Reconsidering Service Failures and Service Recovery Strategies: Introducing Mechanism of Value Restoration (MVR)

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Reconsidérer les défaillances des services et de stratégies de rétablissement du service:

Présentation de mécanisme de récupération du valeur (MVR)

Résumé:
Bien que la SDL (Service-Dominant Logic) soit une théorie de plus en plus présente dans la littérature marketing, les stratégies de rétablissement après une défaillance de service continuent d’être conceptualisées du point de vue de la GDL (Good-Dominant Logic). Cet article propose une conceptualisation différente des défaillances de service et des stratégies de rétablissement dans le cadre de la SDL. Ainsi, nous conceptualisons les défaillances de service comme des moments de co-destruction et les stratégies de rétablissement comme des mécanismes de récupération de valeur (MVR) en appliquant le modèle DART de Prahalad et Ramaswamy.

Mots-clés : Service-Dominant Logic, Défaillances de service, Stratégies de rétablissement de service

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Abstract:
Although Service-Dominant (S-D) Logic is an emerging school of thought in marketing literature, recovery strategies after service failures continue to be conceptualized under the good-dominant logic paradigm. This paper proposes a different conceptualization for service failures and recoveries strategies in the S-D Logic framework. Thus, we conceptualize service failures as co-destruction moments and service recovery strategies as Mechanism of Value Restoration (MVR) by applying Prahalad and Ramaswamy’s DART model.

Key-words: Service-Dominant Logic, Services failures, Service Recovery Strategies
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Introduction

“Effective recovery management requires starting with what we already know to be the key fundamentals to be achieved and then actually implementing them by an integrated approach based upon service logic, value and strategy-driven approaches....”, (Michel, Bowen, and Johnston, 2007, p. 267). In a recent article, Michel et al., (2007) argue that service recovery often fails due to the unresolved tensions found between the conflicting perspectives of customer recovery, process recovery, and employee recovery. They also notice the importance that managers should strive to integrate service recovery efforts based upon “service logic”. In the same vein Ringberg et al., (2007) identify three embodied cultural models (relational, oppositional, and utilitarian) that consumers apply to goods or service failures, while in parallel introduce adaptive service recovery diagnostics that enable providers to identify and respond to consumers’ varying recovery preferences. Smith, Bolton, and Wagner (1999) suggested that customers prefer to receive recovery resources that “match” the type of failure they experience in “amounts” that are commensurate with the magnitude of the failure that occurs. Are these signs for a shift?

Although Service-Dominant (S-D) Logic is an emerging school of thought in marketing literature, recovery strategies after service failures continue to be conceptualized under the good-dominant logic paradigm. This paper proposes a conceptualization for service failures and recoveries strategies under the perspective of S-D Logic framework and the co-creation of value. Thus, we re-conceptualize service failures as co-destruction moments and instead of various service recovery strategies extensively research in the literature, we propose an
integrated model for service recovery, the Mechanism of Value Restoration (MVR) by applying Prahalad and Ramaswamy’s (2004) DART model.

2. Literature Review

2.1 Value Co-creation vs. Value Co-destruction

After the seminal paper of Vargo and Lusch’s (2004) regarding the Service-dominant logic, a paradigm shift has been established with profound influence on marketing and management. Among others foundational premises authors suggested that customers are always co-producers because they “… always involve in the production of value by … continuing the marketing, consumption, and value-creation and delivery processes” (Vargo and Lusch, 2004, p. 11). Later, Vargo and Lusch, (2006; 2008) changed that premise from “The customer is always a co-producer” to “The customer is always a co-creator of value” due to the fact that the term “co-production” was a good-dominant logic term and a component of value co-creation (Vargo and Lusch, 2008).

The value is not new term and it has been examined. In that paper, we follow the definition of Vargo, Maglio, and Akaka (2008, p. 149) who define value as “an improvement in system well-being” which can be measured “in terms of a system’s adaptiveness or ability to fit in its environment”. They highlight the “central role of resources” to S-D logic and to the co-creation of value as well (Vargo and Lusch, 2011, p. 184). More specifically, value is co-created when service systems (for example individuals and organisations) integrate “operant resources” (the intangible resources that produce effects) and “operand resources” (those resources that must be acted on to be beneficial, such as natural resources, goods, and other generally static matter) in a mutually beneficial way, (Vargo et al., 2008). In line with this, researchers such as Grönroos (2008) argued that companies are not even co-creators of value but simple value facilitators trying to deliver value propositions. Consequently, value is co-
created during the interaction between customers and providers (Prahalad and Ramaswamy, 2004; Ramírez, 1999; Vargo and Lusch, 2004) who can actively and directly influence their experiences and therefore also their value creation (Grönroos & Ravald, 2011).

Despite the wide interest, there isn’t a consensus of how we can define the perceived value and if it is uni-dimensional or multi-dimensional construct. We accept the multi-dimensional nature of value and more specifically in that study we follow the consumption-value theory. More specifically, Sheth et al., (1991) identify five forms of value influence consumer choice behavior. These values can be categorized as functional, social, emotional, epistemic, and conditional. Functional value refers to the ability of alternatives in terms of functional, utilitarian or physical performance. Social value pertains to the congruency with norms of friends and social identity). Emotional value is related to positive and negative states (nostalgia for a specific brand; pride because of heritage). Epistemic value reflects the fact that some consumption are primary motivated by seeking of novelty, knowledge, boredom avoidance. Finally, conditional value is derived from temporal and situational value.

In the conceptualization of consumption process, Normann (2001) provides additional insight on two contrasting dictionary definitions: ‘’consume’’ means ‘‘destroy’’ or ‘‘use up’’ or ‘‘waste’’. By citing to Holbrook, (1987), Vargo et al., (2008) noted that in value co-creation, value is “ultimately derived with the participation of, and determined by, the beneficiary (often, the customer) through use (often called ‘‘consumption’’) in the process of acquisition, usage, and disposal” (Vargo et al., 2008, p.148). The nature of value-in-use instead is the extent to which a customer feels better off (positive value) or worse off (negative value) through experiences somehow related to consumption (Grönroos & Voima, 2013). Thus, value-in-use is grounded in the view of value as a utility, which emerges for the user during a consumption process (Becker, 1965).
Although, co-creation experiences are the basis for value creation (Prahalad and Ramaswamy, 2004), they may also have negative, destructive effects (Echeverri & Skålén, 2011). Based on the aforementioned conceptualization of co-creation of value, Plé and Chumpitaz Cáceres (2010) introduced the notion of Value Co-Destruction (VCD). They defined VCD as “an interactional process between service systems that results in a decline in at least one of the systems’ well-being” (Plé & Chumpitaz Cáceres 2010, p.431). They also argued that VCD process can result from accidental or intentional misuse of resources. In the same vein, Smith (2013) by using Hobfoll’s (1989, 2002) conservation of resources (COR) theory (describes how individuals experience and respond to loss of well-being due to stress – inducing resource loss), examines how failure to integrate and/or apply resources as expected by customers results in a process of VCD. She also noticed the importance of stress as a component of subjective well-being, as well as of others expressions (anger, sadness and anxiety), which comprise the negative components of subjective well-being. Given that service failure is a situation where the perceived level of stress is highly subjective (Tsarenko and Strizhakova, 2013) webridge the gap between service failure and value co-destruction by arguing that service failures are co-destruction moments.

Surprisingly, in a service failure context the concept of value co-creation has been examined as reactive strategy after the occurrence of a service failure (e.g Dong et al. 2008; Roggeveen et al., 2011) and as proactive strategy (Jong-Kuk et al., 2010) only in terms of participation (as a transaction). One of the purposes of this study is to approach the service failure concept in a (S-D) Logic context, by considering that service failures is a situation from which value is co-destroyed.

2.2 Service failures & Service Recovery
Service failures can be viewed as customers’ economic and/or social loss in exchanges (Smith et al., 1999) and may vary in gravity from being something serious, such as a food poisoning incident, to something trivial, such as a short delay (Kelley and Davis, 1994). Service providers endeavor to recover the balance by offering customers economic value in the form of compensation (e.g., a discount) or social resources (e.g., an apology) (Smith et al., 1999). Due to the fact that many academics and experts in the marketing field agree that it is more profitable for a firm to retain a customer than to recruit a new one (Hart et al., 1990; Maxham, 2001), to deal with service failures, services providers have adapted service recovery strategies.

Service recovery refers to the actions a company takes in response to a service failure (Grönroos, 1988) and has been a topic of great interest for marketing researchers and practitioners for decades. Poor service recoveries have been shown to exacerbate already low customer evaluations following a failure, producing a "double deviation" effect (Bitner, Booms, and Tetreault 1990; Hart, et al., 1990). On the contrary, an effective recovery is critical for firms because it not only can compensate for consumers’ losses but also can produce a "service recovery paradox" in which secondary satisfaction (i.e., satisfaction after a failure and recovery effort) is higher than prefailure levels (McCollough, Berry, and Yadav 2000; Smith and Bolton 1998). In line with this, the service recovery paradox (Etzel and Silverman, 1981) has shown that service recoveries can build loyalty faster than if no failure had occurred.

Because of the importance of executing effective failure recovery strategies, much research has been conducted in recent years to determine what constitutes effective recovery. However, all these recovery strategies (i.e., compensation, apology) are based on (G-D) logic because they focus on the specific transaction (purchased service and failure) instead of the perceived value search by the customers either at the specific transaction or generally form the
cooperation with the company/brand. This paper proposes a shifting of service recovery into a (S-D) logic concept by adopting Prahalad and Ramaswamy’s DART model, as well as the reconceptualization of service failures as co-destruction moments.

3. Conceptual Framework

3.1 Service failures as value co-destruction moments

The theoretical perspectives for this study are situated in the broader co-creation literature and especially the co-destruction stream that has been recently developed. In line with this assumption that consumers are always co-creators or co-destructors of value we argued that services failures aren’t something else than value co-destruction moments. Actually, we can generally conceptualized service failure process as co-destruction process and consequently to measure the “failure” in terms of “value loss”. By conceptualizing service failures through a S-D Logic, enables firms to understand better the customer perceived value which is actually under threat during the service failure. The thorough analysis and in depth understating of value co-destruction would consequently facilitate the improvement of service recovery strategies. More specifically, it is possible to lead to restoration propositions of higher value. In addition, it enables the effective usage of the appropriate resources from both parts (firms and consumers) during the service recovery phase.

The role of value, recourses and consumer well-being are crucial and central in the reconceptualization of service failure and service recovery literature. Firstly, based on the previous literature (Prahalad and Ramaswamy, 2004; Vargo et al., 2008; Plé & Chumpitaz Cáceres 2010; Echeverri & Skålén, 2011; Smith, 2013; Tsarenko & Strizhakova, 2013; Grönroos & Voima, 2013) we define service failures as “Value co-destruction process during interactions where potential value is characterized by a decreasing of perceived value, at least one of the systems, and the decline of a system’s well-being”. Value is co-created
during the interaction between the provider and the customer (Prahalad and Ramaswamy, 2004; Vargo and Lusch, 2004) and co-destroyed through the interactions between service systems (Plé & Chumpitaz Cáceres, 2010). When a service failure occurs some forms of consumption value (functional, social, emotional, epistemic, and conditional) are co-destroyed (Co-destruction-moment) in similar way that they co-created during the value co-creation.

For example, when a hotel is overbooked and consumers’ need a room in order to rest then the obvious value, the functional value of relaxing or sleeping is co-destroyed. If the reception service has a good management and react immediately may compensate the customer with a coupon of $20 in order to have a meal (other type of functional value) at the hotel’s restaurant or with an apology (emotional value). In each case compensation and apology do not restore the functional value of relaxing so even the customer accept the compensation/or the apology the expected value is lost (value co-destruction moment). In more complicated situations even the offering of a room in another more luxurious hotel than the one where room has been booked the expected value is possible not to be restored, because of different values priorities. For instance, if the customer perceived value is the social value (e.g to entertain with his friends in hotel’s swimming pool) and the management delivers a functional value (relaxing or sleeping), there is a co-destruction of customer’s perceived value (service failure).

This in line with Sheth et al (1991) who argue that functional value was not always the most important value dimension for, while functional and social values dominated the decision as to whether to use filtered or unfiltered cigarettes, emotional reasons were paramount in the decision to smoke. Similarly, Nordin and Kowalkowski (2010) stress that apart from the obvious functional and economic benefits, consumer search for emotional, social, ethical, and environmental dimensions when they evaluate the alternative offers in the market (Barnes 2003). Thus, we can argue that consumers search for different combinations of forms of value
consumption which are decreased or completely destroyed during the service failures and the identification of that “basket” of values should be our primary goal.

3.2 Mechanism of Value Restoration (MVR)

Existent recovery strategies and initiatives such as apology are based on a Good-Dominant Logic rather than a S-D Logic. This is why some times are appropriate and some other times are not. By applying S-D logic we suggest that a MVR in a service recovery context plays a major role instead of all the unintegrated service recovery strategies which have been already described in the literature. Effectiveness of service recovery attempts depends on consumers’ recovery expectations and consumers’ recovery preferences. Although, a considerable amount of literature argued that recovery initiatives (e.g., apology, empathy, compensation, replacement, explanation, timeliness, assurance of no recurrence), are indispensable in some cases but pointless in some others, we argue that the adoption of these initiatives depends on customer’s perceived value after a service failure and the providers’ ability to make the appropriate value propositions.

In order to recognize and make the indispensable value proposition after a service failure the MVR is enhanced by adopting the DART model of Prahalad and Ramaswamy (2004). The four components of the DART model: dialogue, access, risk assessment and transparency can be effectively adopted in the service recovery process and provide the fundamental basis for value restoration. We suggest that an appropriate combination of these components can also lead not only to value restoration but also to a new value co-creation. For example, if a flight canceled due to technical problems and the compensation from the airline is a booking in the business class for the next flight, this recovery strategy maybe fails to meet customer need, if the value for the customer is conditional (miss a professional meeting) or economic value (functional value). Thus, a MVR which is developed through the interaction between
company and customer based on DART can identify what is the “basket” of consumption values for customers in the specific situation and consequently to restore it more effectively.

Recently, in the literature of service recovery authors have started to describe service recovery as a dynamic process. For example, Fang et al., (2012, p.341) argue by reviewing the previous litterature on service recovery that “service recovery is a dynamic process of engaging in various marketing activities to recuperate consumer satisfaction after the service does not meet customer expectation or tolerance zone”. Customers’ value creation (Woodruff, 1997; Grönroos, 2000)and value co-creation(Heinonen et al., 2010) is a dynamic process. Thus, we suggest that service recovery conceptualization should be seen as a dynamic process of value restoration under the S-D Logic notion.

Although, litterature of service recovery suggest that recovery can fall into two dimensions, economic recovery (providing “utilitarian” resources such as paying compensation and giving discounts) and social recovery (by providing psychological or symbolic resources, such as making an apology and offering an explanation) the aforementioned attributes has been examined in a G-D Logic context. Smith et al. (1999) applied resource exchange theory, mental accounting principles, and prospect theory (all these theories predict that customers will place greater value on exchanges involving proximal similar resources than on those involving distal dissimilar resources) showed that customers prefer to receive recovery resources that “match” the type of failure they experience in “amounts” that are commensurate with the magnitude of the failure that occurs. For example, when customers are treated rudely by a waiter, they will assign less value to a discount than to an apology. Although Smith et al. (1999) argue that firms may try to recover customers through compensation (e.g. a discount) following an economic service failure and throughsocial resources (e.g. an apology) following a social loss, their hypotheses focus only on the effects
of perceived justice and in a G-D Logic concept, that most times consumers’ will place greater value with similar resources. For example according to the aforementioned example of the overbooked hotel “similar resources” that “matches the type of failure” e.g the provision of a room in order to relax or to sleep doesn’t provide the appropriate value proposition (for social value= with friends). In support to our example, Grönroos& Ravald, (2011) mentioned that cooking dinner for the family enables a nice gathering around the dining table and that value emerges from the *family occasion*and from the time spent *with the friend* (consequently social value), not from the cooking ingredients or the car used in the process (functional value). Thus, consumption could then be regarded as a means for value creation, as customers are not primarily interested in what they buy and consume as such, (Grönroos& Ravald, 2011).

We propose that a value restoration mechanism can initially identify the *loss value*, from co-destruction moments (by adopting DART) and then could restore it through the necessary interactions between company and customers. Thus, MVR may moderate the perceived co-destructive value by restore it. For example if the loss value for customer is the *economic value*, in the above example, it can restore it and in this way it restores the repurchase future intentions of customers. In line with this, Hedrick et al., (2007) noticed the importance of customizing service recovery strategies. We agree with the aforementioned statement and more precisely we suggest that MVR is a tool in order to detect the value loss and consequently to customize in the appropriate value propositions in order to restore customers’ perceived values. However, there is long distance that we have to cover between the theoretical justification of the dynamic nature of service recovery process and the applicability of that conceptualization in the managerial practice.
4. Discussion

This paper is a first effort to approach service failures as co-destruction moments and also service recovery strategies as a mechanism of value restoration. In order to be effective a service recovery needs to identify the loss value and restore it based on customer needs. Previous service recoveries strategies based on G-D Logic offers some alternatives solutions (apology, compensation) in order to minimize consumers’ reactions after service failures. We suggest that an effective service recovery depends on the appropriate value propositions. In this logic we suggest that a value mechanism restoration is more effective than recovery initiatives because it detects the appropriate value for customer and restores it. Thus for a successful service recovery we propose the following: 1) customers’ segmentation based on value co-creation, 2) identification of customers’ value expectations and preferences based on DART and 3) value proposition and restoration through MVR.

Although (S-D) Logic recognized that “The enterprise cannot deliver value, but only offer value propositions”, FP7, Vargo & Lusch (2008, p. 7), providers in a service failure context still implies the firm’s dominant position (G-D Logic) by providing predefined recovery initiatives (e.g., apology, empathy, compensation, explanation). Even the proactive recovery strategies adopted by a firm (e.g service quality guarantees) are based on (G-D) Logic. Recently some authors (e.g Michel et al, 2007) try to explain why service recovery fails, while some others Ringberg et al., (2007) introduce adaptive service recovery diagnostics that enable providers to identify and respond to consumers’ varying recovery preferences.

Previous researchers such as Dong et al., (2008); Roggeveen et al., (2011) try to adapt co-creation activities in a service failure context which are enacted after service failure happens, these studies use actually interchangeably the term of participation in order to describe co-creation activities. In this way the firm is in charge of a service recovery process and the
customer is invited to join it as a participator (co-production process), in some predefined recovery strategies. Contrary to this logic that seems more than (G-D) logic, due to the fact that customers engage with a production process (recovery process in these studies) managed by the service provider and refer more to the customer engagement literature, we argue that parallel with the shifting of marketing from a good-dominant view to a service-dominant view, service failures and consequently service recovery strategies have to shift into a S-D logic. For this purpose, we propose that service failures should stop to be treated conventional in publications and start to viewing as value co-destruction moments. Similarly service recovery has to started be viewing as a mechanism of perceived value restoration. To the best of our knowledge, this is the first study which approaches theoretically the service failure and service recovery context in S-D Logic notion.

References


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