



# A little bit more value creation and a lot of less value destruction! Exploring service recovery paradox in value context: A study in travel industry



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## ABSTRACT

Service failure recovery, recovery strategies, and service recovery paradox have always been among the most controversial discussions of services marketing especially in travel and leisure researches. Although value creation is proved as an effective factor in service recovery, it is widely neglected on service recovery paradox (SRP). Most of the previous literature only investigated the role of regular recovery strategies (e.g. compensations, apology, explanation, etc.) in the service failure recovery and service paradox, and some others also engaged the value creation in this process as complementary option. This study attempts to suggest a novel approach for the concept of service failure recovery using a look to the past. Two experiment and field experiment studies were performed to examine the role of value creation, value destruction, and compensations in failure recovery and service failure paradox occurrence. The results indicate that while recovery per se doesn't cause service paradox, utilizing value creation leads to this phenomenon. In addition, results reveals destructive impact of value destruction on recovery strategies so that it counteract regular recovery strategy's effect in some cases. Managerial implications and discussion on results are also presented in the last section of the study.

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## 1. Introduction

In today's highly competitive and subtle markets, firms seek to offer best quality and services to gain customer satisfaction. Moreover, they seize upcoming threats, such as service failure, product deficiency, and bad quality and turn them to opportunities to achieve a higher level of customer satisfaction. In this regard, firms rely on value creation, as a new concept in this filed, to improve customers' experience (Grönroos & Voima, 2013; Grönroos, 2011a, 2011b; Vargo & Lusch, 2008) making them more successful compared to firms which ignore customer's role in service encounter. Thus, a service failure can be either a threat to downfall or an opportunity to promote.

In recent years, increased cost of attracting new customers and

profitability of sustaining old customers have given rise to a host of studies concerning service failure and service recovery strategies (Baker, Meyer, & Johnson, 2008; Michel, Bowen, & Johnston, 2009; Weun, Beatty, & Jones, 2004). Some studies focused on effects of service recovery on post-recovery evaluation such as satisfaction, repurchase intention, and negative word of mouth (NWOM) to measure their effectiveness (Hocutt, Bowers, & Donovan, 2006; Magnini, Ford, Markowski, & Honeycutt, 2007), while others measured effectiveness of customer perceived justice after a failure (Blodgett, Hill, & Tax, 1997; del Río-Lanza, Vázquez-Casielles, & Díaz-Martín, 2009; Sparks & McColl-Kennedy, 2001). However, service recovery paradox was introduced as a weird concept in service marketing literature that arouse different reactions and attracted the attention of managers as well as researchers (de Matos, Henrique, & Alberto Vargas Rossi, 2007). The idea of service recovery paradox holds that an effective failure recovery significantly promotes post-recovery evaluations (Hart, Heskett, & Sasser, 1990). Similarly, studies on service recovery paradox demonstrated that customer participation can be embedded in failure recovery process (Chan, Yim, & Lam, 2010; Karande, Magnini, & Tam, 2007). Customer participation was then

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developed by Vargo and Lusch (2004, 2008) into value co-creation by firms and customers. They stated that firms are not the only player in the process of value creation since they only provide value and customers are involved in value creation since they exchange firm value through money, received services, etc.

Grönroos and Voima (2013) criticized one-dimensional views on value co-creation and stressed that customers are real initiators of value co-creation and firms only facilitate it. It is also the customer that determines value. In other words, value co-creation is worthless for the customer if he is not involved in it, no matter how important it is for the firm. The authors suggest that value co-creation be replaced by value creation since co-creation is not elaborately defined and is hard to be implemented. There are numerous studies that investigated the role of co-creation in service recovery and confirmed its effectiveness in the recovery process (Dong, Evans, & Zou, 2008; Gohary, Hamzulu, & Alizadeh, 2016; Gohary, Hamzulu, et al., 2016; Roggeveen, Tsiros, & Grewal, 2012; Xu, Marshall, Edvardsson, & Tronvoll, 2014; Xu, Tronvoll, & Edvardsson, 2014). Nevertheless, too much enthusiasm with co-creation made some critics disavow the idea as leading to a sort of co-destruction (Echeverri & Skalen, 2011; Plé & Chumpitaz Cáceres, 2010; Smith, 2013). They argued that co-destruction negatively influences the process of failure recovery. This calls for a new approach to co-creation as implied by Grönroos and Voima (2013). They confirm results by Vargo and Lusch (2008) but hold that customers are real value creators and firms mostly facilitate it. Moreover, Grönroos and Voima believe that firms can actively engage in co-creation process and incorporate customers in it. Finally, they state that value is exclusively determined and perceived by customers and is accumulated in co-creation.

Studies on failure recovery mostly focus on cash recovery, fast complaint handling, appropriate interaction with customers, and share of information (Choi & Choi, 2013; Maxham, 2001). These studies reveal that each action performed by firm in recovery procedure is perceived as a certain dimension of justice. For example, customers generally perceive tangible and financial compensations and employees' efforts to problem solving as distributive justice, following up the problem and fast consideration of failure related to procedural justice and finally, apology and employee's courtesy represent interpersonal justice (Mostafa, Lages, Shabbir, & Thwaites, 2015). Almost all studies on service recovery paradox confirm that these factors improve post-recovery evaluation (de Matos et al., 2007), neglecting co-creation in studying service recovery paradox and reporting inconsistent results (Michel & Meuter, 2008).

The present study evaluates effects of value creation and value destruction on the process of failure recovery and service recovery paradox. In study two, we examine the role of value creation and value destruction alongside with common recovery strategies (financial compensations, apology, courtesy, etc) on service recovery paradox.

The study is conducted in two phases. In the first phase, four groups (three control and one experimental) were participated and evaluated using scenario and role-playing as typical methods in social researches that have high internal validity (Bitner, Booms, & Tetreault, 1990; Brown, Cowles, & Tuten, 1996). The second phase is a field experiment which has higher external validity (Shadish, Cook, & Campbell, 2002).

## 2. Literature review

### 2.1. Service recovery

Gronroos (1990) defines service recovery as a set of measures taken by a firm to address the complaining customers' perception

of service failure. A successful failure recovery increases the rate of customer retention and loyalty (Hart et al., 1990; Kwon & Jang, 2012). Failure recovery is simply how a firm uses a second chance to make a new impression of itself (Carson, Eden, & Roe, 1998) and includes a service provider's response to failure (Weun et al., 2004). The consequences of a service failure might be very dangerous to the firm. Hence, insufficient service recovery leads to a decline in customer's confidence, loss of customers, negative WOM, and increases costs of customer retention and attraction (Boshoff & Leong, 1998). Obviously, in failure recovery, the firm needs to take specific objectives into account. However, its immediate and long-term objectives may be different. The immediate objective of failure recovery is to satisfy the dissatisfied customers, and more importantly, to develop strong relationships with customers. After a successful failure recovery, customers may show a higher sense of commitment to the firm as if no failure has occurred (Ha & Jang, 2009). In the first stage, the purpose of a service firm is to restore customer satisfaction, at least to the initial levels, and to prevent the spread of negative WOM. Nevertheless, the future objective of the firm is to develop relationships with customers, achieve customers' loyalty, and make customers spread positive WOM.

Furthermore, it has also been suggested that effective service recovery had led to higher behavioral intentions compared to service that had been correctly performed on the first time (Kau & Loh, 2006). The term "service recovery paradox" has been used to describe the anecdotal finding that customers who experience product failures followed by strong recoveries may be more satisfied than had the failures never occurred (Priluck & Lala, 2009). This phenomenon was first discussed by Etzel and Silverman (1981). They claimed that a person who experiences an effective complaint-handling can become the best customer of the firm (Michel & Meuter, 2008). Magnini et al. (2007) claim that service paradox was first innovated by McCollough and Bharadwaj (1992), implying that after facing a service failure and subsequently its high recovery, customer satisfaction will be even more than it was prior to the failure. A brief review on the important researches conducted on service failure paradox is given below. Finally, Table 1 presents the review of recent researches in context of service recovery paradox.

### 2.2. Value creation and value destruction in service recovery

The concept of customer participation and customer voice in service recovery have been extensively studied in the past (e.g. McColl-Kennedy, Daus, & Sparks, 2003; Youngdahl, Kellogg, Nie, & Bowen, 2003). Studies demonstrate that behavioral and psychological responses had significant and positive relationships with customers' perceptions of products and services as a result of decision making (Mattila & Cranage, 2005). These findings also indicate that when the received service is not as expected, offering a choice for service co-production leads to a higher level of satisfaction (Bendapudi & Leone, 2003). Further, Karande et al. (2007) introduced a new concept of customer voice and called it "recovery voice" which entails a service firm asking a customer (after a failure has occurred) what the firm can do to rectify the problem. They found that customers perceived greater procedural fairness when offered recovery voice, which resulted in a higher overall post-failure satisfaction.

This stems from the sense of empowerment and control perceived by customer in the failure recovery process (Gohary & Hamzulu, 2016). Thus, due to lack of clear explanation of value creation in service recovery, several definitions have been provided. First, Dong et al. (2008, p. 126) defined customer participation in service recovery as "the degree to which the customer is involved in taking actions to respond to a service failure". Then, Roggeveen

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