
Customer and employee views of critical service incidents

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Abstract

This study examined perceptual similarities and differences between customers and employees in terms of critical service incidents. Specifically we explored the extent to which customers and employees were similar or different in summary perceptions of service failures and recovery, the attributions made by the two perspectives in terms of causes for failures and recovery efforts, and whether each perspective believed that age, gender or race contributed to service failures or recovery. The critical incidents technique was used to collect 1,512 customer-reported incidents and 390 employee-reported incidents. Results revealed that customers and employees had both similar and different views depending on the ultimate outcome of the encounter. Overall, customers and employees were fairly similar in their perceptions regarding failures that ultimately resulted in a good recovery effort. However, the two perspectives differed in their views of service failures that accompanied a poor recovery effort. Conclusions and implications for practice are also provided.

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Service quality and customer satisfaction are imperative to the survival of any service organization. The most immediate evidence of service quality occurs during the service encounter or “moment of truth” (Gronroos, 1990) where the customer and service provider interact with one another. Memorable incidents that occur during this encounter can determine whether a customer leaves satisfied or dissatisfied and ultimately whether he or she returns.

Critical service incidents have been widely studied (e.g. Bitner *et al.*, 1990; Hoffman *et al.*, 1995; Zhu and Sivakumar, 2001) in the services marketing literature in an effort to find new ways to improve service quality. Most of this research has been focused entirely on the customer’s view of the incident. Given that service encounters involve at least two people, it is important to understand the encounter from multiple perspectives in order to uncover some of the underlying reasons for poor service quality. Although some studies have explored customers’ views using both customers and employees as sources (e.g. Johnson, 2002), only one known study has examined critical service encounters from the employee’s view (Bitner *et al.*, 1994). Bitner *et al.* (1994) examined sources of satisfaction and dissatisfaction in service encounters from the employee’s view and compared these sources to sources described by customers in previous research (Bitner *et al.*, 1990). Overall, they found both similarities and differences between customers’ and employees’ views of the types of critical service incidents that occur.

The present study extends this line of research to look at other perceptual similarities and differences between customers and employees in critical service encounters. Specifically we look at how the two perspectives rate certain summary facets of service failures and recovery efforts, attributions made by customers versus employees for both good and poor recovery, and whether demographic variables such as age, gender and race contribute to attributions made in service failures and recovery.

Perceptual similarities between customers and employees

Frontline service employees are often considered boundary spanners in that they link an organization with the environment (i.e. customers) within which the organization operates (Bowen



and Schneider, 1985). Boundary-spanning employees in service organizations serve two main functions. First, boundary-spanning employees work together with customers in the creation of services putting customers in what some have called a co-producer role (Bateson, 2002; Lovelock, 1984). Second, customers rely, at least partially, on the behavior of boundary-spanning employees in forming their global evaluations of the service quality of the entire firm because, to most customers, the employees they encounter are the firm (Berry, 1995). Therefore, frontline service personnel are key to providing good service. In providing service quality, it is important for employees to have accurate perceptions of the encounter and to make behavioral adjustments as necessary to improve service quality at the actual time of delivery.

Boundary-spanning employees, however, are not only in a position to influence customer service quality experiences but to gather information about those customer experiences, especially with regard to where and how often the organization succeeds or fails to meet customer needs (Zeithaml and Bitner, 1996). Employees' perceptions of customer experiences are considered accurate because customers and employees share a special bond or psychological closeness (Schneider and Bowen, 1985) due to several factors including the physical proximity between service employees and customers, the amount of time they spend together, and the amount of feedback given by customers (Rafaeli, 1989). Previous research shows support for this view. Schneider *et al.* (1980) and Schneider and Bowen (1985) found strong relationships between the quality of service employees thought customers received and the quality of service customers said they received.

Theoretical support for perceptual similarities between customers and employees is also provided by role and script theory (Biddle, 1986; Broderick, 1998). Customers and employees are said to share similar views of service encounters when the two parties share common role expectations and the service script is well defined (Mohr and Bitner, 1991). Further, when the encounter is routine, such that customers have experienced a certain kind of encounter (e.g. ordering food at a fast food restaurant) in sufficient frequency, then a common shared perspective is even more likely.

Perceptual differences between employees and customers

Although some research, mentioned above, has shown that customers and employees share common perceptions of service encounters,

evidence provided by other researchers suggest that the two parties may have different views. For example, Brown and Swartz (1989) found that physicians were not accurate in their perceptions of patients' experiences. Similarly, other studies have found differences when comparing customer and employee evaluations of business situations (Folkes and Kotsos, 1986; Resnik and Harmon, 1983).

Theoretically speaking, differences are also predicted by role and script theories as well as attribution theory. Role and script theories predict that two types of interferences would disturb predictable scripts – obstacles and errors (Schank and Abelson, 1977). When obstacles and errors occur, there are likely to be no scripts or clear role definitions to use thereby enhancing the personal frame of reference and creating differences in perspectives. Differences in viewpoints are also likely when a particular service encounter situation is new to a customer (e.g. buying a house for first time) or the service situation is not well defined (e.g. how to make a complaint).

Differences between employee and customer perspectives may also occur due to predictions made by attribution theory. In attribution theory, people are viewed as rational information processors that seek to explain their own behavior and the behavior of others (Heider, 1958). Further, future actions are thought to be influenced by these causal inferences (Folkes, 1984; Swanson and Kelley, 2001). In the context of the service encounter then, attribution theory predicts that customers and employees may have different perceptions of the service encounter due to their respective explanations for why a service failure occurred. In turn, these attributions may be likely to influence future behavior. For example, when a service failure occurs, consumers are likely to blame the company or specific providers conducting the interaction. In comparison, the provider may blame the company or even the customer (Bitner *et al.*, 1994). In a case where the employee blames the customer, his or her ensuing recovery behavior may be poor (e.g. behaving in a condescending manner or offering no apology) because of the attribution made.

Attributions may reference an internal source of responsibility (something within an individual's control such as effort or ability) or an external source (something outside an individual's control such as luck, task difficulty or others' behavior). The attribution process contains two basic errors – the fundamental attribution error and the self-serving bias (Miller and Ross, 1975; Ross, 1977). The fundamental attribution error is the tendency to make internal attributions when focusing on someone else's behavior. Self-serving bias occurs when focusing on one's own behavior; people tend

to make internal attributions for their successes and external attributions for their failures.

Overall, both theory and empirical research, discussed above, suggest that similarities and differences in perspectives are likely to occur between service encounter participants. Customers and employees are likely to share similar perceptions in some circumstances and different perceptions in other circumstances. Applying attribution theory to the service context, it is likely that attribution errors have a higher probability of occurrence in service failure situations than service successes (Bitner *et al.*, 1994). In service failures, it is likely that each respective party will tend to blame something other than themselves for the failure and in the specific case of customers, it is likely that they will blame the service employee thereby making an internal attribution about the employee. Although the desire for self-enhancement might lead both the customer and employee to give themselves credit for service successes, the fact that the customer is paying the organization for a service would probably preclude the bias on the customer's side.

While Bitner *et al.* (1994) looked more generally at reported service successes and failures, we are, in this study, examining what happens within a failure situation. We are specifically interested in failures because we believe that more perceptual differences are likely to occur during an unpredictable event such as a failure. Past research that has examined service failures has mostly looked at service failures as a negative event. However, there are at least two outcomes that can occur after a failure has occurred. The service organization can recover poorly or recover quite well, which in some cases, can lead to higher service quality views than if the failure never occurred in the first place. In this case, the failure is not necessarily negative but can be remembered as a positive critical incident or success. Although every effort should be made to reduce the occurrence of service failures, they are still inevitable as many contingencies can occur that are outside of an individual or organization's control (e.g. acts of nature). Therefore, it is important to not only focus on service failures, but also to focus on service recovery – both satisfactory and unsatisfactory recovery.

In this study, we attempt to look at perceptual similarities and differences between customers and employees within the context of failures that resulted in either good or poor service recovery. Mistakes that end with poor recovery are considered overall failures and mistakes that end with good recovery are considered overall successes. Although both contain a failure, the overall memory of the service critical incident will

be positive or negative depending on the type of recovery achieved. Using the literature review cited above, we propose that employee and customer viewpoints will differ in poor recovery conditions and will merge in good recovery conditions.

In good recovery conditions, customers and employees will have similar views because of role or script congruence (Solomon *et al.*, 1985) where customers will expect employees to recover and employees are trained and able to recover. Script congruence is thought to facilitate customer-employee interactions thereby affecting subsequent perceptions and behaviors. In other words, when scripts are similar and predictable, similar summary perceptions will result.

In the poor recovery condition, customers and employees will have different views because of role or script divergence where customers expect employees to recover but employees do not recover well. They may fail to recover well due to a number of reasons. Employees may not see it as their job to recover in certain instances, they may feel restricted in their recovery because of company policy, they may have made prior attributions that the customer caused the failure, etc. Divergent scripts are thought to inhibit customer-employee interactions thereby affecting subsequent perceptions and behaviors. As a result, employees and customers may see a particular critical incident through different lenses.

In testing these propositions, we examine some summary variables related to service failures and recovery to determine whether the two perspectives differed according to recovery success/failure.

- H1.* Customers and employees will have similar overall ratings in terms of severity of mistake, expectation of failure, and recovery effort in the good recovery condition.
- H2.* Customers and employees will differ in their overall ratings of severity of mistake, expectation of failure occurring, and recovery effort in the poor recovery condition.

In terms of severity, we want to further examine whether there are specific categories of failures in which customers and employees differ. Since we have located no prior research or relevant theory on which to formulate a specific hypothesis, we pose this as an exploratory hypothesis:

- H2a.* Do employees and customers differ on the severity rating for specific failure categories? Which failure categories did customers versus employees rate as most severe?

Next, we attempt to explain why customers and employees might have different perceptions in poor versus good recovery conditions. One possible

reason for perceptual differences may be the way in which attributions are made by customers versus employees in varying service interactions. We believe that customers and employees will commit attribution errors in the service encounter much in the same fashion as common attribution errors are made. In other words, we believe that the fundamental attribution error and the self-serving bias are just as likely to occur in service interactions as in other interpersonal interactions and may be an underlying reason for differences in perceptions. Following the logic detailed previously, our premise is that attribution errors will occur more in failure situations than success situations (which in this case is poor versus good recovery conditions). In poor recovery conditions, we believe that customers will blame employees for mistakes thereby displaying the fundamental attribution error while employees will blame someone or something outside of themselves thereby displaying self-serving bias. Conversely, in good recovery conditions, employees will attribute the success to themselves. We have no specific expectation of what customers will attribute the success to as they are unlikely to attribute it to themselves in a service situation and no prior theory speaks of customer causal attributions in this context.

- H3.* Customers will attribute failures more to employees than all other causes in the poor recovery condition.
- H4.* Employees will attribute failures more to external causes (e.g. system failure, organizational policies, etc.) than internal causes in the poor recovery condition.
- H5.* Employees will attribute service recovery to themselves in the good recovery condition.

Theory of person perception

The theory of person perception, rooted in social psychology, is also useful for explaining differences in perceptions across interpersonal interactions. The theory of person perception focuses on the processes by which impressions or feelings about others are formed as individuals proceed through the steps of:

- (1) stimulus information;
- (2) perceiver variables; and
- (3) impression of the stimulus person (Kang and Hillery, 1998; Secord and Beckman, 1964).

The first step in the process involves the selection of visual cues such as physical appearance, expressive behavior (facial expressions), and/or verbal behavior. The person forming perceptions (the perceiver) then evaluates the cues based on their own past experiences, the meanings derived

from the stimulus person's actions, the meanings associated with categories of persons (stereotypes), and/or the perceiver's self-concept. In the third step of the process, the perceiver assigns specific traits to the stimulus person and impressions are formed.

When service providers and customers interact, perceptual judgments are made quickly. Studies in social psychology note that first impressions are believed to often establish or deny relationships within the first four minutes of contact (Zunin and Zunin, 1972). Further, the research shows that first impressions are of paramount importance and are enduring (Luchins, 1957; Pennington, 1982). Age, gender and race play the part of visual cues that are often used in the formation of these first impressions (Jones *et al.*, 1998). These factors act as stimulus information that helps the perceiver to sort and categorize. The literature supports the notion that individuals are often categorized and defined by these three variables. For example, Henthorne *et al.* (1992) found that salesperson race and gender influenced buyers' initial impressions of salesperson credibility.

Given that we categorize or stereotype people in person perception, it is likely that we will also make attributions based on these characteristics. There is some evidence to suggest that attribution errors are often committed when people try to explain the success and failure of minorities and women (Greenhaus and Parasuraman, 1993). For example, people who observe minority achievement and success often attribute it to something external such as help from others while failures are often attributed to internal causes such as lack of effort or ability. Therefore, based on the above discussion, we believe that age, gender and race are likely to be factors on which attributions are based. In essence, we are interested in the extent to which employees versus customers perceive that age, gender, or race attributed to a service failure or recovery.

We believe that in the poor recovery condition where the outcome is obviously not good, customers will look for reasons for the failure and are likely to make internal attributions regarding employees. As they focus on employees, they are likely to use age, gender, and race as search attributes since age, gender, and race are easily visible and accessible sources of information. Employees, on the other hand, are encouraged not to blame the customer and will therefore, most likely not focus on customer characteristics but may still make external attributions for reasons previously discussed. Thus, we propose that customers and employees will differ on the extent to which they say age, gender, or race of the service

provider/customer attributed to service failure or recovery in the poor recovery condition.

In the good recovery condition, we predict that the two perspectives will not differ on whether they believe that age, gender or race attributed to the failure or recovery. The rationale here is that in success situations, customers and employees will have similar views because they are not looking to place blame since there is role/script congruence. Customers and employees will not necessarily search for a reason for the good recovery since good recovery is expected by both employees and customers. Person characteristics such as age, gender and race become irrelevant and neither party pays much attention to these factors. In other words, if a service recovery is done well, both parties will most likely not be looking for external explanations. If anything, the employees will most likely attribute the success to their own efforts. One could ask, however, whether differences in perspectives would occur at least regarding the service failure since a failure did occur? We argue that because we are asking about a service critical incident after a good recovery has already been achieved, the overall memory of the event will most likely be positive.

Despite the rapid growth of service failure and service recovery-related research (Zhu and Sivakumar, 2001), studies examining attributions in the service failure and recovery process involving diverse participants have yet to be conducted. Therefore, we pose the following exploratory hypothesis regarding the variables of age, gender and race:

H6. Do customers and employees differ on the extent to which they report that age, gender, and race attributed to the service failure or recovery?

Method

Procedures

The critical incident technique (CIT). Our study builds on previous research by employing a process for examining service failures and recovery strategies in service industries through an existing research methodology – the critical incident technique (Flanagan, 1954). Investigators have previously used the critical incident technique to investigate a variety of service marketing and management issues (e.g. Bejou *et al.*, 1996; Bitner *et al.*, 1990; Hoffman and Chung, 1999; Lockwood, 1994). The CIT consists of a set of specifically defined procedures for collecting observations of human behavior and classifying

them in such a way as to make them useful in addressing practical problems. The CIT as a method of classification can be categorized with other inductive grouping procedures such as factor analysis, cluster analysis, and multi-dimensional scaling (Hunt, 1983).

Critical incidents are events and behaviors that have been observed to lead to success or failure in accomplishing a specific task (Ronan and Latham, 1974). Critical incidents in the context of this study reflect interactions between customers and service providers in which the interaction is particularly memorable (positive or negative). Theoretically speaking, critical incidents involve the disconfirmation of expectations. Role and script theories propose that customers and service providers should share common views pertaining to how the encounter should proceed and the order of activities (Bitner *et al.*, 1994; Solomon *et al.*, 1985). Deviations from these shared expectations result in positive or negative disconfirmations, and thereby, a critical incident occurs. Positive disconfirmation of expectations are formed when the perceived performance of the service provider exceeds the customer's expectations. In sharp contrast, negative disconfirmation of expectations are formed when customer expectations exceed the perceived performance of the service provider.

Data collection

The data collection process of gathering critical incidents for this study was supervised by two professors at different large universities. One professor collected critical incidents from the customer's point of view using 400 marketing students at a university located in the Northwestern region of the USA. The other professor, at a Northeastern university, collected critical incidents from the employee's point of view using 100 students studying HRM. Student data collection using the critical incident technique has been shown to be a reliable data collection method in past research (Keaveney, 1995; Kelley *et al.*, 1993).

Each student was told to collect critical incident information from customers/employees using a preprinted survey. Students were told to do their best in securing diverse respondents in terms of age, gender and race. Students were trained by each respective professor in terms of standardized data collection procedures. Each student followed a scripted instruction sheet which they read aloud to respondents prior to survey administration.

Critical incidents were collected about customer-employee interactions in the hospitality industry. The hospitality industry is the world's largest industry and largest generator of jobs, with

an estimated 338 million people to be employed by 2005 (Brymer, 1995). Hospitality-related businesses were chosen due to their pervasiveness and due to the diversity of customer and provider interactions that would likely take place in comparison to professional services such as accounting and consulting. The hospitality industry comprises a variety of segments including food service, lodging, travel and tourism, airlines, amusement parks, meeting and convention planning, etc.

Sample

Data collection procedures for the customer sample resulted in the recording of 1,512 useable critical incidents (751 incidents that were associated with a good recovery and 761 incidents that were associated with a poor recovery). The respondent group consisted of a fairly even gender split with 51 percent being male and 49 percent female. Racial breakdowns were as follows:

- 70 percent Caucasian;
- 11 percent African American;
- 10 percent Asian;
- 7 percent Hispanic; and
- 2.5 percent American Indian.

Respondent ages ranged from 18 to 85 (average age: 36).

For the employee sample, a total of 390 critical incidents were collected (195 incidents associated with good recovery and 195 incidents associated with poor recovery). The respondent group consisted of 42 percent male, 71 percent Caucasian, 6 percent African American, 18 percent Asian and 5 percent unknown (did not indicate their ethnicity). Age of respondent ranged from 17 to 54 with an average respondent age of 23.

The two samples were fairly similar on the gender and ethnicity variables. However, the two samples appeared to be different on the variable of age. Therefore, age was used as a covariate in the analyses performed.

The survey

Respondents were asked to report in an open-ended format a failure situation they experienced that had resulted in a satisfactory recovery, as well as a failure situation that had resulted in an unsatisfactory recovery. In addition, failure and recovery attributions were collected; that is, respondents were asked to indicate the reason for the failure or recovery. Outcome perceptions such as the perceived severity of the failure, expectations of the failure occurring, and recovery ratings, were also collected. These perceptions were rated on a ten-point scale (e.g. 1 = minor mistake; 10 = major mistake) with different scale anchors

depending on the question. In addition, respondents were asked to indicate whether they ever returned to the service establishment. Questions relating to the respondent's perception that age, gender and race influenced the service encounter were also included (e.g. "The age of the customer/employee attributed to the service failure."). These questions were rated on a 1 to 10 scale ranging from strongly agree to strongly disagree. The questionnaire concluded by asking respondents to complete a demographic profile on themselves as well as the other participant (customer/employee) in the service encounter.

Results

Categorization of incidents

In order to develop a listing of failure types and recovery strategies, an extensive categorization process for each of the critical incidents was undertaken. This process included the following steps:

- (1) *Identify the failure incident.* This process began by systematically categorizing each critical incident through a deductive sorting process into one of three major failure groups developed by Bitner *et al.* (1990):
 - employee responses to service delivery system failures;
 - employee responses to implicit/explicit customer requests; and
 - unprompted/unsolicited employee actions.
- (2) *Identify failure sub-groups within the three major groups.* This step involved classifying failures into sub-groups within each of the three broad categories noted above. This process resulted in the identification of 14 failure sub-groups:
 - Responses to service delivery system failures:
 - Services that are lacking/missing (e.g. room not available, lost reservation, reserved window table occupied, provider does not provide key information needed for core service.
 - Unreasonably slow service or long wait (e.g. service or employee is slow).
 - Service or good defects/mistakes (e.g. service/good does not meet basic performance standards for the industry; room not clean; meal cold; baggage damaged, mistakes made in service delivery – wrong change, spilled drink, wrong order, etc.).
 - Failures relating to company policies (e.g. company policy is unclear or unequitable, customer disputes policy).

- Facility or equipment problems (e.g. sanitation issues, equipment not working – cash registers, fryer, etc, foreign objects found in food – ants, wood, etc).
 - Responses to implicit/explicit customer requests:
 - Failures pertaining to special needs customers (e.g. mistakes made when servicing customers with special medical, dietary, psychological, language, and sociological difficulties; failure to accommodate emergencies, elderly, children. Provider does not recognize the seriousness of the need or inappropriately handles issue).
 - Failures regarding customer preference (e.g. mistakes made when handling “special requests” or personal preferences unrelated to sociological, physical, or demographic characteristics as listed above; requires adaptation in delivery system).
 - Failures regarding admitted customer error (e.g. customer commits error that strains service encounter, examples included lost tickets, incorrect order, missed or arrived late for reservation/ appointment).
 - Failures regarding potentially disruptive to others (e.g., other customers’ behavior can strain encounter, examples include intoxication, rudeness, social deviance)
 - Unprompted/unsolicited employee actions:
 - Failures relating to lack of customer respect and individualization (e.g. ignore customer, treat customer impersonally, being impatient, demeaning, patronizing, questions customer’s intentions, accuses customers, violates customer’s self-esteem needs, use of profanity, yells at customer, inappropriate touching).
 - Failures regarding a lack of TLC (e.g. not courteous, friendly, or warm).
 - Failures regarding cultural norms (e.g. employee violates cultural decency norms such as equality, honesty, and fairness. Failure involves discrimination (age, sex, race, disability, etc.), theft, bribery, lying).
 - Failures regarding *Gestalt* evaluations (e.g. customer unable to attribute failure to any single feature of encounter,
- evaluates holistically (“everything went wrong”). Many incidents may have occurred. Cannot categorize incidents into one sub-group – failure is described as a series of interrelated events).
- Failures relating to employee competency (e.g. employee is described as being unable to perform the basic functions required by the profession).
- (3) *Classify recovery strategies*. This step involved classifying the recovery strategies associated with each critical incident within each failure sub-group. This process resulted in identifying 16 recovery strategies:
- Compensatory responses:
 - gratis (e.g. customer is provided with free good/service);
 - discount (e.g. customer receives an immediate discount);
 - coupon (e.g. redeemable at a later date);
 - free upgrade (e.g. upgraded economy rental car to luxury rental car to compensate for failure); and
 - free ancillary product (e.g. free desert, appetizer, free access to the hospitality suite).
 - Action-oriented responses:
 - total replacement of good/service;
 - correction (e.g. recooked food, fixed torn garment);
 - substitution (e.g. provided similar product to replace original);
 - cash refund (e.g. customer is refunded the purchase price of product in cash); and
 - store credit (e.g. customer is refunded the purchase price of product in store credit).
 - Other responses:
 - failure escalation (e.g. attempted recovery made failure situation even worse);
 - empathetic response (e.g. apology, calmed customer down, listened);
 - managerial intervention (e.g. management became involved and attempted to implement recovery strategy);
 - referred customer elsewhere (e.g. another hotel, another store, etc.);
 - no response (e.g. did not offer customer a recovery option); and
 - multiple recovery (e.g. combination of recovery strategies were offered–

difficult to sort out the effectiveness of one particular recovery strategy).

After the failure and recovery categories were established, four researchers independently categorized the incidents; two worked on the customer data while the other two worked on the employee data. Interrater reliability were 0.92 for the customer data 0.90 for the employee data. I_r was used to measure interrater reliability; I_r is based on a model of the level of agreement that might be expected given a true (population) level of reliability. The index focuses on the reliability of the whole coding process, not just the agreement between judges. This method is considered to be a valid technique for calculating interrater reliability for critical incident research (Bitner *et al.*, 1994; Perreault and Leigh, 1989).

Hypotheses testing

In *H1* and *H2*, we sought to explore how customers rated certain summary facets of failures and recovery compared to employees. Specifically the variables we looked at were severity of mistake, expectation of service failure, and effort put forth in recovering from the failure averaged across all incidents. Using ANOVA with age of respondent as a covariate, we found that in the good recovery condition, customers and employees did not differ significantly on their ratings of severity, expectations of failure, or recovery effort ($F = 0.32, p > 0.05$; $F = 0.76, p > 0.05$; $F = 2.73, p > 0.05$). These findings support *H1*.

In the poor recovery condition, customers and employees differed significantly on severity such that customers rated the mistakes as more severe overall than employees did ($F = 21.75, p < 0.01$). Similarly, customers expected the failure to occur more than employees did ($F = 22.68, p < 0.05$). Finally, recovery efforts were rated lower by customers than employees ($F = 82.78, p < 0.01$). These findings support *H2*. See Table I for more detailed information.

Overall, these findings support our proposal that in poor service recovery conditions, customers will rate these global impression variables more negatively than employees whereas in the good

recovery condition, no significant differences would occur. This lends credence to the idea that customers may be more affected by a bad service encounter than employees suspect.

Next we tested our exploratory hypothesis (*H2a*) to determine whether employees and customers differed on severity ratings for specific failure categories. Further, we looked at the kinds of service failures each perspective rated as most severe. Only five failure categories are reported due to the small percentage of incidents in other failure categories that preclude reliable analyses. Using *t*-tests, we found that in the poor recovery condition, customers and employees differed significantly on two of the five category types – company policy ($t = 3.29, p < 0.01$) and service defect ($t = 3.35, p < 0.01$). In both instances, customers rated the service failure category as more severe than employees. Overall, customers reported the failure category of company policy as being the most severe while this category ranked last in terms of severity according to employees. Employees actually rated slow service as being the most severe out of the five categories. See Table II for a rank listing and means for each failure category for poor recovery.

In the good recovery condition, customers and employees again differed on two of the five failure categories; however, these were different categories from the poor recovery condition. Employee and customer ratings of severity differed on lacking/missing service and slow service ($t = 2.58, p < 0.05$; $t = -2.55, p < 0.05$ respectively) where customers rated lacking/missing service as more severe than employees and employees rated slow service as more important than customers. In terms of rank ordering, customers rated lacking/missing service as most severe while employees again rated slow service as most severe. It seems that employees clearly and consistently acknowledge slow service as a severe mistake to commit. For a rank listing and means for each failure category for good recovery, please see Table II.

In terms of attributions for failures in the poor recovery situation, we found, as would be expected based on attribution theory (Heider, 1958), that customers tended to blame employees for the

Table I Customers' and employees' summary ratings of service failures with poor and good recovery (controlling for age of respondent)

Perspective	Poor service recovery			Good service recovery		
	Severity	Expect	Effort	Severity	Expect	Effort
Customer	7.52	3.36	3.26	5.87	3.53	8.91
Employee	6.59	3.04	5.15	5.93	3.51	8.58
<i>F</i>	21.75*	22.68**	82.78*	0.32	0.76	2.73

Notes: * $p < 0.01$; ** $p < 0.05$; Scale: 1 = minor mistake/did not expect/very poor; 10 = major mistake/greatly expected/excellent

Table II Customer and employee ratings and ranking of severity by failure type

Failure type	Employee mean	Employee rank	Customer mean	Customer rank	Significant difference (t)
<i>For poor service recovery</i>					
Company policy	5.18	5	7.96	1	3.29*
Service defect	6.05	4	7.25	4	3.35*
Customer preferences	6.23	3	6.77	5	0.71
Lacking/missing service	7.07	2	7.62	3	1.43
Slow service	7.46	1	7.72	2	0.65
<i>For good service recovery</i>					
Company policy	5.00	5	5.36	4	0.42
Service defect	6.02	2	5.37	3	-1.85
Customer preferences	5.25	4	4.50	5	-0.56
Lacking/missing service	5.82	3	6.92	1	2.58**
Slow service	6.78	1	5.44	2	-2.55**

Notes: * $p < 0.01$; ** $p < 0.05$; scale: 1 = minor mistake; 10 = major mistake

failure (accounting for 63 percent of the reasons given) more than any other reason. Meanwhile employees tended to blame something other than themselves (e.g. organizational policies, system failure, etc.), thereby making external attributions. These external attributions accounted for a majority (56 percent) of the reasons given for the failure. This finding is congruent with results found by Bitner *et al.* (1994) although their research is based on frequency of the types of incidents mentioned while we directly asked customers and employees what they attributed the failure to.

Conversely, customers and employees made different attributions for good service recovery. Customers tended to attribute the good recovery to a number of different things including company policy, management initiative, and employee initiative with management initiative being the most frequently cited (36 percent). Employees, on the other hand, tended to attribute positive recovery efforts to themselves (64 percent) more often than any other reason. Together these findings for good and poor recovery show support for *H3-H5* as well as the concepts of self-serving bias and attribution errors in the service encounter context.

Finally, regarding demographic variables, customers generally differed significantly from employees in their perceptions of whether they thought age, race, and gender of the other party were contributing factors in service failure or recovery (exploratory hypothesis *H6*). Overall, in the poor recovery condition, although neither party thought that age, gender, or race was a big contributing factor, customers did report that age, gender and race attributed more to failures and recovery than employees did (see Table III for *F* values). In the good recovery condition, there were significant differences between customers'

and employees' views on the variables of age and gender in failure and recovery but no differences were found on the variable of race in either failure or recovery (see Table III). Customers tended to think that age and gender attributed more to failures and recovery than employees did. Overall, these findings suggest that customers may attribute more to demographic factors than employees in both good and poor recovery conditions. However, neither perspective reported demographic variables as being a major factor in causing service failures and recovery as indicated by their ratings.

Discussion

Together, the results found in this study suggest that there are both perceptual and attributional similarities and differences between customers and employees in the service context. The similarities showed up mostly when recovery was done well while the differences occurred more often with poor recovery efforts. This result supports assertions made by previous research (discussed earlier) as well as attribution theory. In poor recovery conditions, customers generally rated failures more severely, did not expect failure to occur as much as employees, and rated recovery efforts lower than employees. Employees and customers also differed regarding the severity of specific failure categories. In the case of poor recovery, customers rated company policy as being the most severe while employees saw this as being least severe out of the five failure categories that were tested. This is a prime example of when customers and employees differ. The customer may feel that a poor recovery based on company policy is preventable while an employee may think that company policies are written in stone and

Table III Customers' and employees' views of the influence of demographic variables (controlling for age of respondent)

Perspective	Did AGR ^a attribute to failure?			Did AGR attribute to recovery?		
	Age	Gender	Race	Age	Gender	Race
<i>For poor service recovery</i>						
Customer	7.03	8.01	8.15	6.70	7.81	8.13
Employee	8.52	8.62	9.05	7.98	8.68	8.90
F	42.33*	14.00*	21.62*	35.77*	23.55*	14.72*
<i>For good service recovery</i>						
Customer	8.16	8.93	9.14	6.78	8.07	8.94
Employee	8.85	9.26	9.30	7.88	8.52	9.19
F	12.21*	5.22**	0.07	34.53*	8.52*	0.69

Notes: ^a AGR = age, gender, or race; * $p < 0.01$; ** $p < 0.05$; scale: 1 = strongly agree; 10 = strongly disagree

there is nothing they can do about it. Meanwhile, employees rated slow service as most severe across good and poor recovery conditions. Perhaps the same logic mentioned for customers applies to employees as well. It is possible that employees feel that slow service is preventable or within their control and therefore should not have resulted in a service failure in the first place but when it does, they consider it to be a major mistake. This explanation converges with research by Folkes *et al.* (1987) who found that perceptions of controllability by customers evokes a number of behavioral responses such as anger, lower repurchase intentions, and a greater desire to complain.

In terms of attributions for poor recovery, customers tended to blame employees more than other reasons thereby making internal attributions about employees while employees tended to blame something outside of themselves thereby making external attributions. With good recovery, employees tended to attribute the success to themselves – a function of the self-serving bias. Meanwhile, customers attributed good recovery to a number of different sources with management initiative being the most frequently mentioned source. Overall, these results provide support for attribution theory and attribution errors in the service context.

Finally, customer and employees generally differed on whether they believed age, gender and race attributed to service failure or recovery across both poor and good service recovery. Although neither party reported these demographic factors to be a big factor, customers did tend to attribute failures and recovery to these factors more than employees. Differences occurred consistently in the poor recovery condition while we had mixed results for the good recovery condition. In the good recovery condition, customers and employees differed on whether they said age and gender contributed to the failure or recovery but did not differ on the variable of race. The differences found were somewhat unexpected. It is

possible that employees are just more cautious about making demographic attributions than customers are. Another plausible explanation could be that regardless of whether customers experience a good or poor recovery, they use visible demographic search cues to explain the failure or outcome more than employees do.

Overall, although customers and employees did have similar views under certain circumstances, the two perspectives also had varying views in many situations. These differences can lead to misunderstanding and misalignment between customers and employees and ultimately reduce customer satisfaction. Employees will have a harder time making appropriate behavior adjustments to improve service quality if they are perceiving the encounter differently from customers. Further, because employees have a self-protective need, they may not always be a good source of information about customers contrary to what some researchers (e.g. Schneider and Bowen, 1995; Zeithaml and Bitner, 1996) have suggested. This may be particularly true for situations involving service failures and poor recovery to service failures where blame is sought. In an effort to prevent service failures and design effective processes for recovery, data may be more accurate if gathered directly from customers.

Implications for practice

The results of this study may prove useful to practitioners in a number of different ways. First, our results reveal that customers found company policies to be the most egregious failure type. Therefore, it is important for managers to examine their company policies to see whether their policies appear fair to customers. It may be useful to have customer focus groups review company policies to ascertain the perceived fairness and clarity of these policies. One customer focus group technique called the “pet peeve” method may be particularly useful here. This is where customers are asked

about any pet peeves they may have with a particular company, service, product, policy, etc. In this way, more commonplace (i.e. not extreme) issues are uncovered and proactive steps can be taken before serious failures occur.

Often times, the problem is not in the company policy itself but in the perception and interpretation of the policy. For example, the policy may be inaccurately communicated through advertisement, media, etc. thereby relaying false promises or the policy may be unclear or under-communicated such that customers do not understand the policy. Examining how company policies are perceived is important; previous research has shown that customers are sensitive to violations of distributive, procedural and interactional justice (Tax *et al.*, 1998). Some company policies may inadvertently inhibit the provision of high service quality and good recovery.

Overall, it seems that employees are an accurate source for gathering customer perceptions in some circumstances only. They are probably most accurate about situations that do not involve them personally (e.g. ideas for reducing waiting lines, company policy, system issues) or in reference to benign information such as customer preferences, expectations, and so on. For non-routine situations or for information regarding events that employees are directly involved in, it may be better to go directly to customers.

From our results, it seems that customers are more affected by a bad service encounter or have more negative views than service providers are aware of. As prior research on complaining behavior has shown (Goodman and Ward, 1993), customers do not always complain or tell you that they are dissatisfied. Therefore, it is up to the service company to take the initiative to uncover problems through focus groups, interviews, or the critical incident technique. It may also be useful to employ the sequential incidents technique (Stauss and Weinlich, 1997) which is designed to capture more usual events in addition to "critical" incidents by recording sequential events within the service delivery and consumption process.

Finally, it is clear that far too many failures occur in the first place and too many poor recoveries follow. It is important for managers to uncover the reasons for these failures and poor recovery by carefully tracking the causes of these incidents. Perhaps employees need training on how to prevent failures or how to appropriately recover from mistakes as failures are sometimes uncontrollable. Further, managers should empower employees to recover and remove obstacles from the delivery of efficient recovery. For example, employees often have to get

supervisory approval before a monetary recovery can be made. This leads to time spent and possibly additional aggravation on the part of the customer. It may be better to have in place, a boundary point (e.g. a maximum amount an employee can compensate) with flexibility to extend beyond that amount with supervisory approval.

In tracking service failures and recoveries, it may be prudent for managers to also collect data in terms of age, race, and gender to monitor potential cases of systematic and/or personal discrimination. Although this study's results suggest little evidence of discrimination, it is possible that the study design did not allow for the effects of these variables to surface. Tracking demographic information can be useful not only in terms of understanding the service encounter better, but can also serve as an early warning system for interpersonal abuses. In this way, problems can be corrected before more significant problems ensue. Further, longitudinal data that shows no signs of discriminatory practices can serve as useful documentation if customer discrimination claims are ever filed. This is an important issue to consider since discriminatory practices can lead to negative publicity, customer boycotts, and potentially expensive lawsuits.

Limitations and future research

This study has a few limitations and suggestions for future research that should be noted. First, this study did not employ the sequential incidents technique (Stauss and Weinlich, 1997) which is a process-oriented method that includes the use of the critical incident technique while avoiding some of its weaknesses in that "usual" incidents are recorded as well. In this way, more information could have been gathered to shed light on employee versus customer perceptions. Future research should consider using the sequential incident technique for investigating perceptual differences.

Second, no information was gathered regarding respondents' past roles as either employees or customers. It may be that their prior experiences could have affected their views in terms of attributions for failures and recoveries. This would be of interest for future research to consider.

Another potential limitation lies in the fact that data was gathered on customers and employees that did not actually interact with one another. That is, data was not gathered on customer-employee dyads. However, past research on critical incidents has traditionally relied on convenience sampling versus matched sets since the research questions (as is the case in this study) have been

focused on global perceptual differences between customers and employees. In the future, this line of research should be extended to include employee-customer dyads and objective situational indicators (e.g. video tape of encounter, third-party observer) so that clearer distinctions between perceptual differences can be assessed.

Finally the generalizability of our findings may be limited in that some critical incidents were collected near the universities where this study was conducted. Therefore, we cannot speak to the representativeness of this sample to the population of the whole USA. However, students were told to sample people from different parts of the country if possible. For example, many incidents were collected from customers/employees in geographic locations such as Texas, Florida, Georgia, California, etc.; regions that are not geographically close to the universities where data collection originated.

Conclusion

Overall, this study helped to reveal the nature of perceptual similarities and differences between service providers and customers. Employee perceptions tended to be more aligned with customer perceptions when the overall outcome was good. Conversely, employees tended to diverge from customer views when the overall outcome was poor. Given that accurate employee perceptions are key in making behavioral adjustments during the service encounter, it is important that employees have a better understanding of exactly how customers perceive failure events. Further, employees should be trained to prevent failures in the first place and if failures do occur, to recover from failures in an appropriate and satisfying manner.

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Executive summary and implications for managers and executives

This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present.

The most immediate evidence of service quality occurs at the "moment of truth" in a service encounter, where the customer and service provider interact. Memorable incidents that occur during this encounter can determine whether a customer leaves satisfied or dissatisfied, and ultimately whether he or she returns.

Using the critical-incidents technique, Chung-Herrera, Goldschmidt and Hoffman examine how customers and employees rate certain aspects of service failures and recovery efforts, attributions made by customers and employees for both good and poor recovery, and whether age, gender and race contribute to attributions made in service failures and recovery.

Customers and employee views of critical service incidents

Through information collected on 1,512 customer-reported incidents and 390 employee-reported incidents, the researchers reveal that customers and employees have both similar and different views, depending on the outcome of the encounter. The similarities show up mostly when recovery is done well, while the differences occur more often with poor recovery efforts.

In poor recovery conditions, customers generally rate failures more severely, do not expect failure to occur as much as employees, and rate recovery efforts lower than employees. Employees and customers also differ regarding the severity of

specific failure categories. In the case of poor recovery, customers rate company policy as being the most severe while employees see this as being the least severe and accord more importance to slow service, lacking or missing service, customer preferences and service defect. The customer may feel that a poor recovery based on company policy is preventable while an employee may think that company policies are written in stone. Employees rate slow service as most severe across both good and poor recovery conditions, perhaps because they feel that slow service is preventable.

Customers tend to blame employees, more than other reasons, for poor recovery, while employees tend to blame something outside of themselves. Employees tend to attribute good recovery to themselves. Customers, in contrast, attribute good recovery to a number of different sources, with management initiative being the most frequently mentioned.

Age, gender and race

Customers, more than employees, tend to attribute failures and recovery to age, gender and race, although neither party reports these demographic factors to be particularly important. Differences occurred consistently in the poor-recovery condition, while there were mixed results for the good-recovery condition. In the good-recovery condition, customers and employees differed on whether they said age and gender contributed to the failure or recovery, but did not differ on the variable of race. It is possible that employees are more cautious than customers about making demographic attributions. Another possible explanation is that, regardless of whether customers experience a good or poor recovery, they use visible demographic search cues to explain the failure or outcome more than employees do.

Employees may not always be a good source of information

The differences of views between customers and employees can lead to misunderstandings and misalignments, and ultimately reduce customer satisfaction. Employees will find it harder to change their behaviour and improve service quality if they perceive the encounter differently from customers. Employees, because they have a self-protective need, may not always be a good source of information about customers – particularly for situations involving service failures and poor recovery to service failures where blame is sought. Indeed, there may be a number of situations in which employees are not an accurate source for gathering customer perceptions. Employees are probably most accurate about situations that do not involve them personally, or regarding such benign information as customer preferences and expectations. For non-routine situations or for information regarding events that employees are directly involved in, it may be better to go directly to customers.

Service companies should take the initiative

The research suggests that customers are more affected by a bad service encounter or have more negative views than service providers are aware of. The service company should therefore take the initiative to uncover problems through, for example, focus groups or interviews. Managers could also use these techniques to ensure that company policies appear fair to customers.

(A précis of the article "Customer and employee views of critical service incidents". Supplied by Marketing Consultants for Emerald.)