Conditional service guarantee:** Service provider intends to promote a certain element of the service offering.

### 5.13.3 Criteria to offer service guarantee

There are five important criteria which service organization can consider while offering guarantee which is given in Figure 5.35.
5.13.4 Important factors for designing service guarantee

There are some internal and external factors which service organizations consider while designing service guarantee as given in Table 5.12.
<table>
<thead>
<tr>
<th><strong>INTERNAL FACTORS</strong></th>
<th><strong>Factor</strong></th>
<th><strong>Description of factor</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Process fit</td>
<td>Guarantees offer should aligned with the service processes of service organization</td>
</tr>
<tr>
<td></td>
<td>Staff management</td>
<td>Support and cooperation of contact and support staff is essential for timely provision of guarantee</td>
</tr>
<tr>
<td></td>
<td>Motivation of employees</td>
<td>Employees having clear understanding of guarantees in the form of realistic promises by service organization motivates them to honor guarantees and to participate in improvement of service delivery process</td>
</tr>
<tr>
<td></td>
<td>Pricing strategy</td>
<td>Guarantee must be aligned with pricing strategy as the service organization has to spend on providing guarantee to customers in case of any failure, train employees and introduce and upgrade guarantee systems.</td>
</tr>
<tr>
<td><strong>EXTERNAL FACTORS</strong></td>
<td><strong>Industry standards</strong></td>
<td>Lack of industry standards in some type of services where variability in service supply is high</td>
</tr>
<tr>
<td></td>
<td>Competition</td>
<td>Being the first one to offer guarantee provides competitive advantage</td>
</tr>
<tr>
<td></td>
<td>Legal aspects</td>
<td>Guarantee must be treated as a legal contract considering all regulations governing any type of transaction to avoid negative implications later on</td>
</tr>
<tr>
<td></td>
<td>Customer expectations</td>
<td>Providing guarantee is costly activity for a service organization. So it is important to understand the right customer expectations to spend the money in right direction</td>
</tr>
<tr>
<td></td>
<td>Perceived image of the firm</td>
<td>A service organization with low perceived image can offer guarantees to attract and assure potential customers of good service quality</td>
</tr>
<tr>
<td></td>
<td>Uncontrollable factors</td>
<td>Factors beyond the organization’s control</td>
</tr>
</tbody>
</table>