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# Three Dimensions of Service Recovery: Examining Relationship and Impact

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## Structured Abstract:

*Purpose:* The aim of the paper is to evaluate the interrelationship between process recovery, employee recovery and customer recovery in a financial services call centre. We also investigate how process recovery affects customer recovery via employees- the bridge between organisation and customers.

*Design/methodology/approach:* A case study based approach is adopted in this study, and data triangulation is achieved through multiple data collection methods including semi-structured interviews, employees' survey, and company reports. Justice theory is the theoretical lens considered to understand the 'service recovery' phenomenon.

*Findings:* The research helps in understanding the relationship of process and employee recovery with customer recovery. Findings suggest that service recovery could be used for complaint management as well as in understanding and addressing the gaps in internal operations and employee skill-sets. Factors such as training, operating systems, empowerment, incentives, and feedback, were identified as critical in providing effective service recovery. Process improvement is necessary to control complaints by conducting root cause analysis and learning from failure.

*Research limitations/implications:* Findings are limited to a case company in financial services sector and thus limits its generalisability to other context. Questionnaire distributed to employees only included important dimensions of service recovery, which would be further developed in future research.

*Relevance/contribution:* This paper explores the specific reverse exchange strategies, termed in this paper as service recovery, and analyses the different factors responsible for better performance in the exchange process. The paper highlights how the imbalance in the process and employee recovery dimensions can impact on customer recovery. Closing the customer complaint loop by using the service recovery perspective may help organization to not only deal with complaints in a better way but also prevent such complaints in the future.

**Keywords:** Service Recovery, Complaints, Case Study, Call Centre

## Three Dimensions of Service Recovery: Examining Relationship and Impact

### Introduction

The reverse exchange process within the context of the product oriented supply chain (SC) has been widely discussed in the last few years. However limited effort has been made to understand the reverse exchange process within the *'service-focussed'* supply chain, and particularly in context of the financial services environment. Reverse exchange processes in service supply chains are more complex than the product SC. It usually depends on different factors related to service performance, information exchange, and capacity and flexibility of available resources (Ellram et al., 2004). This paper discusses the reverse exchange process in the downstream side of a service supply chain and examines the interaction between customers and service providers when a service fails and as a result, the reverse exchange process begins. The action and reaction of an organization in the event of a service failure is termed as "service recovery (SR)" (Gronroos, 1988). In this paper, reverse exchange will be explained by unravelling the service recovery concept, which kicks-off when a customer approaches an organization to report a complaint.

An effective complaint management process is crucial for organisations to retain and grow their customer bases. In recent years, customers are not only concerned about the service delivery process, but also becoming more sensitive to the complaint handling process in an organisation. It is therefore important to focus on process/system improvement rather than just on recovering individual failure (Hart et al., 1990; Schlesinger and Heskett, 1991; Johnston and Clark, 2005; Michel et al., 2009). Past research on complaint management have discussed either the external customer perspective (e.g. Homburg and Furst, 2005; Yoo et al., 2006) or the internal process perspective (Bitner et al. 1994; Bowen and Johnston 1999; Boshoff and Allen 2000; Hansen et al., 2009). However, Mjahed and Triki (2008) stressed the importance of two-way flow of feedback: one is the external feedback from customers to the organisation and the other is the intra-organisational feedback. To encourage this double-loop feedback, SR can be employed as a tool to understand the role of customers, processes, and employees in resolving the complaints and enhancing customer satisfactions (Johnson and Michel, 2008).

Building on the past literature, Johnston and Michel (2008) identified three outcomes of service recovery: customer recovery, process recovery and employee recovery. Customer recovery is derived from the marketing perspective i.e. customer experience (Tax et al., 1998; Smith et al., 1999; Michel et al., 2009). Process recovery focusses on the process/system improvement to prevent problems from reoccurring (Stauss, 1993; Johnston and Clark, 2005; Michel et al., 2009), and employee recovery originates from the management point of view on how to make employees better prepared to respond to service failures (Bowen and Johnston, 1999). Each of these SR perspectives represents different facets, see table 1, where balance of each perspective is the premise of service recovery success (Michel et al., 2009).

This paper focuses on these three perspectives of service recovery (customer, process and employee recovery) to investigate the customer complaint process in a financial services call centre. The case study organization launched an SMS survey project to collect customers' feedback once a complaint had been reported to the customer service department. The root causes of complaints are investigated by understanding the interactions between the customer and the process recovery, and the role of employees in providing effective SR. This paper aims to: (i) assess the procedures for processing customer complaints in a financial service call centre, (ii) evaluate interrelationship between process recovery, employee recovery and

customer recovery, and (iii) assess how process recovery affects customer recovery via employees - the bridge between organisation and customers.

The remainder of this paper is organized as follows: A literature review is presented which includes discussion on the role of three dimensions of SR when dealing with customer complaints. This is followed by the research methodology section, presenting the case study approach for mixed methods data collection in the case organization. Findings of the study are then presented in section four, followed by discussion of results and comparison with the literature. The paper concludes with some recommendations to practitioners and directions for future research.

## **Literature Review**

In the global competitive business environment, customer focused strategies are being increasingly employed in the supply chain to improve customer satisfaction and effectively deal with any service failure. Service recovery is not just about dealing with the dissatisfied customer to regain their satisfaction and loyalty, but it could be an excellent opportunity to drive improvement in the customer services process and thereby having an impact on 'Service Profit Chain' (Heskett et al., 1994; Tax and Brown, 1998; Johnston, 2001). The impact of service recovery on a company's profitability, customer satisfaction and loyalty is significant (Lapre, 2011; Smith and Karwan, 2010; Hart et al., 1990; Tax and Brown, 1998). Developing employees' skill sets and internal processes to effectively deal with customer complaints are vital to successful customer recovery (Johnston and Michel, 2008). Yet, the majority of organizations are still oblivious in terms of understanding the importance of effectively dealing with customers complaints and then recovering and learning from those complaints (Lapre, 2011).

The seminal work of Heskett et al. (1994) and Tax and Brown (1998) accentuated the importance of understanding the reverse exchange and flow in the supply chain between the customers and employees to make the service profit chain work. In service supply chains, human labour forms a significant component of the value delivery process, and therefore higher variation and uncertainties in outputs compared to manufacturing industry (Sengupta et al. 2006). Whilst the physical handling of a product leads to standardized and centralized procedures and controls in manufacturing supply chains, in services this is not possible as many of the decisions are taken locally. . In the service recovery process, it is important for every supply chain member to take care and work with other members in the system. However, the interaction between customers and the recovery process initiated by the service provider, for example within call centres, could be detrimental in deciding the efficient recovery of the services (Tax and Brown, 1998). Customer service is the central topic for discussion in the field of service supply chain management.

### *Customer complaints and service recovery*

Most organisations have a complaint team or department to diligently respond to the consequences of customers' complaints. Customer-centric organizations have used complaints as a driver to improve their customer service. However, Tax and Brown (1998) pointed out that many firms failed to use complaint data for improvement. Customer complaint is not only a source of useful information for organisations to identify the root causes of dissatisfaction (Nyer, 2000) but also identify the internal process issues that leads to the primary causes of operational failures (Tax and Brown, 1998), and learning to avoid those

failures in the future (Lapre, 2011). As quickly a firm reacts to resolve customer complaints, there are better chances of improving customer relationships (Maxham and Netemeyer, 2003; Gustafsson, 2009).

SR as a research topic has received increasing attention from marketing scholars and practitioners. Marketing researchers have implied that effective SR leads to increased customer satisfaction, which is closely linked to customer loyalty and retention, which in turn, leads to greater organisational profits (Hart et al., 1990; McCullough and Bhardwaj, 1992; Tax and Brown, 1998; Miller et al., 2000; Buttle and Burton, 2002; Craighead et al., 2004). The discussion on SR and the important role it can play in organisational improvement is an area that has received limited attention within operations management literature (Miller et al., 2000; Metters and Marucheck, 2007; Johnson and Michel, 2008). Most studies in SR field has involved industries such as airlines (Heskett et al., 1994; Tax and Brown, 1998), hotels and restaurants (Dutta et al., 2007), and retailing (Kelly et al., 1993). These studies have indicated that the outcome or performance of SR varies as a function of the context in which the failure occurred (Smith et al., 2010). To date, SR within *Call centres has not been well investigated and so now forms the focal point of our research.*

SR as a system involves customer, employee and process as a whole when there is a complaint caused by service failures. Schneider and Bowen (1985) came up with the 'human resource trap' concept, which refers to the type of management that focuses on the people rather than the whole process and system. The outcome is that the business is not able to improve sustainably. Management should not focus solely on operations recovery but that a combination of the three types of recoveries should be done systematically and in conjunction with others. Among these three perspectives, *the interrelationship between process and employee recovery on customer recovery within a financial services call centre is discussed in this paper.*

### *Three Dimensions of Service Recovery*

Academic literatures on SR are predominantly focused on the customer dimension such as the impact of recovery on customer loyalty and profitability (e.g. Oliver, 1980; Bowen and Johnston, 1999). Krishna et al., (2011) highlighted that among 265 articles they reviewed and classified, 131 articles encompassed discussion on customer overall satisfaction. To some extent past literature has ignored the potential impact of the process and employee in providing effective SR. In this paper, we focus our discussion on customer recovery and on how process and employee recovery leads to a good customer recovery. The orientation and focus of customer, process and employee recovery are summarised in Table 1.

<<Insert Table 1 about here>>

The theme of process recovery is related to how an organization learns from service failures. The National Complaints Culture Survey in 2006 (cited in Johnston and Michel, 2008) indicated that the prime expectation of customers after service failure is to have the problem fixed and see the improvement in the process within the company. There is limited literature to date that focuses on addressing process improvement issues in organizations after service failures. Johnston and Michel (2008) highlighted the need for new research directions in process recovery such as collecting failure data, analyzing and interpreting failure data, and conducting process improvement as a result of failure. A more systematic way to analyzing failure data will enable managers to prioritize their process recovery efforts and resources (Stauss and Seidel, 2005) and can also help employees to learn from failures and avoid those failures in future (Hart et al., 1990; Tax and Brown, 1998; La and Kandampully, 2004; Lapre,

2011). Many researchers agree on the long-term benefits of learning from failures (Nevis et al., 1995; Brown et al., 1996; Reichheld, 1996).

In the context of a call centre, employee recovery mainly focuses on the front-line personnel (normally customer service representatives (CSRs)) with the daily job of complaint handling (Johnston and Michel, 2008). They are largely responsible for the customer's service experience (Van Dun et al., 2012). Shostack (1984) argued that service failures typically result from fail points in the service delivery process and recovery efforts require employee intervention to accommodate and retain the customer. Research shows that 42.9% of complaints received are due to employees' unwillingness to respond to a service failure (Bitner et al., 1990). Data also demonstrated that front-line employees take up as much as 65% of complaint initiation (Tax and Brown, 1998; Robinson Jr et al., 2011). These facts indicate the crucial role front-line employees play in customer satisfaction (Keiningham et al., 2006; Helms and Mayo, 2008), customer relationship management (Frenkel et al., 1998; Mukherjee and Malhotra, 2009), and adopting appropriate strategies to recover from failure (Bitner et al., 1994; Bowen and Johnston, 1999; Brown, 2000).

Many researchers working in this domain demonstrated that in this industry the turnover of CSRs is between 20% and 40% (for example Hillmer et al., 2004; Witt et al., 2004) - a reflection of high level stress and poor organizational performance (Van Dun et al., 2012). Thus, employee recovery cannot be neglected as it can help employees to overcome the helplessness and negative feelings (e.g. stress) associated with complaint handling uneasy/irritated customers. Effective employee recovery can also boost their confidence at work (Bowen and Johnston, 1999), particularly empowerment is one of the key factors that can affect employees' emotion (Bowen and Lawler, 1995; Tax and Brown, 1998; La and Kandampully, 2004; Smith et al., 2009). Empowerment of employees has a positive impact on employees' feelings of low perceived control and helplessness (Bowen and Johnston, 1999). Besides, from the viewpoint of management, empowerment allows employees to tailor service recovery to meet customers' needs – all of which can have positive influences on SR outcomes (Hocutt and Stone, 1998; Miller et al., 2000). This may also help in turning the dissatisfied customers into satisfied or loyal customers (Bowen and Lawler, 1995; Miller et al., 2000).

On the other hand, inadequate empowerment to employees may lead to lengthy recovery procedures where the first employee does not have the authority or the capability to take decisions and the problem has to be passed from one employee to another. In this case customer satisfaction will decrease with an increase in waiting time (Tax and Brown, 1998). Berry (1981) and many other researchers (e.g. Gronroos, 1984; Bowen and Johnston, 1999; Michel et al., 2009) suggested that employees should be viewed as the internal customers. The essence of this idea is the absolute need to understand and address the needs and expectations of the internal customers, if the management wants them to provide a good service level (Reynoso and Moores, 1995; Bowen and Johnston, 1999).

Effectively managing the three dimensions of SR (Customer, Process, and Employee) will help organizations to create higher value for their customers (Porter, 1985), as well as ensuring the superior market place for companies (Slater, 1997). Learning from failures, gleaning all the failure data (which represents the valuable market information), conducting root cause analysis, identifying the problematic areas and resolving these with the aim to improve the overall process, will be more beneficial for organisations in reducing the frequency of failure occurrence (La and Kandampully, 2004; Brown et al., 1996; McCollough et al., 2000).

### *Justice Theory and Service Recovery*

'Fairness' is an important aspect of the relationship between a customer and service provider (Tax et al., 1998; Bhandari et al., 2007), and past studies have shown that customers who expect a "fair" response to failed encounters are more likely to complain (Blodgett et al., 1994). A customer evaluates fairness in terms of various notions of justice: procedural, distributive and interactional justice (Smith et al. 1999). Justice theory has been extensively used as the principle theoretical framework in service recovery research to explain whether a customer has been treated fairly as a result of service failure (Tax et al., 1998; Smith and Bolton, 1998; Smith et al., 1999; Goodwin and Ross, 1992; Tax and Brown, 1998, Tax et al., 1998; Wirtz and Mattila, 2004; Michel et al., 2009; Krishna et al., 2011).

*Procedural fairness* focuses on the perceived fairness in the policies, procedures, and criteria used by decision-makers in arriving at the outcome of a dispute or negotiation (Blodgett et al., 1994; Smith et al., 1999). It represents an applied standard in processes that is used to settle conflicts (Goodwin and Ross, 1992). Process control (Goodwin and Ross, 1992), decision control, accessibility (Bitner et al., 1990), timing/speed (Taylor, 1994; Michel et al., 2009) and flexibility are considered as critical elements of procedural fairness (Tax et al., 1998). Customers' evaluation of these elements would affect the outcome of customer recovery (Seiders and Berry, 1998). Ownership is the first step of fair procedures which means the company should assume responsibility for the failure (Tax and Brown, 1998). Speed is another indication to customers about the extent to which the company is concerned about their complaints. Prompt solutions are more likely to reach higher level of customer satisfaction (Hart et al., 1990).

*Interactional fairness* is the interactional communications between customers and employees (Krishna et al., 2011), especially the front-line employees, who are CSRs in a call centre. When involved parties interact and treat one another in a respectable manner, an exchange is considered to be fair (Taylor, 1994). In a service recovery context, customer perceived fair behaviors include demonstrating politeness, concern and honesty; providing an explanation for the failure; making a genuine effort to resolve the problem as customers often have negative emotions when they are making a complaint (Tax and Brown, 1998). Empathy (Heskett et al., 1997; Tax et al., 1998; Johnston and Fern, 1999) and apology (Kelley et al., 1994) are key SR strategies to appease customers (Kau and Loh, 2006), even if they cannot offer any tangible compensation (Goodwin and Ross, 1992). On the contrary, unfair attitude and behaviors can escalate problems to a more serious level and further influence customer satisfaction judgments (Smith and Bolton, 2002).

*Distributive fairness* refers to fairness as perceived by customers. They expect at least equal compensation for their loss and for effort to be put into resolving problems within the process (Nguyen et al., 2012). Typical compensation could be replacements, refunds, and apologies (Tax and Brown, 1998; Michel et al., 2009). More importantly, distributive fairness has the greatest impact on customer satisfaction which has been proved through experiment (Kau and Loh, 2006) and has also been widely accepted by scholars (Clemmer, 1993; Mattila, 2001).

These three types of fairness maps very well with the three perspectives of service recovery. Process recovery helps to enhance procedural fairness. Employee recovery helps to reduce the possibilities of conflicts between customers and employee, improving employee performance which is demonstrated by the interactional fairness. Customer recovery aims to provide customers appropriate explanations and solutions which relates to the distributive fairness. Tax and Brown's (1998) research clearly indicated that the three fairness dimensions

strongly impact on customer’s evaluation of service recovery. Poor performance on either facet will largely limit the level of customer satisfaction.

## Research Methodology

In this research, the case study based research methodology (Eisenhardt 1989, Yin 2003) is adopted to understand the interplay between the three dimensions of SR from the Justice theory lens. In-depth case study is well recognised in the literature as the most appropriate method to explore unknown phenomena in a research setting. Mixed methods for data collection are used, and both primary and secondary data are collected. Data triangulation was achieved by conducting semi-structured interviews, observations, distributing questionnaires to the customer service department of the case study company, and analysing SMS survey report (Refer to Figure 1).

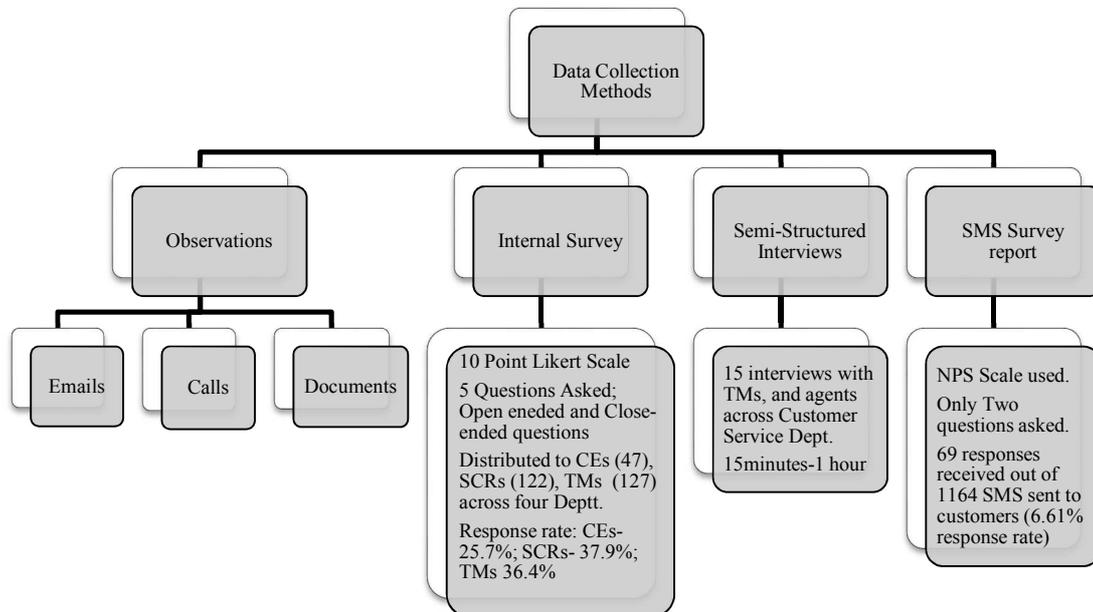


Figure 1: Data collection methods used in the research

Observation as a data collection tool entails systematically seeing and listening (Taylor-Powell and Steele, 1996) and so enables learning and analytical interpretation (Ghauri and Grønhaug, 2002; Saunders et al., 2007). The lead author conducted participant observations including reading emails distributed to the whole customer service team on performance about employee welfare. Being present when the interactions occurred enabled the researcher to witness the SR process and strategies used by team leaders and CSR to address customer queries or complaints. Structured observation was also used to collate data on key performance metrics such as productivity, availability, average handling time etc.

An on-line questionnaire was administered to employees in the customer service department of the call centre. To comply with management instruction, only five questions were included in the instrument in order to measure the impact of process and employee recovery on customer recovery. Each question was based on a 10-point Likert scale and there was an option to provide written comments for each question as well. Information on survey response rate and other details are provided in the results section.

Fifteen semi-structured interviews, ranging from fifteen minutes to an hour, were also conducted with the team managers (TMs) and agents to identify and understand the existing complaints managing process and the role played by agents in resolving those complaints. Semi-structured interviews included focussed, open-ended questions to enable the interviewees to expand on what they consider to be important and to frame those issues in their terms (Meredith 1998, Barnes 2001). This allows the interviewer to probe more deeply and to uncover previously hidden details and open up new streams of enquiry (Burgess 1982). The interviews involved talking with the customer service (CS) team, managers and agents in the CS division of the organisation and then documenting the key themes that emerged. Interview questions were emailed to individuals if they were not available to be interviewed in person. During the interview, company reports and documents were obtained for further understanding of the complaint/query handling process by agents. We also had access to the complaint logging system where content of calls and investigation notes were recorded, contributing to increased reliability of the data.

Transcriptions are used to improve the interviewing techniques, to detect the presence of leading questions on the part of the interviewer and to guard against selective memory (Flynn et al. 1990). Although data collection through the use of interviews and observations provide robust methods for gaining deeper insights into a particular subject, undertaking these can pose methodological challenges due to their time-consuming nature both in the collection and analysis stage (Wimmer and Dominick 1997). Therefore, codification of transcripts helped to develop the pattern which assisted in data analysis phase. The qualitative data are analysed in three phases Description, Analysis and Interpretation (Wolcott 2009).

## **Analysis**

The case company selected for this research operates in the UK insurance sector and is comprised of 24 departments. Due to the confidentiality agreement signed with the company, we are not able to reveal any further information about company's products and markets. Data is collected from the four departments, namely: Central Quality (CQ), New Business (NB), Renewal (RN) and Customer Service (CS). The company has a structured complaint management process, where every complaint is assigned to a predefined complaint cause code level. The first level of the complaints divides these into two categories: rejected and upheld. Rejected complaints mean the fault or failure is not caused by the company but by the customer or the third party; while the upheld complaints indicate the company takes responsibility for the failure. *This research only focuses on the upheld complaints.*

Agents are responsible for both handling complaints and dealing with other tasks such as enquiries, whereas complaint executives (CEs) are only responsible for complaint handling. There are limited CEs in the company and so not all customers are able to access them when contacting the company to report a complaint. This is the reason that majority of the calls are dealt by agents. When an agent cannot resolve a complaint, he/she would escalate it to a team manager (TM). In case of failure to resolve the complaint, TM will register the complaint with Central Quality. When a CE comes across a difficult complaint, he/she will not turn to a TM or a Senior Customer Representative (SCR) for help but refers the complaint to the CQ that has expertise in dealing with complex complaints as well as assessing other employees' performance in dealing with complaints including TMs, SCRs and all CEs.

In the past, the company did not ask for customers' feedback after complaint resolution. However, when this study was being undertaken, the company had started collating customers' feedback on the complaint handling process using an SMS survey. Two questions

are included in the SMS which ask customers to rank the service they received, from best to worst. The two questions are:

- How satisfied were you with the way we dealt with your complaint? (10 excellent, 1 poor)
- How likely are you to recommend us to a friend or a colleague (10 very likely, 0 most unlikely)

Customers are also asked to provide any additional comments, which provided a source of rich data for further reflection on the complaint handling process. The SMS survey is sent to customers within ten days of complaint resolution in order to ensure the customers provide true assessment of their actual experience in the process. The 0-10 points ranking is based on the Net Promoter Score (NPS®), see Table 2, which is a customer loyalty metric developed by Fred Reichheld. The authors were not involved in designing of the questionnaire. The questionnaire and rating scale were decided by the management before this research commenced.

*<<Insert Table 2 about here>>*

According to the Net Promoter Community (2014), by asking ‘how likely are you to recommend us (refers to the case company here) to a friend or a colleague?’, the company can track these respondents, especially those who gave score of less than 7. The survey trial started in spring 2014 and lasted for 11 weeks. Out of 1,164 SMS texts sent, 1,044 were successfully delivered to customers and 69 responses were received. Although, the response rate (6.61%) is low, it is not uncommon in the call centre industry in context of an SMS survey (Johnson, 2011). Of these, only 61 responses were valid as there were five duplicated answers and three had been completed incorrectly, i.e. the scores customer chose were opposite to their comments. All these respondents have received one-to-one interaction during complaint handling process. The three most common categories of complaints as identified from the survey are incorrect keying (10 times), incorrect action (35 times) and poor explanation (16 times). It is interesting to observe that complaints due to incorrect keying and action is the result of process error, however poor explanation could be attributed to employee errors. This further indicates the importance of both the process and employee in the recovery process. Among all the responses, only 13 responses (21.3% of total response) were positive, which is much lower than the average satisfaction level of 41.3% in financial service call centres in the UK (Hinde and Higginson, 2011).

The three categories of complaints, identified from SMS survey, were monitored over a period of four months and highlighted a common increasing trend in the number of complaints received from May to July 2014. For example, there was an increase in percentage of complaints reported due to incorrect action by 17% from May to July period.

As these three categories are the most frequent causes of complaints in the company, our analysis focused on finding the root causes of these complaints and also how the built-in process and employees supported the recovery effort.

### *Internal Survey Results*

To test whether the process and employee recovery have an impact on customer recovery, qualitative and quantitative data collected through a survey, interviews, and observations have been classified into two categories:

- 1) Direct factors (impact on customer recovery directly) - reply methods, number of handlers, and
- 2) Indirect factors (impact on process and employee recovery and later customer recovery) – training, operating systems, empowerment, feedback, and incentive.

The two direct factors, reply methods and the number of handlers are considered as the possible reasons for customer dissatisfaction as some customers prefer to receive a formal response by letter and others prefer resolution over the phone. According to Table 3, reply methods vary for each case. Company practice is to reply to customers using the same mechanism as used by the customers to complain. When an agent calls a customer twice but receives no answers, the agent would reply to the customer by an email or a letter. There are many occasions, as identified by CSRs, when they get in touch with customers, when the email or letter has not been read by the customers and occasionally when emails may go into the spam folder. This makes customers believe, though mistakenly, that they did not receive complaint resolution from the company. The perceived procedural fairness and interactional fairness from the customer end are badly affected in this way. A similar outcome is observed when the telephone complaint cannot be dealt with by the end of the next working day. According to the Dispute Resolution Guidelines set out by the Financial Ombudsman Association, a written response must be issued. When a customer does not open the email or letter, misunderstanding about lack of procedural fairness occurs.

The design and implementation effect of indirect factors such as training, the stability of operating systems, internal co-operation and communication, provides the backup for employees, which also indirectly impact on customers recovery. Feedback, incentives, empowerment and internal monitoring schemes are embedded in the macro-organisational structure which influence employees in many ways: feedback helps with personal development; incentives such as team competition keep employees motivated (but are also stressful); empowerment gives employees discretion to serve customers better; internal monitoring (such as daily availability reports) guide and motivate them to reach their personal target.

The classification of factors into process and employee recovery dimensions are conducted in accordance with Johnston and Michel (2005, 2008). The factors measuring process recovery dimension include training, operating systems, and feedback. Employee recovery dimensions included in this study are empowerment and incentives. To test the indirect impact of process and employee recovery on customer recovery, an online survey consisting of five questions on indirect factors was administered to all CEs (47 in total), SCRs (122 in total), and TMs (127 in total), across four departments- Customer Service, Renewals, New Business, and Central Quality. Respondents were asked to evaluate their perceptions of parameters on complaint handling within the company on a 5-point Likert scale ranging from 'strongly agree' to 'strongly disagree'. An option to provide any qualitative comments against each question is also given to the respondents. Details of 5 questions emailed to participants are included in Table 3.

<<Insert Table 3 about here>>

At the end of three weeks, 132 valid responses were received across the three positions of CEs (25.7%), SCRs (37.9%) and TMs (36.4%). It is worth mentioning that 61.4% of the respondents have more than two years of work experience, 21.2% have 1-2 years of experience, and the remaining 17.4% have less than one year of job experience. The majority of the participants responded positively to questions on ‘training’ (84.1%), ‘helpful operating systems’ (65.15%), ‘enough empowerment’ (87.12%) and ‘feedback’ (74.24%). Table 4 indicates that the majority of respondents perceive they had enough training on complaint handling and felt they have enough rights to take their own decisions (Q1, Q3). With regard to the incentive system, less than half of them (40.15%) expressed a positive attitude, around one third were neutral and 29.55% of them clearly stated their disagreement.

<<Insert Table 4 about here>>

Similar results were observed when the responses were compared against position of the respondents and by functions. The incentive system received a consistent low score by positions and functions. CEs overall positive responses for each question are higher than the average, whereas SCRs responses are lower than the average except for Q1. Positive responses from CEs could be attributed to two things: focused job responsibilities compared to SCRs and TMs i.e. only dealing with complaints; and secondly, the scores could be biased due to low participation from CEs compared to other two functions in the survey. TMs perceived the worst training and least freedom to handle complaints. SCRs are the unhappiest employees with the lowest ratings on Q2, Q4 and Q5. Analysing the result by functions indicates that Central Quality have lowest scores on training however this does not feature too far from the average satisfaction. Employees in New Business scored the overall rating on operating systems and employee empowerment negatively. The Renewals function did not feel the incentive system (Q4) worked for them and their score on feedback received (Q5) to improve their complaint management process also scored below the average.

The results from the on-line questionnaire gave a positive impression of the company, managing effectively the factors affecting process and employee recovery. However, when qualitative comments for each of the five questions are analysed, see Table 5, it captures the actual thinking of employees on some key issues related to training, operating systems, empowerment, incentives, and feedback. Although the average rating shows overall satisfaction on each question, problems reflected in comments captured the true feeling/thinking of the employees. The qualitative comments of respondents are individually analysed and coded independently by two researchers followed by agreement on common codes, as listed in Table 5. A tally sheet is used to record the results based on how often the codes appeared in the comments section to have a better understanding of the customers’ comments.

<<Insert Table 5 about here>>

In order to objectively evaluate the complaint handling procedures and online questions, 15 semi-structured interviews with TMs, agents and SCRs in four different departments: Customer Service, New Business, Renewal and Central Quality were conducted. Interview content and information gathered are summarised in Table 6.

<<Insert Table 6 about here>>

The qualitative data collected through open ended, on-line questions and semi-structured interviews are compared with survey results and key literature in the next section.

## Discussion

Reverse exchange in the context of service supply chain research has received limited attention in past. This paper examines the dyadic relationship between customers and service providers when a service failure is reported by a customer, thus initiating the reverse exchange process with the provider. This reverse exchange process is termed as service recovery, which can be further classified into customer, process, and employee recovery. In this section, we will analyse the interplay between the three dimensions of service recovery through the justice theory lens discussed earlier.

The findings from the semi-structured interviews and on-line survey indicated a poor process recovery infrastructure such as lack of advanced training, difficulty to use and access information from current operating system, and a lack of effective feedback, all of which had an impact on the procedural and interactional fairness perceived by the customers. The SMS feedback received from the customers indicated that quality problems still exist in resolving customer complaints. The comment below is reflective of poor service recovery experienced by a customer.

*“Nobody could tell me what the issue is. Had to make far too many calls to get something simple sorted. Just a botched job!”*

On average, a customer’s complaint is transferred to at least three employees and each time the customer calls, they have to again explain the issues to CEs, which finally leaves the customer enraged and frustrated. This issue should not be just attributed to the employee dealing with the calls but needs to be analysed further with respect to the internal processes such as employee training, poor operating system design, and lack of communication between functions. This again highlights the poor interaction between the employees and how poor process recovery can lead to poor customer recovery. This also prevents customers from receiving the procedural and interactional fairness they deserve (Miller et al., 2000; Johnston and Michel, 2008).

Further investigating the process recovery issues, it was identified during the data collection stage that training provided to CSRs was very basic and limited. Instead of developing agents in a range of skills, more focus was given on procedural training. In fact, agents and CEs need more in-depth instruction and training on how to deal with difficult complaints. This is not helping the company to achieve the outcomes from process recovery and thereby provide effective customer recovery (Hart et al., 1990; Bowen and Johnston 1999; Miller et al., 2000; Johnston and Michel, 2008). Survey and interview data also highlighted the issues in the current operating system which have direct impact on the complaint handling process. For example, some calls are not recorded and therefore the history of interaction with a customer is not available when required. From the customer perspective, breakdown of the system is considered as an excuse from an agent who does not want to take responsibility for their mistake. This is an example of failure in process recovery which further impacts the customer recovery. Here, we observe that if process recovery is poor, it does have an impact on employee and customer recovery. This finding is also supported by the study of Goldstein et al. (2002), who stressed on the importance of the investment in resources such as employees and technology for effective process recovery.

The functional silos further created problem in terms of communication on customer complaints and resolutions. Qualitative comments from online survey and interviews

indicated that CEs and SCRs in a function (e.g. Customer Service) are not aware of the complaint handling procedures used by other departments (e.g. Renewals or New Business). This sometimes means a longer waiting time to resolve customers' queries or complaints. This could lead customers to think that they have been denied procedural fairness (Tax et al., 1998). Interviews with TMs also confirmed that each department works relatively in isolation and the most common communication is via email. The disjointed process is having an impact on process recovery and thereby affecting customers in getting quick complaint resolution.

One example of poor process recovery leading to poor customer recovery is related to the issuing of a cheque to a customer by the Finance function. When an agent requests a cheque to be issued, this request is passed onto the Finance function for processing. After that, there is no evidence of communication from the Finance function to the agent on whether the cheque had actually been sent out and received by the customer. There were five cases, during data collection stage, when the customer had not received their promised cheques. This is an example where a customer failed to experience distributive fairness due to misplaced cheque. This incident also had an impact on the procedural fairness as perceived by customers as they had to contact the company again and again to enquire about their cheques. Such types of incidents occur frequently and often lead to increased compensation to customers. This situation is not aligned to the principles of process recovery where establishing effective communication and learning from failure is a key outcome from successful process recovery, thereby reducing future complaints (Johnston and Michel, 2008; Smith et al., 1999; Michel et al., 2009).

The third element of process recovery that was measured through questionnaire is the feedback system in the company. The company has an established feedback system at the agent and CE levels. The TMs and Central Quality function evaluate the performance of agents and CEs based on "*Green, Amber, Red*" marking system, where Green represents an overall good performance, Amber represents not serious problems and Red means the performance is below standards and not acceptable. Based on their performance across criteria such as attitude, negotiation, fairness, decision, specific call handling and letter writing skills, CEs and agents are accordingly rewarded for their performance. They also receive updates and regular feedback every month on their positive points and the areas that need further improvement. The assessment is based on the consideration of interactional fairness as mentioned in the literature (Tax and Brown, 1998).

Even though there are clearly established performance measures for agents and CEs, less than 30% of the CEs were satisfied with the feedback received by TM or the Quality personnel (as identified in the survey response). Any quality specification marked red will be seriously dealt with and 50% of the salary is deducted if a '*Red*' mark happens again in the following month. The agents and CEs considered such treatment as harsh and unfair as the company did not have any specific monitoring program for SCRs and TMs. Unlike the strict penalty for CEs, evaluation results do not affect the incentives received by SCRs and TMs. Such unfair actions can have detrimental effect on employee recovery as employees will be scared to report any customer complaints or failures to TMs. This will further delay the customer recovery process (Bowen and Johnston, 1999; Michel et al. 2009).

The team performance is the most important index – this makes SCRs and TMs put more focus on teammates' performance through criteria such as availability, productivity and average handling time. There is limited emphasis on customer focused measures such as first call resolution. This issue is perennial in call-centres, where efficiency metrics override effectiveness metrics. This is a very common practice in the call centre industry and as such

customers do not have high expectations on quality of service provided by the call centre (Marr and Neely, 2004; Piercy and Rich, 2009). Aforementioned practices discussed in the call centre environment provide evidence that too much focus on internal/operational KPIs may drive wrong behaviour in the organization. This leads to a lack of customer-focused service delivery and failure to learn from past mistakes (Day, 1994; La and Kandampully, 2004).

Though SCRs and TMs do not deal with complaints as frequently as CEs, they consider feedback is still necessary for their improvement. This is reflected in one of the SCRs' comments presented below.

*"I never get any feedback until two months ago when I was marked down by Quality. I don't know where am I and no one listen to me. This is definitely a damage to my confidence at work"*

'Lack of confidence' among SCRs and TMs to deal with customer complaints usually leads to poor complaint resolution or complaint avoidance. This will impact on interactional justice dimensions as lack of confidence on the part of SCRs and TMs may result in misleading communication to customers – this increases the chance of escalating the problem to the serious level (Smith and Bolton, 2002). Externally, this gives a negative impression of the company, leaving customers feeling neglected. This could then mean that the customer ceases business with the company and switches to other providers. This is another classic example of poor process recovery leading to poor customer recovery.

On the employee recovery side, survey results indicate that 87.12% of the employees were satisfied with the discretion given to them for complaint handling. The findings from the interviews are also in consensus with the survey results. Each interviewee expressed the same feeling of freedom and empowerment on daily decision-making. Employees make decisions based on individual experience, although they receive suggestions from their colleagues and TMs/SCRs. In order to develop an effective service recovery process, employees need to be trained, empowered and incentivised so that they have required skills to interact with customers and resolve their queries in the first interaction, right first time (Krishnan et al., 2011). In this way, customers may feel that they have been treated fairly.

There is also evidence of good practice that promotes employee recovery process in the company. During the data collection phase in the company, authors had access to "Raise The Praise" emails sent by TMs to all employees on a daily basis, recognising the contribution of CEs or agents who obtained excellent feedback from customers. Two quotes from customers, see below, were directly inserted in the email sent by TMs to recognise the contribution of agents and CEs. The two quotes are examples of genuine effort made by the employees to provide fair interactional treatment to customers (Taylor, 1994; Heskett et al., 1997; Johnston and Fern, 1999).

*"XXX took the time to talk to me as a person, she was friendly and I would say your customer service representatives should be trained just like her!"*

*"I do appreciate XX's efforts to help me sort out my problems. I want to personally thank XX for his brilliant help."*

Employees completing higher-level training and those who were promoted were also

announced via such emails. Such recognition schemes through company emails helped to motivate and cheer employees and at the same time also encouraged competition among individuals and teams. All of the positive actions from management indicate that the company is attempting to understand the importance of front-line employees in complaint handling, as suggested by Keiningham et al. (2006) and Helms and Mayo (2008).

## Conclusion

Service supply chain is a bidirectional system consisting of customers and service providers. Understanding reverse exchanges within the service supply chain is critical to make the '*service profit chain*' work (Heskett et al., 1994). This study focuses on the dyadic relation between the customer and service provider in an attempt to understand the service recovery process in the financial services call centre. Considering limited research on reverse service exchange, this paper explores the specific reverse exchange strategies, termed in this paper as service recovery, and analyses the different factors responsible for better performance in the exchange process. This research provides insights into the three dimensions of service recovery - customer, process, and employee, which is initiated when customer experiences a service failure and then approaches the organization to register a complaint. The gaps across three dimensions of service recovery, identified in the case company, could be attributed to factors such as quality of training, operating systems, incentive, employee's feedback, and the actual delivery of services by those employees.

The triangulation of data gathered in this study helped to identify the anomalies in the survey results when compared with the interview findings. The case analysis and discussion helped to establish the link between customers, process, and employee recovery stages. The case organization needs to improve on process recovery aspects that interacts with the customer and employee recovery stages, as identified in the discussion section. Instead of blaming employees, the company should try to identify the root causes of failures and fix the faults to improve the customer recovery process (Tax and Brown, 1998). Confirming the findings on service recovery and complaint management in the literature (Lapre, 2011; Johnston and Michel, 2008; Tax and Brown, 1998; Hart et al., 1990), this study also indicates that process optimisation will lead to more satisfied customers. Process improvement is necessary to control complaints by conducting root cause analysis and learning from failure.

It is important for managers to understand that overemphasis on internal KPIs or targets can drive negative behaviour and fear culture in the organization. The findings from this study can help managers to understand the interaction between customers, process, and employee recovery stages, stressing how important it is to have a balance of external and internal KPIs for effective service delivery. It is also important for managers to take decisions not only based on traditional call centre KPIs (e.g. productivity, answer time, average handling time) but also customer-focused KPIs such as first call resolution (Dean, 2002; DeNucci, 2011). The efficiency based metrics used on its own are not positively related to customer satisfaction. All these are due to top management inability to cope with cost-quality dichotomy, or focusing on the cost without the holistic view on service quality (Quinn and Gagnon, 1986; Zeithaml et al. 1990). The findings clearly highlight the importance of communication within and between functions to encourage organizational learning and to mitigate failure occurrences in the future. Some of the suggestions that can help managers provide an effective customer recovery are listed below:

- *Process recovery activities*: Update and optimise operating systems; simplify the complaint logging procedures; normalise investigation notes for easier understanding

and to reduce customer waiting time which is caused by unreadable information; strengthen communication between functions; and improve feedback and evaluation process.

- *Employee recovery activities*: Launching a more target-focused training program; empowering front-line staff; making employees feel they are involved and their opinions are valued and considered; and improve employee self-recognition.

There are some limitations of this study that need to be acknowledged. The results reported in the study are specific to the call centre environment in financial services sector. However, literature indicates that majority of the call centre operate in similar manner (Piercy and Rich, 2009), though contextual factors may have different effect on the performance of call centres. Future research could investigate how contextual factors impact on service recovery effort in call centres. Given that call centres are first and in some case only point of contact with customer (Taylor et al., 2003; Laureani et al., 2010), it is very important for OM researchers to further explore this topic. It would be interesting to measure the cost of quality incurred by organizations when the services are not delivered right first time. Future research can incorporate a more detailed questionnaire to measure the interaction between the three dimensions of service recovery. Net Promoter scales can be compared with other scales to test the effectiveness of the Net Promoter metrics (Keiningham et al., 2007; Pollack and Alexandrov, 2013). In the future, researchers can also explore and identify the most influential process factors, especially on certain types of complaints that impacts on customer recovery. In this study, the efforts made by the company in improving the working environment and procedures can be seen, but the process of integrating the customer as an integral part of the operation and the development of an effective employee recovery system, has only just begun.

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## Author Biographies

**Dr. Maneesh Kumar** is a Senior Lecturer at Cardiff Business School, Cardiff University. His degree includes PhD on application of Six Sigma in UK manufacturing SMEs from the University of Strathclyde, Masters in Research from Glasgow Caledonian University and B.Tech in Manufacturing Engineering Ranchi University, India. He is actively involved in Lean Six Sigma (LSS), Quality Management, and service operations research within SMEs, Automotive Industry (e.g. Toyota, Tata Motors, and VW), Service Industries (e.g. Financial Services, Call Centre) and Public Sector organizations (e.g. NHS and Higher Education Sector). His research outputs includes two edited books, five edited conference proceedings, five book chapters, and over eighty peer reviewed journal publications and conference papers. He has been involved in delivering LSS training up to Black Belt level and delivered several workshops on LSS application in different type and size of industries including Kwik-Fit Insurance Services, Standard Life, Admiral, Principality, Bakkavor Group, Norbert Dentressangle, NHS Grampian, NHS Shetland, Edinburgh City Council, Aberdeenshire Council, and Tata Motors. He is also a regular speaker at International Conferences and Seminars on LSS & Process Excellence.

**Dr. Niraj Kumar** is a Lecturer in Operations and Supply Chain Management at Sheffield University Management School. Previously,, he has held academic positions at Hull University Business School (UK), University of Bath School of Management (UK) and University of Hong Kong (HK). He has a PhD from University of Bath School of Management, an MPhil in Industrial and Manufacturing Systems Engineering from University of Hong Kong and a Bachelor of Technology from Ranchi University, India. He is a fellow of the UK Higher Education Academy. He has more than fifty research publications in peer reviewed journals and international conferences, and some of his research papers are highly cited in reputed international journals. He has worked on a number of research projects with several companies in Aerospace, Retail, Construction, Food and Automobile sectors.

Table 1: Three Dimensions of Service Recovery (Adapted from: Michel et al. (2009), p.255)

<b>Type of Recovery</b>	<b>Description</b>
Customer recovery	Customer oriented process, concerns about customer satisfaction, customer retention and customer loyalty. It is the most straightforward measure of whether the service recovery hits the mark.
Process recovery	Thinking from business perspective; looking into process management and improvement aspects of business; Emphasis on learning from failures for long-term benefit as internal operation processes are the foundation for effective service delivery.
Employee recovery	Aims at helping employee to recover from the negative feelings when dealing with customers; employee empowerment, incentives key to keep employee motivated

Table 2: NPS customer categorisation (The Net Promoter Community, 2014)

<b>Category</b>	<b>Score</b>	<b>Description</b>
Promoters	9-10	Loyal and enthusiastic customers, will repurchase and refer others
Passives	7-8	Satisfied but not enthusiastic, vulnerable to competitive offering
Detractors	0-6	Dissatisfied, will not rebuy and will damage brand image by negative word-of-mouth
<b>NPS = % of Promoters (9s and 10s) - % of Detractors (0 through 6s)</b>		

Table 3: Online questionnaire on employee and process recovery

<b>Indirect Factor</b>	<b>Measure of Service recovery dimensions</b>	<b>Statement</b>	<b>Problems reflected</b>
Training	Process	I have received adequate training to perform my role well.	-Whether the training is frequent and up to date? -Whether the training covers most of the aspects of complaint handling?
Operating Systems	Process	The current operating systems (1,2) help me to handle complaints.	-How much the operating systems affect the complaint handling process?
Empowerment	Employee	I have enough freedom to take decision on how to resolve complaints.	- Whether agent given freedom to take decision during complaint handling process?
Incentive	Employee	I think the incentive system does encourage me to prioritize quality when managing complaint.	-Whether incentive system exists? -Whether there is a link between incentive and performance?
Feedback	Process	The feedback I receive helps me to improve my complaint handling performance.	-Whether feedback is regular and frequent?

Table 4: Overall response, and positive response by position and function

<b>Overall Response</b>	<b>Q1 Training</b>	<b>Q2 Systems</b>	<b>Q3 Empowerment</b>	<b>Q4 Incentive</b>	<b>Q5 Feedback</b>
Positive (strongly agree + agree)	84.09%	65.15%	87.12%	40.15%	74.24%
Neutral	11.36%	15.15%	8.33%	30.30%	11.36%
Negative (strongly disagree+disagree)	4.55%	19.70%	4.55%	29.55%	14.39%
<b>Positive Response (strongly agree + agree) by Position</b>					
Complaint Executives (CE)	85.29%	73.53%	94.12%	50%	91.18%
Seniors (SCR)	88%	60%	84%	32%	64%
Team Managers (TM)	79.16%	64.58%	83.34%	41.66%	75%
<i>Average</i>	84.09%	65.15%	87.12%	40.15%	74.24%
<b>Positive Response (strongly agree + agree) by Function</b>					
Customer Service (CS)	85.71%	60.71%	82.14%	53.57%	71.43%
New Business (NB)	84.21%	55.26%	73.68%	50%	76.32%
Renewals (RN)	85.71%	69.05%	95.24%	19.05%	66.67%
Central Quality (CQ)	80.77%	76.92%	96.15%	46.15%	88.46%
<i>Average</i>	84.09%	65.15%	87.12%	40.15%	74.24%

Table 5: Qualitative comments on on-line questions

<b>Comments on Training (Q1)</b>	<b>Count</b>
Lack of on-going training (not consistent)	13
Current training is very basic and limited	12
Complaint Handling procedures in other department need to be informed	11
Changes throughout the business and other department are not well communicated	4
FOS complaint training needed	1
Training on compensation needed	1
<b>Comments on Operating Systems (Q2)</b>	
Operating System 2 not user-friendly	17
Ultra frequent break-down, calls not recorded	16
Whole system hard to use and navigate, time-consuming	9
Operating System1 problems	7
Bad notes quality, too many abbreviations	2
Lack of confidence when using the system	1
<b>Comments on Empowerment (Q3)</b>	
Being scared of making mistakes, no confidence	9
Hard to reach agreement on difficult complaints	1
<b>Comments on Incentives (Q4)</b>	
Not affected	13
No incentive related to quality on SCRs	11
No incentive related to quality on TMs	11
Not fairly treated	2
Disincentive is harsh (SCRs)	1
<b>Comments on Feedback (Q5)</b>	
Feedback not consistent	10
No feedback at all	4
Inadequate, need more aspects covered	3

Table 6: Summary of Qualitative data from Interviews

<b>Subjects</b>	<b>Facts</b>
Training	1 week training for new CEs, 1day training for SCRs and TMs; Training content: complaints classification, when and how to log complaints onto system, procedures. Personal coaching plan designed for employees whose performance is under scanner.
Performance evaluation & KPI	Green, Amber, Red scheme used to measure performance on agent level metrics such as productivity, average handling time, answer rate, etc. Also same signals used for Team competition.
Morale of the team	Generally good, but is affected by factors such as restructuring of department, personnel leaving the job. TMs' personal efforts in keeping their team mates motivated. For example, cupcake treatment, music radio channel allowed, etc. Operational approaches facilitated to keep employees chin up, such as decoration competition in departments, organised BBQ, announcement of employees who get praise from customers, promotion and so on.
Empowerment	Cheques more than £50 will be reported to SCRs or TMs for approval
Incentive (only for CEs)	Work target: 2 complaints/day Over target: £7.5/complaint reward Monthly performance feedback from Quality: Green+£20, Red-£20
Feedback	Internal and external monitoring of CEs performance is conducted by TMs and Quality function respectively; CEs get regular feedback every month by individual chat with corresponding TM. An extra monitoring is conducted on each individual whose productivity is among top 5 each month to check and ensure that productivity targets are not met at the cost of poor service quality. Limited feedback or monitoring of SCRs/TMs; the current program that started in May 2014 is not a well-planned program so far, evaluation is only complaint-based. SCRs and TMs do not have equal opportunity to be evaluated. Feedback is distributed to individual by complaint monitor in Quality. Record is kept to make sure the feedback is given.
Communication between functions	Changes are not clearly informed, each function works in isolation. A clear structure that includes information on functions and procedures of each function in detail was suggested.