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Co-creation of service recovery: Utilitarian and hedonic value and post-recovery responses

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ABSTRACT

Based on the literature on customer value and service dominant (S-D) logic, this study suggests that hedonic and utilitarian value derived from co-creation of a service recovery contribute to perceived equity and affect toward the service recovery, which, in turn, enhance customers' repurchase intentions. A scenario-based survey approach was used to collect data from U.S. consumers ($N=330$). Results show that utilitarian value enhances both equity and affect toward the service recovery while hedonic value contributes only to equity. In addition, the findings reveal that both equity and affect toward the recovery are positively associated with repurchase intentions.

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1. Introduction

In response to growing attention to the concept of co-creation from marketers, research on the topic of co-creation is rapidly expanding to develop conceptual and empirical knowledge about co-creation (e.g., Gronroos, 2008; Prahalad and Ramaswamy, 2004; Vargo and Lusch, 2004; Yi and Gong, 2013). Co-creation refers to the process in which a consumer and a service provider jointly work, and co-creation of value represents joint creation of value by a consumer and a company (Pralhad and Ramaswamy, 2004). In practice, firms are actively seeking opportunities to engage and collaborate with customers. For example, they invite consumers to participate in various co-creation activities, ranging from offering input for advertising and new product development and customizing product designs and services to selling their designs to other customers (e.g., Nike, Lego, Kellogg, restaurants, and banks). In the current fast-paced, consumer-empowered business environment, firms see the co-creation strategy as an opportunity to develop a core competency of sustainable competitive advantage (Lusch et al., 2007; Vargo and Lusch, 2004).

Since Vargo and Lusch (2004) presented a seminal work on a paradigm shift in marketing from traditional goods-dominant logic (G-D logic) to service-dominant logic (S-D logic), the concept of value co-creation has spawned a wealth of academic discourse. However, it is a still young and growing research field, with the literature thus far being largely situated in four areas. First, much

research was conceptual, focusing on the development of co-creation models and clarification of relevant concepts, such as co-production, prosumption, consumer participation, and consumer empowerment (e.g., Lusch and Vargo, 2006a; Prahalad and Ramaswamy, 2004; Vargo and Lusch, 2004). Second, studies proposed different types of value dimensions unique to idiosyncratic consumption contexts (Chan et al., 2010; Roggeveen et al., 2012), inviting further empirical identification of co-creation value dimensions in different consumption-experience contexts. Third, empirical research tended to rely on outcomes of co-creation, such as customer knowledge, perceived quality, satisfaction, and loyalty (Auh et al., 2007; Bendapudi and Leone, 2003; Claycomb et al., 2001), thereby lacking an understanding of customers' perceptions of co-creation experiences and their effects on overall consumption experience. Finally, most studies focused on co-creation in successful exchange settings free of errors, yielding a need to approach co-creation from a different viewpoint, for example, as a service-recovery strategy (Dong et al., 2008; Roggeveen et al., 2012).

Thus, this paper addresses this void by exploring the role of customer evaluation of value derived from co-creation experiences in the context of a service failure and recovery. Co-creation establishes value via "the intersection of the offerer, the customer, ... and other value-creation partners" (Lusch et al., 2007, p. 11). Applying this notion to the setting of a service failure and recovery, we define co-creation of a service recovery as the joint creation of a service recovery through a series of interactions and dialogs between a customer and a service provider to identify a recovery solution that satisfies the customer's needs in the situation

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(Pralhad and Ramaswamy, 2004). We argue that the customer's participating in shaping or personalizing the content and solution of the service recovery via interactive collaboration with a company's representative creates value that helps alleviate negative effects of the service failure and contributes to favorable post-recovery responses. Therefore, the purpose of this study is to develop and empirically test a theoretical framework to explain how different dimensions of customer value emerging from co-creation of service recovery influence customers' overall post-recovery responses in terms of perceived equity, affect toward recovery handling, and repurchase intention.

2. Theoretical background and hypothesis development

2.1. Value co-creation and customer value

Value co-creation is a central concept in S-D logic. According to S-D logic, value is created when customers use products or services to satisfy their needs or wants, referred to as *value in use* (Lusch and Vargo, 2006a; Vargo and Lusch, 2004, 2008). This view emphasizes that value resides in a customer's interactions with a firm's offering, such as employees, facilities, goods, and services, rather than in the firm itself. Because every customer is unique in his or her consumption experience, skill, preference, and goal, value is subjective to a consumption situation (Vargo and Lusch, 2004). Thus, the customer is an essential part of the value creation process and is always a value co-creator (Lusch and Vargo, 2006b).

Unique aspects of value of co-creation are well encapsulated in Holbrook's conceptualization of customer value (Holbrook, 1999, 2006). Holbrook (1999) summarized the following key qualities of customer value: (a) "interactive" because it entails interactions between the consumer and the firm's offerings; (b) "relativistic" because it involves preferences among various products or services, varies across individual customers, and depends on their situations; and (c) "preferential" because it is often associated with preferential judgment, such as attitude, affect, and approach or avoidance. Along the same line, Holbrook and Hirschman's (1982) framework of consumption emphasizes the importance of the experiential or hedonic aspect of consumption, together with the goal-oriented, task-related, and utility-driven aspects of consumption. These conceptualizations of customer value gained empirical support. Many studies confirmed that customer value is a multi-faceted concept and features different typologies across various consumption contexts (e.g., Babin et al., 1994; Childers et al., 2001; Holbrook, 1999; Jones et al., 2006; Mano and Oliver, 1993; Nambisan and Baron, 2007; Sweeney and Soutar, 2001; Tynan et al., 2010). For example, Babin et al. (1994) revealed that shopping—a consumption experience—produces both utilitarian and hedonic value in which utilitarian shopping value concerns the task-related value of shopping (i.e., obtaining desired products or services in an efficient manner) and the hedonic shopping value related to the emotional value of shopping (i.e., the multisensory experiences of shopping, such as excitement and enjoyment).

Consistent with traditional customer value, co-creation value is also considered multifaceted. Perhaps not surprising, research on customer participation observed a dual dimensionality to the value of customer participation, with efficiency and usefulness (utilitarian) and enjoyment (hedonic) being primary benefits of customer participation in service (Bateson, 1985; Dabholkar, 1996; Rodie and Kleine, 2000). In a service recovery, the value of co-creation benefits both customers and service providers (Roggeveen et al., 2012). However, what specific value co-creation of a service recovery engenders and how it affects consumer post-recovery responses are relatively unknown and are the focus of this study. This study proposes that the dual-dimensionality of co-

creation would hold in a setting of co-creation of a service recovery, in which the two parties of a customer and a firm representative engage in a collaborative partnership to find the best solution for both of them.

2.2. Value of co-creation in service recovery

When a service failure occurs, a customer's complaint triggers a series of interactions between the customer and the firm or its representatives through which a resolution of the failure is derived and enacted to restore the firm's relationship with the customer (Liao, 2007; Smith et al., 1999). With co-creation of recovery, the interaction evolves into a collaborative engagement between two parties, enacting the recovery together to achieve greater value for the customer (Roggeveen et al., 2012). The goal of this collaboration is to produce an optimum resolution to remedy the situation (utilitarian value) in an emotionally pleasing and socially satisfying manner (hedonic value). Thus, we suggest that both the utilitarian and the hedonic values of co-creation of service recovery play important roles in customers' post-recovery responses.

First, utilitarian value of co-creation of recovery refers to a customer's evaluation of how efficient and useful co-creation of service recovery has been in meeting the customer's goal (Mathwick and Rigdon, 2004; Sweeney and Soutar, 2001). When co-creation of recovery occurs, both the company and the consumer actively exchange operant resources (e.g., information, knowledge, and skill; Lusch et al., 2007; Vargo and Lusch, 2004) from which co-creation reduces the uncertainty of the recovery outcome (Pralhad and Ramaswamy, 2004), allows the customer to make an informed choice (Mattila and Cranage, 2005), and eventually helps both parties create greater value (Dong et al., 2008; Gelbrich, 2010; Roggeveen et al., 2012). Thus, such a collaborative process should heighten perceived utility because the co-creating experience accomplishes the shared goal of resolving the issue.

Next, the hedonic value of co-creation of recovery captures a customer's appreciation of intrinsic, emotional, and social reward of the collaboration. In the context of co-creation of service recovery, hedonic value represents a customer's evaluation as to how meaningful co-creation of service recovery by itself has been socially or emotionally. More specifically, hedonic value emerges as two entities work together in a pleasant and respectful manner while having great flexibility to adapt the firm's service mix to meet the customer's preferences and idiosyncratic needs (Liao, 2007). Thus, empowering service representatives is a basic essential for a successful co-creation experience (Bitner et al., 1994, 1990; Pralhad and Ramaswamy, 2004). In the co-creation of service recovery setting, when the customer–employee interaction goes smoothly, the recovery can be viewed as a joyful and hopeful process (Chebat and Slusarczyk, 2005), with a customer making personal requests while an employee puts forth effort to customize service to this particular customer. Further, the customer becomes an agent of the recovery enactment, mobilizing necessary resources and reconfiguring the procedure and contents of the service recovery. Exercising such influence should be intrinsically gratifying because it provides feelings of mastery, competence, and efficacy over the impending harm caused by the service failure (De Charms, 1968; Schorr and Rodin, 1984). Thus, both utilitarian value and hedonic value are relevant to co-creation of recovery.

2.3. Consequences of co-creation of recovery: perceived equity, affect toward recovery, and repurchase intention

To examine how utilitarian and hedonic values of co-creation of recovery play a role in consumer behavior, this study focuses on three post-recovery reactions: perceived equity, affect toward recovery handling, and repurchase intentions. Perceived equity

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