

# Getting Back on Track: Service Recovery in a Networked World

In today's travel and events industries, multiple service providers work together to shape unique, complex and multidimensional customer experiences. However, such connectedness can come at a cost. Within a network or ecosystem of service providers, a single service failure can have cascading effects on all stakeholders. Yet we still know little about the optimal strategies for service recovery in such networked contexts. Filling this gap in the literature, Dr Karin Weber and Professor Cathy Hsu of the SHTM shed light on how customers perceive and react to service failure and recovery measures in today's complexly interlinked business environments. Their findings offer crucial guidance for travel and events practitioners on ensuring that customers are as satisfied as possible following service failure.

## **Ever More Connected**

Whilst the customer-firm dyad was central to service scenarios in the early 2000s, the situation today is very different, with increasingly interconnected service providers, environments and dynamics. Service quality now depends on complex networks and ecosystems of interacting partners that share resources, tools and goals and whose failures can have far-reaching effects. Surprisingly, however, research has thus far failed to consider service failure (SF) and recovery measures in networked contexts. As a result, strategies for optimising service encounters in the modern world remain suboptimal. "The time has come to expand service research", say the researchers, "to understand the development of service systems, networks, and ecosystems".

Travel experiences are a good example of networked service provision, as they involve a range of stakeholders – such as airlines, hotels and destinations – that collaboratively create value for travellers. Similarly, customer experiences in the rapidly growing events industry are shaped by multiple "loosely connected" entities, such as event organisers, venues, sponsors and destinations. SF is fairly common in the events industry. "Music festivals in particular are prone to failure," say the authors, "with wide-ranging implications for the various stakeholders". To date, however, no consensus has been reached on how to respond to SF in the networked environments of today's travel and events industries.

Imagine the following scenario. A theatre company partners with a nearby restaurant and taxi firm in return for meal discounts and reliable transportation after performances. However, their collaboration is disrupted by an SF caused by the taxi firm. When a service experience is coordinated in this way, how do network members determine which party or parties should undertake SF recovery and how to protect their respective reputations?

## **Dealing Fairly with Service Failure**

Customers care about the source of SF recovery. They may even expect non-responsible entities to implement recovery, the authors tell us, "despite their potentially limited ability to do so". Research has shown that firms can benefit from implementing external recovery efforts, but only when they are unaffiliated with the party responsible for the SF. "An SF

by one firm actually creates an opportunity to enhance customer evaluations of a different firm in a contiguous service experience", the authors deduce. To explore this issue in more depth, they compared customers' responses to SF recovery implemented by different parties: the firm responsible for the SF, a firm affiliated with the responsible firm, a firm unaffiliated with the responsible firm, and multiple affiliated firms.

Customers' responses to SF recovery may also hinge on their assessment of how fairly the SF has been dealt with. In general, customers who have experienced failure are looking for justice. This, say the researchers, "relates to customers' perceptions of the fairness of actual outcomes or consequences", such as the provision of monetary or non-monetary compensation. The researchers compared the effectiveness of compensation versus a sincere apology in limiting customer dissatisfaction following SF. They also filled a gap in research by exploring whether and how customer responses to recovery efforts were affected by the severity of the SF.

## **Novel Service Scenarios and Surveys**

To empirically examine customer responses to SF and recovery measures, the researchers carefully designed and administered two online script-based surveys. In Study 1, 207 participants were asked to imagine that they had arranged to attend an international music festival but subsequently encountered an SF in the form of an airline overbooking, a delayed flight or a missed flight connection.

They were then presented with one of four external recovery scenarios, in which the recovery was implemented by either an airline alliance partner (affiliated recovery firm) or a hotel (unaffiliated recovery firm) and the recovery outcome was either compensation, in the form of an upgrade, or an apology. The participants rated their satisfaction with, intention to recommend via word of mouth and repeat purchase intention regarding the recovery firm.

Study 2 extended this consecutive two-firm context to an event experience created by several service providers. Seasoned festival-goers were asked to imagine that they had purchased tickets for a music festival, along with transportation to and accommodation at the festival site, before encountering an SF. Splitting the participants into six groups, the authors measured the effect of SF severity (minor problems encountered at the festival versus a cancelled flight) on the participants' evaluation of the event organiser, venue, sponsor and destination.

In Study 2, the researchers also compared the participants' responses to recovery implemented by the responsible party, namely the event organiser (which provided compensation in the form of a partial ticket refund/donation to a national charity), versus recovery implemented jointly by all four entities (which provided either compensation, i.e., a free concert ticket, or an apology). Again, the participants' satisfaction, word of mouth recommendation intention and repeat purchase intention were recorded.

### **Compensation for Customers**

As expected, Study 1 revealed higher customer ratings for satisfaction, word of mouth intention and repeat purchase intention for the recovery firm that

was unaffiliated (versus affiliated) with the firm responsible for the SF. In general, customers preferred to be compensated than to receive an apology, but affiliated firms had the most to gain from offering compensation. "A tangible goodwill gesture is more effective than a simple apology if a firm wants to take advantage of an SF by another service provider", add the researchers. For example, hotels could extend checkout times for guests with delayed flights to minimise negative customer responses.

Study 2 confirmed that SF severity also impacted consumer evaluations. In the high-severity scenario, the event organiser (responsible for the SF) received particularly low ratings relative to the other three entities involved in the experience creation. Surprisingly, however, consumer evaluations and behaviours were not more positive following external recovery by affiliated entities than following internal recovery by the entity to blame for the SF, the event organiser. According to the researchers, this suggests that costly efforts made by affiliated firms to appease frustrated customers may not result in "more favourable consumer evaluations of and behaviour toward the entities implementing such external recovery measures".

The results also showed that the kind of compensation offered should be carefully considered. Study 2 revealed that offering a free ticket to a concert in the future actually increased the frustration of non-local festival-goers, who had already made travel and accommodation arrangements. In contrast, Study 1 showcased the advantages of immediate and/or flexible compensation offered by airlines and hotels. "In a festival context," conclude the authors, "any external recovery offered by affiliated stakeholders should not only be of similar value but also be immediate and flexible in nature".

### **Spearheading Service Recovery**

Moving beyond the dyadic business-consumer interactions of the past, this study breaks new ground by examining SF and recovery measures in a networked world. Its results provide much-needed guidance for modern travel and events practitioners seeking to limit customer dissatisfaction following SFs caused by various stakeholders. To optimise their recovery strategies, network members should carefully consider SF severity, choose the right party or parties to implement recovery and determine the most appropriate type of compensation. As the researchers note, these insights may be particularly relevant in "extraordinarily challenging business environments" such as those created by the COVID-19 pandemic.

### **POINTS TO NOTE**

- In today's connected world, service failure can have far-reaching effects when firms jointly offer unique event experiences, such as music festivals.
- Recovery from service failures is crucial to maintain goodwill and positive customer evaluation in complex networked environments.
- Compensation is more effective when provided by a firm not directly linked to the one responsible for service failure.
- Firms that step in to respond to service failures should offer tangible compensation that is flexible and of immediate use.

Weber, Karin, and Hsu, Cathy H. C. (2022). Beyond a Single Firm and Internal Focus Service Failure/Recovery: Multiple Providers and External Service Recoveries. *Journal of Travel Research*, Vol. 61, Issue 1, pp. 50-63.