Internal Service Recovery's Influence on Frontline Service Employees' Satisfaction and Loyalty

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Relatively little studies have investigated employee recovery from internal service failure, especially from the employees' perspective. When handling customer complaints, employees must not only deal with legitimate customer demands after a service failure, such as providing an apology, rectifying the problem, and offering compensation, but they must also manage illegitimate dysfunctional customers, who may yell, threaten, and even physically harm the employee. These negative experiences can have strong effects, and employees can exhibit higher levels of stress such as burnout and emotional labor, which have been linked to dissatisfaction, tension and anxiety, reduced performance and effectiveness, and a greater propensity to leave the firm, ultimately leading to negative financial consequences for the firm. These conditions result in internal service failure and create the need to recover employees —in other words, internal service recovery. However, little research has examined this issue so far. The purpose of the current study, therefore, is to investigate the relationship between internal service recovery and employee outcomes. A pre-test, post-test between-subjects experimental design was developed. Participants were 166 part-time students who were working full-time. The average age of the participants was 36.74 years, and 57.50% of them were female. The average length of employment was 13 years. Participants were randomly assigned to one of four groups of approximately equal size. Three of the groups were subjected to an experimental situation involving an internal service failure, while one group was not exposed to failure, thereby acting as a control group. This study contributes to the service marketing literature in several ways. First, the study extends service failure and/or recovery research by examining recovery in an employee context. Second, this study attempts to measure internal service recovery and to empirically demonstrate its relationship to employee outcomes. Third, this investigation emphasizes the managerial importance of internal service recovery. For example, understanding the nature of the relationships between internal service recovery and its consequences can improve the effectiveness and efficiency of managers' resource allocation decisions.

Key words: Internal Service Failure, Internal Service Recovery, Dysfunctional Customer Behavior, Employee Satisfaction, Employee Loyalty

Ⅰ. Introduction

Service recovery refers to the actions a service provider takes to respond to a service failure (Smith et al. 1999). Examples include apology, empathy, compensation, acknowledgement, and explanation. Successful service recovery improves customer satisfaction and customer loyalty, which then result in profitability gains (Bitner et al. 1990; Liao 2007; Smith et al. 1999). The importance of service recovery has led to a substantial body of research on theoretical and empirical studies of service failure and recovery, and considerable research has focused on how to recover customers from service failure (Chebat and Slusarczyk 2005; Dong et al. 2008; Zhu et al. 2013). Relatively little studies, however, have investigated employee recovery, which is defined as the behaviors of managers to repair the damage to employees who handle illegitimate dysfunctional customers, from internal service failure, especially from the employees' perspective, which is defined as employees damage caused by illegitimate dysfunctional customer behaviors. When handling customer complaints, employees must not only deal with legitimate customer demands after a service failure, such as providing an apology, rectifying the problem, and offering compensation (Dallimore et al. 2007), but they must also manage illegitimate dysfunctional customers, who may yell, threaten, and even physically harm the employee (Grandey et al. 2004; Grandey et al. 2007; Harris and Reynolds 2003; Yi and Gong 2008a).

These negative experiences can have strong effects, and employees can exhibit higher levels of stress such as burnout and emotional labor, which have been linked to dissatisfaction, tension and anxiety, reduced performance and effectiveness, and a greater propensity to leave the firm, ultimately leading to negative financial consequences for the firm (Harris and Reynolds 2003; van Jaarsveld et al. 2010). These conditions result in internal service failure and create the need to recover employees—in other words, internal service recovery (Bowen and Johnston 1999; Michel et al. 2009; Santos-Vijande et al. 2013). Accordingly, for the past several decades, both academics and practitioners have paid considerable attention to the discovery of factors that might recover employees from internal service failure. Because managers and supervisors are mainly responsible for ensuring that employees perform their work without problems, this study focuses on internal service recovery by supervisors and managers. In addition, managers and supervisors have resources to provide employees with adequate training and empowerment so that employees can be more easily recovered. However, little research has examined this issue so far (see Bowen and Johnston 1999 for an exception).

The purpose of the current study, therefore, is to investigate the relationship between in-

ternal service recovery and employee outcomes. This study contributes to the service marketing literature in several ways. First, the study extends service failure and/or recovery research by examining recovery in an employee context. Second, this study attempts to measure internal service recovery and to empirically demonstrate its relationship to employee outcomes. Third, this investigation emphasizes the managerial importance of internal service recovery. For example, understanding the nature of the relationships between internal service recovery and its consequences can improve the effectiveness and efficiency of managers' resource allocation decisions. That is, given firms' limited resources, managers face the challenge of allocating the firm's scare resources to maximize employee satisfaction and loyalty. To achieve optimal resource allocation, managers must make various complementary internal service recovery efforts toward employees who have to deal continuously with internal service failure.

Ⅱ. Theoretical Background

2.1 Internal Service Failure

In recent years, studies have increasingly focused on customer dysfunctional behavior, which refers to customer behavior that causes problems for the firm and especially its employees, such as violence, and physical and psychological victimization (Grégoire et al. 2009; Harris and Reynolds 2003; Yi and Gong 2008a; Yi and Gong 2008b). The primary reason for this growing interest is the increasing prevalence of such behavior in service firms and the substantial associated costs, both tangible and intangible, in a turbulent competitive marketplace (Yi and Gong 2008a). A review of the relevant literature reveals that customer dysfunctional behavior has a negative effect on employees, leading to feelings of intimidation, anger, and depression, which result in stress, lower satisfaction, and ultimately departure from the firm (Yagil 2008). In addition, customer dysfunctional behavior is associated with employee burnout (Dormann and Zapf (2004). Other research has found that customer dysfunctional behavior is positively related to employee negative affective states (Dallimore et al. 2007), commitment to customer service (Bell and Luddington 2006), burnout (Ben-Zur and Yagil 2005; Grandey et al. 2004), emotional labor (Rupp et al. 2008), and absenteeism (Grandey et al. 2004). Finally, customer dysfunctional behavior raises financial costs for the firm by increasing employee workload, recruitment, retention, and turnover costs (Harris and Reynolds 2003).

This study defines such negative effects of customer dysfunctional behavior on employees as internal service failure because this behavior is not stated at job description and illegal.

However, this research does not define dysfunctional customer behaviors that are legal as internal service failure because employees are usually expected to deal with this type of customers and most of the cases that is their job. However, given the significance of employees for providing superior service to customers, they need recovering when internal service failure occurs, and some authors maintain that management has an internal service recovery obligation (Bowen and Johnston 1999). Because of the central role managers play in the workplace, this study argues that managers should recognize the expectations of employees toward internal service recovery and help employees recover fully from the negative effects associated with internal service failure. Managers can provide customers with coping abilities and strategies that have the potential to reduce the damage caused by dysfunctional customers.

2.2 Internal Service Recovery

In this study, internal service recovery is defined as the behaviors of managers to mitigate or repair the damage to employees who directly handle illegitimate dysfunctional customers. Because research has not previously identified the internal service recovery phenomenon, this study began with an overview of service recovery literature and then conducted exploratory in-depth interviews with 5 managers and 25 frontline employees from several service firms.

Prior studies have examined various types of service recovery (see Appendix). In order to provide a unified framework of service recovery, the current research this literature and categorize them into four dimensions. This study then applies these dimensions to internal service recovery because the way customers recover from service failure is similar to that of internal customers recover from internal service failure under the paradigm of internal marketing (Berry 1981; Bowen and Johnston 1999; Gronoos 1981).

Most of these individuals voiced the need for emotional support from managers when employees attempt to recover from problems with dysfunctional customers. This study terms this activity "social support." Consider the following statement:

"It would have been better if my manager understand my difficulties regarding dysfunctional customer. I just wanted him to listen to my problems. That's all."

"Sometimes, I felt that my employees needed some kinds of encouragment when they dealt with dysfunctional customer and in result felt negative emotions"

Some of the managers and employees interviewed believed that individual employees should be allowed a greater say in decision making regarding how to deal with dysfunctional customers. This involvement would demonstrate that employees are important partners when they interact with dysfunctional customers. This study terms this practice "participation in deci-

sion making." Consider the following statement:

"I am sure that I know dysfunctional customer behaivor than anyone else in this department. So, my voice should be delivered to the decision making on how to deal with these customers in the firm."

"It is employees themselves who deal with dysfunctional customers who actually face them not me. Thus, I think it would be necessary employees need to attend the meeting and their ideas should be shared among directors and managers. Employees know dysfunctional customers well so they know better than anyone else that the answer to the quetions such as how the company has to treat them."

Managers and employees also believed that employees need to have the power and authority to correct and handle the problem of dysfunctional customers and that understanding is growing among employers that employees have the right to handle dysfunctional customers by themselves, according to their experiences. Therefore, the firm should give employees the authority to solve dysfunctional customer-related problems. This study terms this practice "empowerment." Consider the following statement:

"I need the authoriy to handle dysfunctional customers on my own on the site. It would be too late if I have to wait the approval of my manager. My speedy response toward dysfunctional customer behavior will definitely contribute to increasing efficiency regarding how to deal with them."

"Sometimes I am not available when my employees need my approval regarding how to deal dysfunctional customer. I think it would be much better if employees are allowed to someting on their own to solve dysfunctional customer-related problems."

Finally, managers and employees believed that employees should be rewarded when they react well to dysfunctional customers. This study terms this practice "reward." Consider the following statement:

"I think it is fair that if I react well to dysfunctional customers, the company should provide me with a cash bous because I put an extra effort into solving dysfunctional customer-related problems."

"If the employees are rewarded for dealing effectively with dysfunctional customer-related problems, they should be rewarded for that. If not, the employees will perceive it as unfair and turnover behavior will be increased. I think it is right thing to do. Our team members should be rewarded for their extra efforts."

Therefore, drawing on the results of interviews and a review of extant literature, this study assumes that internal service recovery consists of four dimensions: social support, participation in decision making, empowerment, and reward. A review of the broader literature identifies and defines these four elements of internal service recovery.

2.2.1 Social support

One facet of internal service recovery is social support, which this study defines as functions managers perform for distressed employees (House 1981). More specifically, social support refers to emotional assistance managers provide when employees incur stress from dealing with dysfunctional customers. Investigators have hypothesized that social support has a stress-buffering effect, helping individuals redefine the potential for harm posed by a situation and bolstering their perceived ability to cope with the stressful event (i.e., dealing with dysfunctional customers), so that social support contributes to alleviating the negative impact of stress and enables the employee to meet the demands of stressful situations (Cohen and Wills 1985; Greenberg 2006; House 1981). This stress-buffering hypothesis is in keeping with the cognitive appraisal theory of stress, which stipulates that individuals' stress reactions can be attenuated by emotional support that helps them believe they can successfully reduce customer dysfunctional behavior or avoid it entirely (Greenberg 2006). Managers generally are in the position to provide this support, and employees may be expected to seek out their managers for support when unfavorable situations arise, such as when dealing with dysfunctional customers. Given that manager comments are highly salient to employees, managers can provide appropriate support, such as em-pathy, so that employees can recover fully from internal service failure (Greenberg 2006; Lewin and Sager 2008).

2.2.2 Participation in decision making

Participation in decision making reflects the extent to which employees are able to influence decisions regarding how to deal with customer dysfunctional behavior in their service encounters. Through employee participation in decision making, managers can better understand how a situation came about so that they are better able to improve procedures for dealing with customer dysfunctional behaviors. Participation may also result in more coping strategies and thus less dysfunctional customer-related employee stress (Bowen and Johnston 1999). According to the job strain model, employee decision latitude transforms stress into the energy of action by enhancing employee efficacy and ability to cope with a source of stress, thereby reducing frustration and strain (Jackson 1983; Karasek 1979). Similarly, consistent with Hertzberg's motivation-hygiene theory, participation in decision making is expected to satisfy employee higher-order needs such as self-actualization, fulfillment, and independence, which will in turn increase employee satisfaction and subsequently reduce the threat and anxiety caused by having to deal with dysfunctional customers (Miller and Monge 1986; Pereira and Osburn 2007).

2.2.3 Empowerment

Managers need to give employees power, control, and authority, so that employees can be recovered on the spot when things go wrong owing to customer dysfunctional behavior. Empowerment is distinct from participation in decision making. Although these two constructs share a democratic managerial approach by involving employees in tasks, participation in decision making focuses on involving employees in the decision making process whereas empowerment provides employees with power and control over some aspects of the task—in this study, customer dysfunctional behavior-related tasks (Niehoff et al. 2001). Empowerment is considered to be a potential buffer against the stress of dealing with dysfunctional customers because it increases employees' control of interpersonal encounters with dysfunctional customers and enhances their ability to cope with stressful effects of unsuccessful relationships with dysfunctional customers (Yagil 2006). Furthermore, since empowered employees have more control over their work, they can cope effectively with stress caused by having to deal with dysfunctional customers and they are consequently more likely to experience reduced dysfunctional customer-related stress (de Ruyter et al. 2001). Therefore, including empowerment as an integral component of internal service recovery is appropriate.

2.2.4 Reward

The effort‐reward imbalance model (Siegrist 1996) attempts to explain how reward reduces employee stress. A core premise of this model is that the employee's experience of an imbalance between high effort spent (e.g., coping with dysfunctional customers) and low reward (e.g., real wages) causes emotional distress, which can lead to employee stress because this imbalance violates expectations about reciprocity between cost and gains (Siegrist 1996). According to this model, reward consists of money, esteem or approval, and career opportunity (Siegrist et al. 2004). An example of a stress-creating effort‐reward imbalance in the context of this study would be having a job that requires ongoing exposure to customer dysfunctional behavior and dealing with these challenges very well without being offered any promotion prospects. If managers do not reward employees in instances of service failure, employees will not be able to recover by themselves and will not perform effectively as a result (Boshoff and Allen 2000; Bowen and Johnston 1999). Given the important role of employees for the success of the firm, and the emphasis the effort‐reward imbalance model places on reward, managers should reward and recognize employees to reduce stress caused by dealing with dysfunctional customers. In the present study, therefore, reward is considered to be one of the internal service recovery dimensions.

2.3 Equity Theory

Equity theory can explain employee responses to internal service failures and recoveries. More specifically, when employees experience internal service failure in terms of dysfunctional customer behavior, they take it as a loss. However, when managers attmept to make up for the employees' loss and provide a gain in terms of internal service recovery, it can be considered as fair and which in turn increase employees' psychological and behavioral outcomes such as employee satisfaction and employee loyalty (Liao 2007; Maxham III 2001; Smith et al 1999). Moreover, Blodgett et al. (1997) argue that the equity theory emphasizes a fair exhange between two parties so that each party to an exchange takes it for granted that he or she should receive an outcome in proportion to one's contributions to the exchange. In a internal service failure context, employees expect tangile and intangle rewards, their input into decision, empowerment to resolve internal service failure quickly, and social support in the resoultion of internal service failure. In these ways, employees try to compensate for their loss caused caused by internal service failure and achieve fairness. Finally, these equity evaluations positively influence employee satisfaction and employee loyalty.

Equity theory is also argued to explain the motivation and cognitive process of weighing sacrifices and against rewards. Therefore, Maxham III (2001) argues that an equity theory could explain why customers experience service failure and how employees recover customer service failure. In the context of this study, equity theory could be adopted to explain employee responses to internal service failure and recovery efforts provided by their manager. In other words, employee ratings of failing firms will increase when they offer fair recovery efforts. Therefore, this study view equity theory as a theoretical rationale for the formation of key psychological (i.e., employee satisfaction) and behavioral (i.e., employee loyalty) outcomes in a internal service failure and recovery settings.

Ⅲ. Research Hypotheses

This study addresses two key questions, the answers to which could be helpful in recovering employees from internal service failure. First, what levels of internal service recovery efforts by managers do employees need to recover from internal service failure? Second, what is the appropriate level of internal service recovery effort for dealing with a particular customer dysfunctional behavior?

Different levels of internal service recovery efforts have different impacts on employee attitude and behavior, and the use of appropriate internal service recovery efforts is crucial. For example, if employees perceive that the com-

pany or service manager does not engage in appropriate actions to resolve an internal service failure, such as having to deal with dysfunctional customers, their resulting negative attitude can become much stronger and their performance will be lower. Internal service recovery is critical because employees perceiving poor recovery efforts may dissolve the employee – company relationship and leave the company. Such employee turnover can be highly costly. Therefore, management needs to understand the appropriate level of internal service recovery effort that will successfully convert a problematic failure situation into a favorable employee encounter, thus enhancing employee satisfaction and restoring employee loyalty.

According to equity theory (Homburg and Fürst 2005; Smith et al. 1999; Tax et al. 1998), an employee's perception that the company does not fully make an effort to recover them from internal service failure will lead to a perception of injustice and a negative evaluation of the internal service encounter. A number of researchers have employed equity theory to explain customer responses to service failures and recovery efforts (Maxham III 2001; Maxham III and Netemeyer 2003; Maxham III and Netemeyer 2002). This study argues that employee ratings of failing firms will increase when they offer fair recovery efforts. As such, the present study views equity theory as a theoretical rationale for the formation of key psychological (i.e., employee satisfaction) and

behavioral (i.e., employee loyalty) outcomes in an internal service recovery setting. More specifically, it seems logical that poor internal service recoveries can further upset an already displeased employees. Given an internal service failure, employees may seek support for perceived damage cause by the internal failure. If customers are not satisfied with low level of internal service recovery, they may feel more annoyed than they were subsequent to the internal failure. Therefore, low internal service recovery levels will not raise the employee's evaluation of an internal service encounter. However, moderate to high internal service recovery levels will raise the employee's evaluation of the internal service encounter. Therefore, the following hypothesis is offered:

Hypothesis 1a: Employee satisfaction will be greater than their post-internal service failure after a moderate or high internal service recovery is experienced, but not after a low internal service recovery.

Hypothesis 1b: Employee loyalty will be greater than their post-internal service failure after a moderate or high internal service recovery is experienced, but not after a low internal service recovery.

Employee evaluations of an internal service encounter will differ significantly depending on the level of internal service recovery employees perceive. More specifically, a high level of in-

ternal service recovery will result in large increases in employee perceptions, with moderate recoveries resulting in greater increases than low recoveries. Hence, the following hypotheses are offered.

Hypothesis 2: A high internal service recovery will result in higher (a) employee satisfaction and (b) employee loyalty than a moderate or a low internal service recovery.

Hypothesis 3: A moderate internal service recovery will result in higher (a) employee satisfaction and (b) employee loyalty than a low internal service recovery.

Ⅳ. Method and Procedure

A pre-test, post-test between-subjects experimental design was developed. Participants were 166 part-time students who were working full-time. The average age of the participants was 36.74 years, and 57.50% of them were female. The average length of employment was 13 years. Participants were randomly assigned to one of four groups of approximately equal size. Three of the groups were subjected to an experimental situation involving an internal service failure, while one group was not exposed to failure, thereby acting as a control group. Prior to exposure to experimental or control conditions, participants were asked to

read an introductory scenario providing a brief explanation of a hypothetical working history at bank.

The bank industry is an ideal context for this study because of the sector's features such as extended and close customer–employee contact and a broad and varied range of dysfunctional customer behavior on a regular basis. Therefore, this industry is argued to be a particularly potent environment in which to study the dynamics of internal service failure (e.g., dysfunctional customer behavior) and internal service recovery (Daunt and Harris 2011; Reynolds and Harris 2009). In addition, it is the one of the most cited types of retailers from the dyfunctional customer behavior related experiments (McColl-Kennedy et al. 2009).

In the scenario, they were asked to imagine that they had been working at ABC bank for three years. Their work is to deal with usual bank tasks and be responsible for assisting customers who visit the bank. They were told that they are satisfied with the bank. This initial vignette was offered to each of the four groups to establish baseline levels for the dependent variable that were equal across all four groups. After reading this baseline scenario, participants were asked to answer questions regarding employee satisfaction and employee loyalty. Employee satisfaction and employee loyalty were measured with four and three items, respectively. Consistent with the conceptualization of this construct, employee satisfaction

items represent feelings of the employee about the job, which reflects overall evaluation of working for the company. These items were adapted from Rich (1997) and Homburg and Stock (2004). The construct employee loyalty reflects the employee's intention to remain with the company and willingness to recommend the company as a good place to work. The purpose of measuring these variables at Time One was to determine whether these variables differed prior to exposure to the internal service failure scenarios.

Once participants had finished answering questions, they were instructed to turn the page and read another scenario describing working situations. For the control group, the scenario presented a typical satisfactory working experience. For the other three groups, the scenario presented an identical internal service failure. In the scenario, the employee encountered a customer who requested a refund for the loss of an investment. However, the employee found that the bank was not responsible for the loss of the investment and politely explained this fact to the customer. The customer became irate and yelled at the employee and destroyed bank property.

After reading the scenario, participants were asked to answer questions regarding employee satisfaction and employee loyalty, which are the same scale items answered at Time One. The purpose of measuring these variables at Time Two was to check the validity of the internal service recovery manipulation. The manipulation check indicates whether participants correctly perceived an internal service failure when it occurred in the scenario.

Following the internal service failure scenario, participants were directed to turn the page and read a scenario describing one of three levels of internal service recovery by manager. The three levels exemplified high, moderate, and low internal service recovery. In the high internal service recovery condition scenario, the manager provided the employee with emotional assistance and helpful advice on how to cope with such dysfunctional customers. Further, the employee was able to recommend and suggest various ideas on how to deal with dysfunctional customers and the manager accepted most of them. In addition, the employee was given power, control, and authority so that he or she could be better recovered on the spot when things went wrong owing to dysfunctional customers. Finally, the employee was rewarded with recognition and a bonus for his or her effort in dealing with the dysfunctional customer.

In the moderate internal service recovery condition scenario, the manager provided the employee with emotional assistance and some advice on how to cope with such dysfunctional customers. However, the advice was somewhat vague and abstract. The employee was able to recommend and suggest some ideas on how to deal with dysfunctional customers, but the manager accepted only some of the ideas. In addi-

tion, the employee was given limited power, control, and authority so that he or she could be recovered on the spot when things go wrong owing to dysfunctional customers. Given the relatively small amount of power, the employee was expected to, at best, be only partly recovered from the damage caused by dysfunctional customers. Finally, the employee was promised a reward in the form of recognition and a bonus for effort in dealing with dysfunctional customers, but when the reward would be implemented was left very unclear.

Lastly, in the low internal service recovery condition scenario, the manager did not provide the employee with adequate emotional assistance. The manager was unable to understand the employee's difficulties regarding dysfunctional customers and left the employee to resolve the problem. Furthermore, the manager would not listen to the employee's recommendations or suggestions on how to deal with dysfunctional customers and rejected most of the ideas. In addition, the employee had no power, control, and authority, so he or she could not respond well to dysfunctional customers on the spot. Finally, the employee could not expect a reward in the form of recognition and a bonus for dealing with dysfunctional customers. These internal service recovery scenarios were ranked by 20 business school graduate students in terms of the perceived level of internal service recovery. All the students correctly classified the high internal service recovery effort as

high, the moderate internal service recovery effort as moderate, and the low internal service recovery effort as low.

After reading this scenario, participants were asked to answer questions regarding employee satisfaction and employee loyalty. The purpose of measuring these variables at Time Three was to determine the extent to which the dependent variables of employee satisfaction and employee loyalty actually changed in response to an internal service recovery. At the end of Time Three measurement, questions concerning the realism of experimental design items were included. More specifically, the realism of experimental design was checked using two items: "I could imagine an actual workplace situation described in the scenario," and "I believe that the described situation could happen in a real workplace" with seven-point scales ranging from "very unlikely" (1) to "very likely" (7) (Wagner et al. 2009).

V. Results

5.1 Data check: Time One

MANOVA was used to assess the differences in levels of employee satisfaction and employee loyalty prior to the internal service failure. The results of MANOVA testing show that no significant differences were found in the groups'

employee satisfaction and employee loyalty prior to an internal service failure recovery (Wilks' lambda = .97, F = .84, $p > .05$). At the univariate level, no significant difference was found in the groups' employee satisfaction ($M_{high\ recovery}$ = 4.80, $M_{moderate\ recovery}$ = 4.48, and $M_{low\ recovery}$ = 4.91; F(3, 162) = .67, $p > .05$) and employee loyalty ($M_{high\ recovery}$ = 5.44, $M_{moderate\ recovery}$ = 5.21, and $M_{low\ recovery}$ = 5.24; F(3, 162) = .50, $p > .05$). Therefore, employee satisfaction and employee loyalty did not significantly differ among the four groups prior to the internal service failure.

5.2 Manipulation check: Time Two

The purpose of this analysis was to assess whether employee satisfaction and employee loyalty decreased across experimental groups following an internal service failure. As Table 1 shows, the means of employee satisfaction and employee loyalty decreased significantly after the internal service failure. Therefore, the results showed that participants correctly perceived an internal service failure when it occurred in the scenario.

5.3 Hypotheses tests: Time Three

The results suggest that participants perceived the experimental design as realistic ($M_{composite\ score}$ = 5.80, SD = 1.34). H_1 predicted that levels of employee satisfaction and employee loyalty will be greater than their post-internal service failure levels after a moderate or high internal service recovery effort. The top portion of Table 2 shows that the levels of employee satisfaction and employee loyalty did increase when a high or moderate internal service recovery was achieved ($p < .01$).

〈Table 1〉 Paired Sample t-tests between Time One and Time Two: Manipulation Check

	Time One Mean	Time Two Mean	Mean Difference	Standard Error	T Value
High Internal Service Recovery Group					
Employee Satisfaction	4.80	4.03	.77	.19	4.07***
Employee Loyalty	5.44	4.79	.65	.19	3.43***
Moderate Internal Service Recovery Group					
Employee Satisfaction	4.48	3.21	1.26	.16	7.67***
Employee Loyalty	5.21	4.01	1.20	.19	6.44***
Low Internal Service Recovery Group					
Employee Satisfaction	4.91	3.18	1.73	.19	9.33***
Employee Loyalty	5.24	3.83	1.41	.21	6.65***

*** $p < .001$.

〈Table 2〉 Paired Sample t-tests between Time Two and Time Three: Hypotheses Tests

	Time Three Mean	Time Two Mean	Mean Difference	Standard Error	T Value
High Internal Service Recovery Group					
Employee Satisfaction	4.96	4.03	.93	.21	4.41***
Employee Loyalty	5.25	4.79	.45	.17	2.59**
Moderate Internal Service Recovery Group					
Employee Satisfaction	3.79	3.21	.57	.15	3.58***
Employee Loyalty	4.37	4.01	.37	.14	2.61**
Low Internal Service Recovery Group					
Employee Satisfaction	3.47	3.18	.29	.19	1.49
Employee Loyalty	4.06	3.83	.23	.23	1.01

** $p < .01$.
*** $p < .001$.

Hence, H_1 is supported. H_2 and H_3 postulated that significant differences would occur in employee satisfaction and employee loyalty among groups receiving various levels of internal service recovery. Table 3 presents the means and standard deviations. In Table 4, the results of MANOVA testing show group differences exist among the dependent variables at the multivariate level (Wilks' lambda = .54, F = 10.56, $p < .001$). Follow-up ANOVA with in-

〈Table 3〉 Cell Means for Time Three

	High Recovery	Moderate Recovery	Low Recovery
Employee Satisfaction	4.96 (1.49)	3.79 (1.46)	3.47 (1.42)
Employee Loyalty	5.25 (1.57)	4.38 (1.44)	4.06 (1.47)

Note: Standard deviations are in parentheses.

〈Table 4〉 MANOVA and ANOVA Results for the Dependent Variables

	MANOVA Results		Univariate F values	
Independent Variables	Wilks' l	F value	Employee Satisfaction	Employee Loyalty
Internal Service Recovery	.54	10.56***	12.04***	7.053**

** $p < .01$.
*** $p < .001$.

ternal service recovery as the independent variable and employee satisfaction and employee loyalty as the dependent variables showed a significant main effect for internal service recovery ($F(2,120) = 39.18$, $p < .001$), for employee satisfaction ($F(2,120) = 12.04$, $p < .001$) and for employee loyalty ($F(2,120) = 7.05$, $p < .01$). To determine where the mean difference occurred in the dependent variables, Scheffé's test was performed between each pair of internal service recovery groups. Regarding employee satisfaction, a significant difference was not found between the high and moderate level internal service recovery groups ($p > .05$). Regarding employee loyalty, significant differences were not found between the low and moderate level internal service recovery groups ($p > .05$) and between the high and moderate level internal service recovery groups ($p > .05$). Except for these three mean differences, all other hypothesized mean differences across all other dependent variables between internal service recovery levels were significant ($p < .05$), which partly supports H_2 and H_3.

Ⅵ. Discussion

6.1 Theoretical Implication

This study demonstrates that diverse levels of internal service recovery can have a differ-

ent impact on employee evaluation. For example, a low internal service recovery effort is rarely helpful in increasing employee ratings of satisfaction and loyalty. Results show that only high and moderate internal service recovery efforts increase employee satisfaction and loyalty. Furthermore, this study shows that the higher the internal service recovery, the greater the employee satisfaction and loyalty, indicating that investigating internal service recovery is worthwhile.

This study also underscores the importance of internal service recovery in the frontline employee setting. The effects of different levels of internal service recovery on employee satisfaction and employee loyalty were examined to find an optimal level of internal service recovery with regard to employee performance. The results offer several contributions to extant literature. First, this investigation addresses a phenomenon that has been relatively understudied thus far—internal service recovery—and uncovers some potentially key outcomes of internal service recovery in the context of employee internal service failure caused by dysfunctional customers in the service encounter. The internal service recovery construct has not been adequately measured, and little empirical work has been done to understand its connection to related constructs and outcomes. This research begins that work. This study introduces the concept of internal service recovery and suggests that employees as internal

customers deserve to internal service recovery attention from managers and customers. The findings of this study show that employees also experience internal service failure just like customers experience service failure so that managers could implement the similar steps of service recovery internally with employees to help them recover and increase their satisfaction and loyalty. The results of this study confirm that social support, participation in decision making, empowerment, and reward are useful ingredients in this process.

Given that employees play an important role not only in service value co-creation but also during service recovery, a key challenge for employees is to determine to what degree internal service recovery drives employee outcomes. Therefore, this research analyzes whether an internal service recovery by a manager has an optimum level with regard to employee perceived justice and employee outcomes. The findings reveal that a low level of internal service recovery effort is rarely helpful in increasing employee outcomes, which suggest that a low level of internal service recovery effort may negatively influence employee outcomes. More specifically, a low level of internal service recovery may translate into lost profits throguh employee disatisfaction and employee turnover. Given that it costs less to keep current employees than it does to hire and train new ones, a low level of internal service recovery may also increase a firm's administration costs associated with recruiting new employees, which in turn lead to decreas a firm's profit.

Further, the results of this study suggest that the higher the level of internal service recovery, the greater employee outcome. Therefore, an important finding of this study is that the perspective of "the more the better" is preferable to an optimal level approach in the context of internal service recovery. If the results show that there is not a significant difference in employee satisfaction and employee loyalty between groups receiving high and moderate service recoveries, a firm may not benefit from expending internal recovery efforts beyond the moderate level. In other words, the optimal level of internal recovery effort might be the moderate level. However, the current research clearly shows that spending resources in terms of money and effort into internal service recovery will be always profitable.

6.2 Managerial Implications

The findings of this study offer managerial insights into how to recover internal customers —employees—from the negative feelings they may experience in internal service failure situations. Managers who design internal service recovery strategies should understand the complexity of employee preference for recovery strategy attributes. The right strategy will meet all the needs of all parties involved, including management, employees, and customers.

In addition, management should ensure that managers engage in these specific internal service recovery behaviors when handling employee complaints. Toward this end, job descriptions for service managers should include internal service recovery behaviors or performances and explicitly outline these role expectations for managers. Additionally, decisions with respect to performance evaluations, promotions, and salary increases should be based on how well managers exhibit internal service recovery related behaviors. In this vein, management needs to consider various methods of improving manager performance evaluations, such as the use of role-playing scenarios and videotaped sessions, training in the use of rating scales, and use of field notes to provide concrete behavioral indicators to help identify internal service recovery by the manager.

More specifically, managers need to be trained to foster intimacy with their employees in order to provide highly qualified social support to them so that they can cope with internal service failure well. This might include the traing that aims to enhance emotional intelligence. Individuals with higher emotional abilities are argued to possess a greater capacity to perceive, use, understand, and manage emotions in others which facilitates a greater ability of providing social support to employees by managers (Kong, Zhao, and You 2012). Managers may also encourage employees to speak up when they feel they suffer internal service failure.

Managers also need to be trained to listen to what their employees are talking about their experiences with regards to internal service failure. Furthermore, managers let employees know their ideas actually affect decision making regarding how to deal with internal service recovery (Somech and Drach-Zahavy 2013). In that way, employees are more willing to speak up to their managers.

With respect to empowerment, previous studies show that employee empowerment can be fostered by empowering manager behaviors that encourage employees to engage in empowerment behaviors. Thus, in order to secure high levels of employee empowerment, organizations should focus on manager selection and development to ensure that empowering manger behaviors are performed (Gao, Janssen, and Shi 2011). Finally, a firm needs to establish a rewarding climate in proportion to the time and efforts that employees put into dealing with internal service failure. By doing so, employees are motivated to proactively deal with internal service failure and internal service recovery will work.

Another important managerial implication from this research is that effective management of internal service recovery may have strategic benefits. The results of this study have economic implications for management. In particular, managers might hesitate to spend additional resources to recover internal service failure because they think a recovery threshold may exist, with recoveries above this level going

unnoticed or unrecognized by the employee. Therefore, managers may tend to provide moderate levels of internal service recovery to their employees. However, this study shows that a greater recovery effort is always more valuable. Thus, the management and mangers need to spend resources heavily to recover internal service failure in every way possible.

6.3 Limitations and Future Research

Although this study provides significant empirical and theoretical insights, several limitations are worth noting. First and most significantly, all variables were measured using self-reports, which increases the likelihood that variance shared among measures due to the use of a common method may have artificially inflated the observed relationships. To increase confidence in the findings future research should replicate this study using other sources of internal service recovery (e.g., mangers' or supervisors' reports or objective data) as well as employee outcomes (e.g., customer, peer or supervisor reports and objective data).

Secondly, this study focuses on overall internal service recovery. If this study focused on individual dimensions of internal service recovery, more implications in terms of theory and practice could be obtained. In other words, the implications from the study are at best that managers should do everything very well, which is less helpful to practice compared to individual

dimensions-based analyses. Decision making with respect to resource allocation should be based on priority. For that reason, future research should analyze the effect of the individual dimensions of internal service recovery on employee outcomes.

A third limitation is that this study does not examine the moderating role of failure context, future study could considers failure magnitude and frequency as potential moderators. Plausibly, failure type has a direct effect on employee justice judgments. More specifically, in an outcome failure, the firm does not perform the core internal service to its employees (e.g., inappropriately rewarding them for dealing with dysfunctional customers), whereas in a process failure, the delivery of the core internal service is flawed (e.g., the supervisor treats employees rudely during meetings). Thus, further work could analyze the additional moderating effects of a failure type in the relationship between internal service recovery and employee outcomes. In addition, it would be worthwhile to study the impact of internal service recovery attributions in determining employee outcomes. For example, an interesting research avenue would be investigation of the interaction of employee perceived likelihood of reoccurrence (i.e., stability) and responsibility for the recovery (i.e., locus) to influence employee outcomes.

Additional studies could investigate the effect of another source of internal service failure, such as other employees or supervisors. More

specifically, dysfunctional employee behavior or dysfunctional supervisor behavior can be a potential source of employee stress. Perhaps the most fruitful area for research is the investigation of the relative impact of the potential different sources of internal service failure on employee perceived justice. A question such as "which ones cause relatively more severe damage to employees" would be worthy of study because the answer could help in identifying areas requiring action to improve perceived employee justice as well as in guiding resource allocation decisions. Additionally, knowledge of the different sources of internal service failure allows management to set priorities for improvement efforts and decide about resource allocation.

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〈Appendix〉

Internal Service Recovery Dimensions Originated from Service Recovery Attributes

Dimensions	Attributes
Social support	Apology (Bell and Zemke 1987; Biter et al. 1990; Liao 2007; Roggeveen et al. 2011; Smith et al. 1999 Empathy (Bell and Zemke 1987)
Participation in decision making	Explanation (Biter et al. 1990; Liao 2007) Information (Boshoff and Allen 2000)
Empowerment	Response speed (Boshoff and Allen 2000; Smith et al. 1999) Correction (Hoffman et al. 1995; Kelley et al. 1993) Refund (Boshoff and Allen 2000; Kelley et al. 1993)
Reward	Discount, Coupon, & Compensation (Bitner et al. 1990; Boshoff and Allen 2000; Hoffman et al. 1995; Kelley et al. 1993; Roggeveen et al. 2011; Smith et al. 1999)