"Antecedents and Outcomes of Service Recovery Performance: Insights from an Organisation Post-Corporatisation and Post-Deregulation"

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ANTECEDENTS AND OUTCOMES OF SERVICE RECOVERY PERFORMANCE: INSIGHTS FROM AN ORGANISATION POST-CORPORATISATION AND POST-DEREGULATION

Michel Rod, Janet Carruthers, Nicholas J. Ashill

Abstract

Service recovery has been identified as a neglected strategic issue in the services marketing literature. The extant literature has largely focused on private sector services such as banking and hospitality. This study is unique because it focuses on a large public sector service organisation that has undergone corporatisation and deregulation and service recovery performance has yet to be examined in this context. Frontline employees completed a self-administered questionnaire on organisational variables affecting their service recovery efforts, their job satisfaction and intentions to resign. Data obtained from the organisation were analysed using the SEM-based Partial Least Squares (PLS) methodology. Analyses of the data identified a number of significant relationships between perceived managerial attitudes, work environment perceptions, service recovery performance and outcomes variables. The study makes an important contribution by advancing understanding of frontline service recovery performance in a corporatised and deregulated public sector service setting and the findings indicate that managers can take actions on a number of fronts to assist progress toward the achievement of frontline service recovery excellence.

Introduction

The pivotal role of services quality and excellence in the implementation of services marketing and management programs is well documented (Zeithaml et al., 1996). Definitions include 'doing things very right the second time' (Ruyter and Wetzels 2000), and 'the actions that a service provider takes to respond to service failures' (Grönroos, 1988; Bitner et al., 1990; Lewis and Spyrakopoulos, 2001; Bendall-Lyon and Powers, 2001). A perceived initial service failure can lead to what Ruyter and Wetzels (2000) describe as 'disconfirmation' (Oliver, 1980), but a successful recovery can restore a dissatisfied customer to a state of satisfaction.

To date, studies of service recovery performance have exclusively focused on private sector services such as banking and hospitality (e.g., Hoffman et al., 1995; Boshoff and Allen 2000; Yavas et al., 2003; Mattila and Patterson, 2004). We suggest that it is timely to consider the applicability of service recovery models and principles to an environment where corporatisation followed by deregulation has resulted in a public sector service provider no longer being able to rely on monopoly and hierarchy but having to now consider customer service more seriously in order to compete in an open marketplace. Given the ongoing global trend towards the corporatisation of former government departments (Kolderie, 1990; Toime 1999; McKenna 2000), an examination of service recovery performance in this context is unique and our research addresses this paucity.

The purpose of this study is to investigate the potential impact of organisational variables on the service recovery performance of frontline staff, and the impact of successful service recovery on frontline employees' job satisfaction and intentions to resign by using a large state owned enterprise (SOE) as a case in point. This study is unique because it focuses on a former large public sector service department that has since undergone corporatisation and deregulation. Prior to corporatisation in the late 1980's, services were delivered through a large hierarchical government department with little, if any attention given to service failure. Moreover, since deregulation in the 1990s, the organisation has lost its natural monopoly position. Today, addressing service failure

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and competition are paramount especially given that 40% fewer staff are handling 20% more business (Ministry of Economic Development, 2005).

We begin by discussing the research model developed by Boshoff and Allen (2000). This model was felt to be appropriate for guiding the study because it is widely cited in the services marketing literature as one of the first papers to identify factors that may potentially influence the service recovery performance of frontline staff. This model has only ever been applied in a private sector service context such as banking and hospitality (e.g., Hoffman et al., 1995; Yavas et al., 2003). We follow this with a description of the cross-sectional survey that was used to collect data and the results from a Partial Least Squares (PLS) analysis of the research model. In the final section, we acknowledge the implications of the results.

The Research Model and Hypotheses

The Boshoff and Allen (2000) framework examines the process through which managerial attitudes and frontline staffs' perceptions of their work environment influence service recovery performance and how service recovery performance leads to different outcomes, namely lower intentions to resign and higher job satisfaction (see Figure 1). The managerial attitudes identified as potentially influencing service recovery performance are customer service orientation of the organisation and its willingness to reward staff for service excellence. The work environment factors include training, empowerment, role ambiguity and organisational commitment.
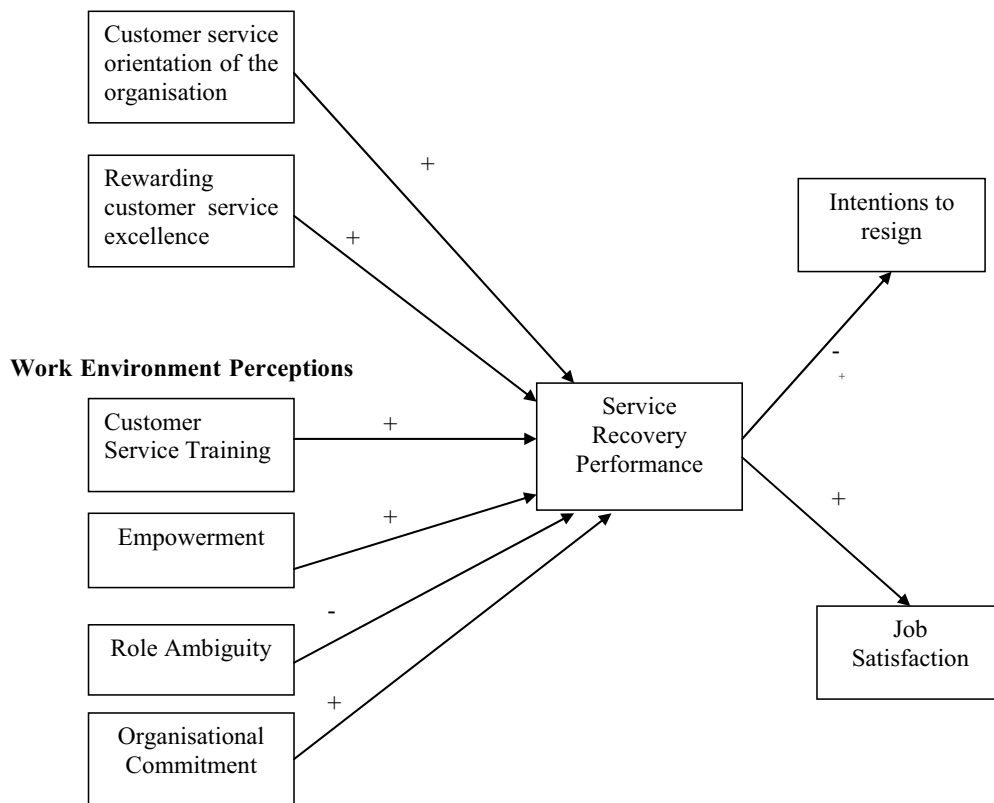

Fig. 1. Conceptual Model

Drawing upon research pertaining to service recovery performance (Babakus et al., 2003; Bettercourt and Gwinner, 1996; Bitner et al., 1990; Boshoff and Allen, 2000; Brown and Peterson 1994; Hartline and Ferrell, 1996; Lytle et al. 1998; Rust et al., 1996; Spreng et al., 1995; Yavas et al.,

2003), a number of important variables have been identified. The hypothesized relationships among these variables are discussed below.

Managerial Attitudes

Customer Orientation

Lytle et al. (1998) define customer service orientation as an organisation wide embracement of a basic set of relatively enduring organisational policies, practices and procedures intended to support and reward service giving behaviors that create and deliver 'service excellence'. An organisational culture which focuses on strong service orientation is a must for sustaining healthy long-term relationships with customers because a strong service orientation is imperative for the creation and/or enhancement of good interactive marketing performance (Grönroos, 1990; Yasin and Yavas, 1999) and is essential to maintain long term working relationships (Boshoff and Allen, 2000; Yavas et al., 2003). In light of the above, we suggest that a strong customer service orientation will have a positive influence on the behavior of frontline organisational employees with respect to service recovery. Thus:

H1. There will be a positive relationship between the perceived customer service orientation of the organisation and the service recovery performance of frontline staff.

Rewarding Customer Service Excellence

An important element of service quality is the link between employee compensation/reward and service delivery performance (Lewis and Gabrielsen, 1998). Rewards are not only important in inducing employees to deliver high quality services, they are also important in motivating them when dealing with customer complaints (Bowen and Johnston, 1999; Yavas et al., 2003). It is hypothesized that if management does not reward service recovery efforts, frontline staff will not exert much effort in dealing with customer complaints or service failures. Thus:

H2. There will be a positive relationship between rewarding employees both for delivering quality service and for effectively handling customer complaints and frontline staff recovery performance.

Perceptions of the Working Environment

Customer Service Training

Customer service training is the first work environment factor identified in the conceptual model. In the service recovery literature, it is widely reported that employees who do not possess the requisite job and interpersonal skills fail in providing a high level of service and dealing with customers' complaints (Bettercourt and Gwinner, 1996; Lewis and Gabrielsen, 1998; Boshoff and Allen, 2000; Yavas et al., 2003). Grönroos (1990) argues that a strong service orientation is essential for building and sustaining relationships with customers. Bitner et al. (1990) proposed that nearly half of all unsatisfactory service encounters are often the result of employees who lack training, intention or skills to deal well with complaining customers. Boshoff and Allen (2000) suggest that while putting the right people in the jobs and empowering them is important for a consistently high level of service, they must be trained to deal with situations that arise. Indeed, the importance of human relations skills of employees who come in direct contact with customers is widely recognised in the service literature (Hart et al., 1990; Heskett et al., 1990; Schneider and Bowen, 1995; Tax and Brown 1998). In light of the above arguments we suggest the following hypothesis.

H3. There will be a positive relationship between training frontline staff to deliver quality service and to handle customer complaints effectively and the service recovery performance of frontline staff.

Empowerment

Empowerment is the second work environment factor identified in the conceptual model. Empowerment means enhancing a person's ability and motivation to develop and make the most constructive use of their talents and experience (Chebat and Kollias, 2000). Forrester (2000, p. 67) defines empowerment as "the freedom and ability to make decisions and commitments". Kanter's work and resulting 'Theory of Organisational Empowerment' (1993) is based on the assumption that people react rationally to the situation they are in. In a situation where the environment is structured so that they feel empowered, they react accordingly, with positive attitudes that promote organisational effectiveness. By empowering employees, management relinquish control over many aspects of the service delivery (Hartline and Ferrell, 1996) to frontline employees who, because of their boundary spanning roles, can provide quick and appropriate responses to dissatisfied customers (Spreng et al., 1995; Boshoff and Allen, 2000). In light of the above discussion, we suggest the following hypothesis.

H4. There will be a positive relationship between empowerment of frontline staff and their service recovery performance.

Role Ambiguity

The conceptual model also identifies role ambiguity as a work environment factor potentially important in explaining service recovery performance. Brown and Peterson (1994) report that role ambiguity is a common occurrence in those that have boundary spanning roles. Role ambiguity occurs when employees do not feel that they have the necessary information to perform their roles adequately and/or when they are uncertain about what is expected of them (Yavas et al., 2003). In light of the above, we suggest that when frontline employees are more certain about what is expected of them, they perform better in dealing with dissatisfied customers. Thus:

H5. There will be a negative relationship between role ambiguity and the service recovery performance of frontline staff.

Organisational Commitment

The last work environment factor identified in the conceptual model is organisational commitment. Mowday et al. (1979) and Meyer et al. (1989) argue that individuals effectively committed to their organisations, (i.e. those who identify with and involve themselves in an organisation), perform at a high level. In light of the above, we argue that employees need to feel that their needs are being met by management before they can fully focus on the needs of external customers. Thus:

H6. There will be a positive relationship between the organisational commitment of frontline staff and their service recovery performance.

Outcome Variables

The Boshoff and Allen (2000) model shows service recovery performance to be related to two outcome variables: job satisfaction and intentions to resign. There is evidence suggesting that being effective in performing a job is positively related to job satisfaction (Rust et al., 1996). Porter and Lawler (1968) define job satisfaction as the extent to which rewards actually received meet or exceed the perceived equitable level of rewards. The empirical evidence also suggests that employees who feel that they perform their jobs effectively are more likely to continue their jobs (Benders and Looji, 1994; Rust et al., 1996). In contrast, those employees who are unable to provide a consistent level of service recovery performance are more likely to resign from the organisation.

In light of the above, we suggest that frontline staff who are performing service recovery effectively are more likely to report higher levels of job satisfaction and lower intentions to resign. Thus:

H7. There will be a positive relationship between effective service recovery performance by frontline staff and their job satisfaction.

H8. There will be a negative relationship between effective service recovery performance by frontline staff and their intentions to resign.

Research Method

Sample

To collect the data for the study, a total of 232 questionnaires were distributed to a random sample of frontline staff in 28 branches of a former public sector service organisation. The sample was confined to one geographical area in Wellington, New Zealand's capital city. All of the frontline staff had boundary-spanning roles encompassing a number of retail functions, and spent most of their time dealing with customers with very different needs. By the cut-off date for data collection, 120 questionnaires were retrieved for a response rate of 51.7%. The majority of respondents (78.3%) were female and evenly split between full-time and part-time status. These profiles were comparable to the total population of frontline staff in the organisation. To assess non-response bias, early and late respondents were compared on all variables of interest, using frequencies and traditional t-tests, following Armstrong and Overton's (1977) recommendations. The analysis revealed that no significant differences existed between early and late respondents in terms of the dependent and independent variables. Hence, it was assumed that non-response bias was not a problem.

Measurement

In designing the survey instrument, the relevant writing in the service recovery performance literature (Mowday et al., 1979; Lucas et al., 1990; Parasuraman et al., 1990; Boschoff and Allen, 2000; Babakus et al., 2003; Yavas et al., 2003) was used. Multiple item indicators were employed from this literature and adapted to operationalise the nine study constructs. Responses to the questionnaire items were elicited on five-point scales ranging from "5=strongly agree" to "1=strongly disagree" (see the Appendix). Measurement of service recovery performance via a self-report measure is justified on the grounds that frontline staff are in the best position to evaluate performance outcomes, and their perceptions typically converge with those of the customers (Schnedier and Bowen, 1985; Bitner et al., 1994). All constructs are reflective constructs since the items reflect the meaning of the construct.

The research model was tested using Partial Least Squares (PLS), a structural modeling technique that is well suited for predictive models using small samples (Chin, 1998). Frequency analysis of the 51 items indicated no problems of floor or ceiling effects in the measurements. The usable response number (N=120) also exceeded the recommended minimum required for model estimation. PLS requires a minimum sample size that equals 10 times the greater of (1) the number of items comprising the most complex formative construct or (2) the largest number of predictors leading to an endogenous construct (Barclay et al., 1995). In this study, the most complex regression involved six predictors leading to the endogenous construct, service recovery performance, thus indicating that the minimum sample requirement for statistical analysis is 60 usable responses.

All reliability measures were above the recommended level of 0.70 (see Table 1), thus indicating adequate internal consistency (Nunnally, 1978; Fornell and Bookstein, 1982). The average variance extracted scores (AVE) were also above the minimum threshold of 0.5 (Fornell and Larcker, 1981; Chin, 1998) and ranged from 0.503 to 0.781. When A.V.E is greater than .50, the variance shared with a construct and its measures is greater than error. This level was achieved for all of the model constructs.

Convergent validity is demonstrated when items load highly (loading > 0.50) on their associated factors. Individual reflective measures are considered to be reliable if they correlate more than 0.7 with the construct they intend to measure. At the early stages of scale development, loadings of 0.5 or 0.6 are considered acceptable if there are additional indicators in the block for comparative purposes (Chin, 1998). In the preliminary measurement model, 9 of the reflective measures had loadings below the acceptable level of 0.5 and were subsequently dropped from their associated factors. Table 1 shows the items belonging to the nine study constructs for the revised measurement model.

Table 1

Convergent and Discriminant Validity of the Model Constructs

Variable	
Service Recovery Performance ic = 0.86 AVE = 0.545	Factor Loading
Srpcons	0.7789
Srpunre	0.7131
Srpthri	0.7941
srpmind	0.7270
Intention to Resign ic = 0.89 AVE = .660	
Itrmake	0.9138
Itrthin	0.8586
Itrlook	0.8585
Job Satisfaction ic = 0.96 AVE = 0.781	
Ejspay	0.9172
Ejsawar	0.9141
Ejsfair	0.8771
Customer Service Orientation ic = 0.90 AVE = 0.515	
csoneed	0.6280
csosets	0.6798
csocomm	0.7728
csoprio	0.6717
csostre	0.7867
csoreg	0.7789
Employee Rewards ic = 0.83 AVE = 0.903	
erdeal	0.8009
ercomp	0.8749
erexcel	0.7981
erpromo	0.7648
Training ic = 0.87 AVE = 0.626	
stexten	0.7315
stdeal	0.8451
stcompl	0.8088
stbett	0.7746
Empowerment ic = 0.75 AVE = 0.503	
emappr	0.6797
emhand	0.8017
emsolve	0.6350
Variable	

Table 1 (continuous)

Role Ambiguity ic = 0.79 AVE = 0.559	
rarespo	0.8470
ragoals	0.7814
raexact	0.5911
Organisational Commitment ic = 0. 89 AVE = 0.579	
ocproud	0.6784
occare	0.8356
ocvalue	0.8442
ocbest	0.7750
ocwilli	0.7312

'ic' is internal consistency measure; AVE is average variance extracted.

Adequate discriminant validity of the reflective measures was established and evaluated by examining the cross-loadings of the constructs and measures. Measures are also considered to have adequate discriminant validity if the square root of the average variance extracted (AVE) for each construct is larger than the correlation between the construct and any other construct in the model. All constructs in the estimated model fulfilled this condition (see Table 2).

Table 2

Correlation among Construct Scores (square root of AVE in the diagonal)

	Service Recovery Performance	Intention to Resign	Job Satisfaction	Customer Service Orientation	Employee Rewards	Training	Empowerment	Role Ambiguity	Organisational Commitment
Service Recovery Performance	**0.738**								
Intention to Resign	0.247	**0.812**							
Job Satisfaction	0.502	0.736	**0.883**						
Customer Service Orientation	0.559	0.393	0.588	**0.717**					
Employee Rewards	0.245	0.463	0.499	0.228	**0.950**				
Training	0.161	0.367	0.398	0.178	0.548	**0.791**			
Empowerment	0.509	0.123	0.305	0.436	0.273	0.025	**0.709**		
Role Ambiguity	0.446	0.215	0.425	0.378	0.439	0.378	0.367	**0.747**	
Organisational Commitment	0.475	0.605	0.769	0.543	0.522	0.516	0.199	0.373	**0.760**

Results and Discussion

Consistent with the distribution free, predictive approach of PLS (Wold, 1985), the structural model was evaluated using the R-square for the dependent constructs and the size, t-statistics and significance level of the structural path coefficients. The t-statistics were estimated using the bootstrap resampling procedure (100 resamples). The results of the structural model are summarised in Table 3.

Table 3

Structural (Inner) Model Results

	Proposed Effect	Path Coefficient	Observed t-value	Sig. Level*
Effects on Service Recovery Performance (R-square = 0.480)				
H1. Customer Service Orientation	+	+0.215	+2.1220	**
H2. Employee Rewards	+	-0.104	-1.0003	ns
H3. Customer Service Training	+	-0.065	+0.8471	ns
H4. Empowerment	+	+0.309	+3.2170	****
H5. Role Ambiguity	-	-0.207	-2.0149	**
H6. Organisational Commitment	+	+0.308	+3.5407	****
Effect on Job Satisfaction (R-square = 0.252)				
H7. Service Recovery Performance	+	+0.502	+7.9196	****
Effect on Intention to Resign (R-square = 0.061)				
H8. Service Recovery Performance	-	-0.247	-1.7259	**

* p-values: **** - <0.001, *** - <0.010, ** - <0.050, * - <0.100 ns – not significant

The results show that the structural model explains 48% of the variance in the service recovery performance construct. As can be seen from the results, one of the two perceived managerial attitude constructs (employee rewards) did not have a significant positive relationship with service recovery performance. Thus H2 was not supported. Of the four work environment-related variables, three are significantly related to service recovery performance and in the hypothesised direction. The results show that empowerment, and organisational commitment exert a positive influence, and role ambiguity a negative influence on the service recovery performance of frontline staff. Thus, H4 H5 and H6 were confirmed. The remaining environmental variable (customer service training) did not have a significant effect on the service recovery performance. The structural model results also reveal that when frontline staff perform service recovery effectively, they decrease their intention to resign. Thus H8 was supported. The results also demonstrate a significant relationship between service recovery performance and job satisfaction, thus supporting H7.

Specific circumstances surrounding the organisation's environment can offer explanations for the lack of hypothesised relationships among two study variables, namely the impact of training and rewards systems on service recovery performance. Historically this organisation has been built around operational excellence and prior to corporatisation and deregulation, enjoyed a competition-free monopolistic position. This focus on operational excellence may have detracted from the importance of training staff and rewarding them in effectively dealing with customer complaints. In addition, even post-deregulation, this organisation is still responsible for the delivery of a diverse range of different services leading to many different types of service encounters, and this may compromise the ability of senior management to create and deliver effective training programmes.

Conclusions and Future Research

Service recovery has been examined in a number of industries such as banking and hospitality. However, no attention has been paid to understanding the antecedents and outcomes of service recovery performance in a post-corporatised and post-deregulated public service environment. Understanding the nature and determinants of service recovery performance is a necessary and critical starting point in developing and implementing service recovery programs, especially for organisations that historically have had no need to address service failure and competition.

Our empirical findings suggest a number of important managerial implications. Empowerment, role ambiguity and organisational commitment are significant predictors of service recovery performance by frontline staff. This suggests that management should explicitly design and establish various organisational policies such as employee empowerment and role responsibilities in order to develop a system that will facilitate a service orientated environment and service recovery performance. In addition, service recovery performance is influenced by an individual's level of commitment to their organisation and their role in service delivery. More empowerment leads to better service recovery performance, suggesting that management should take decisive steps to empower their frontline with the authority to make independent decisions, and give them adequate freedom to assist customers. To resolve role ambiguity, management should clearly communicate expectations to frontline employees, clarify their roles and inform them of their responsibilities and levels of authority. This managerial implication is quite salient with respect to the focal organisation given that even post-deregulation, this organisation retained the responsibility for delivering a number of very different, unrelated services by the same frontline staff. So the notion of role ambiguity resonates with staff, probably more so than that which is seen in the extant service recovery performance literature where there isn't the diversity of service encounters by frontline staff.

Overall, our measurement results were acceptable in terms of reliability and validity. However, methodological limitation should be noted in that while many of the expected relationships have been observed here and are consistent with a theory of causality, these relationships do not demonstrate causality, since alternative explanations cannot be ruled out.

The constructs used in this study were also measured by responses from the same participants. This measurement practice is prone to create common method variance, which may potentially provide biased estimates of model parameters (Doty and Glick, 1998). To avoid this, in future studies, multiple sources should be used, for example service recovery performance should be measured via data collected from management and/or customers.

Finally, we make the assumption that staff self-assessment of service recovery performance provides a reasonable proxy of actual service recovery performance given that frontline staff are in the best position to evaluate performance outcomes. A future research agenda seeks to examine actual service recovery performance. This would entail a survey of wronged customers with the objective of ascertaining their views on service recovery efforts and their resultant satisfaction, or lack of it. Other variables potentially important in service recovery efforts would also be worthwhile to examine including burnout, role conflict, role overload, leadership, interpersonal conflict and service technology and support.

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Appendix. Questionnaire Items

Customer Service Orientation of the Organisation

1. This organisation measures customer satisfaction on a regular basis.

2. This organisation understands its patients' needs.

3. This organisation sets objectives in terms of customer satisfaction.

4. This organisation is totally committed to serving its patients well.

5. A reputation for good service is stressed in my organisation.

6. In my organisation, prompt service is a priority.

Employee Rewards

1. If I improve the level of service I offer customers, I will be rewarded by my employer.

2. The rewards I receive are based on customer evaluations of service.

3. Staff of this organisation are rewarded for dealing effectively with customer problems.

4. I am rewarded for satisfying complaining customer.

5. We have financial incentives for service excellence.

6. I receive visible recognition when I excel in serving customer.

7. My promotion depends on the quality of service I deliver.

Staff Training

1. Staff in this organisation receive continued training to provide good service.

2. Staff in this organisation receive extensive customer service training before they come into contact with customer.

3. Staff of this organisation receive training on how to serve customers better.

4. Staff in this organisation receive training on dealing with customer problems.

5. Staff in this organisation receive training on how to deal with complaining customers.

Empowerment

1. I am encouraged to handle customer problems by myself.

2. I do not have to get management's approval before I handle customer problems.

3. I am allowed to do almost anything to solve customer problems.

4. I have control over how I solve customer problems.

Role Ambiguity

1. I have clear, planned goals and objectives for my job.

2. I know exactly what is expected of me.

3. I know what my responsibilities are.

4. I feel certain about the level of authority I have.

Organisational Commitment

1. I really care about the future of this organisation.

2. I am willing to put in a great deal of effort beyond that normally expected in order for this organisation to be successful.

3. I am willing to put in a great deal of effort beyond that normally expected in order for this organisation to be successful.

4. For me, this is the best of all possible organisations for which to work.

5. I find that my values and the organisation's values are very similar.

Service Recovery Performance

1. Considering all the things I do, I handle dissatisfied customers quite well.

2. I do not mind dealing with complaining customers.

3. No customer I deal with leaves with problems unresolved.

4. Satisfying complaining customers is a great thrill to me.

Intentions to Resign

1. I often think about resigning.

2. It would not take too much to make me resign from the organisation.

3. I will probably be looking for another job soon.

Job Satisfaction

1. I am relatively well awarded financially for my work.

2. I am satisfied with the amount of pay I receive for the job I do.

3. I am satisfied with my working conditions.

4. Given the work I do, I feel I am fairly paid.

Response to each item is measured on a five-point scale from 5 = strongly agree to 1 = strongly disagree.