

2 Terminological and conceptual foundation of investigation

On the basis of the research questions defined in *paragraph 1.2*, the present chapter establishes the *terminological and conceptual foundation of the investigation* to introduce the fundamental terms and concepts, which are considered in the course of the subsequent investigation (cf. figure 2.1).

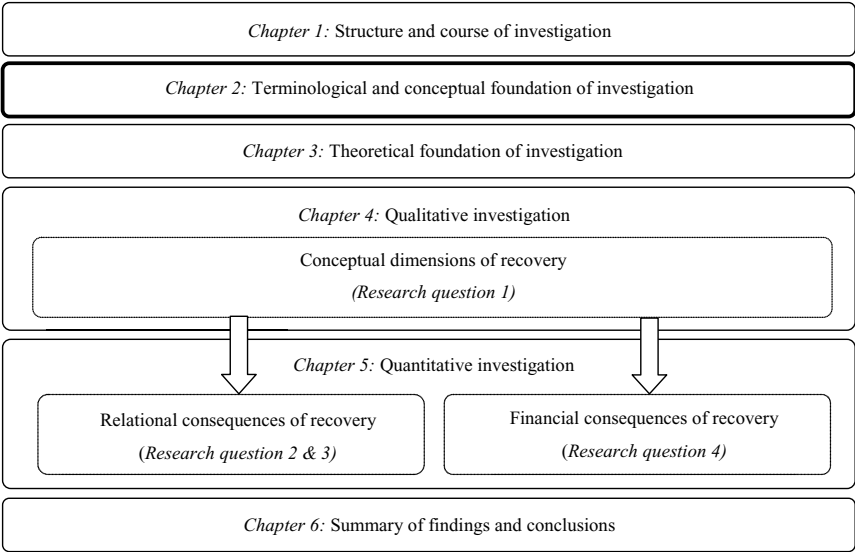


Figure 2.1: Positioning of the second chapter into the course of investigation  
Source: own illustration

The terminological and conceptual foundation is structured into the paragraphs *definition of fundamental terms* (paragraph 2.1) and *review of recovery literature* (paragraph 2.2).

2.1 Definition of fundamental terms

For the comprehension of the nature of recovery management in business-to-business markets, an introduction of the fundamental terms considered in the subsequent investigation is required. A solid definition is necessary to understand the scope and the context of the fundamental terms to be able to relate findings to other investigations, which have discussed similar phenomena. In the following paragraph, the terminological foundation of the fundamental terms *business-to-business markets* (paragraph 2.1.1) and *recovery management* (paragraph 2.1.2) will be defined as the conceptual foundation for the subsequent investigation on recovery management in business markets.

### 2.1.1 Terminological foundation of business-to-business markets

In contemporary marketing literature, several definitions of *business-to-business markets* have emerged, which generally differ in terms of its scope and context. Consequently, a universal definition of business markets as not emerged in literature yet. To ensure a solid terminological foundation, the term *business-to-business markets* is defined subsequently for the present investigation.

#### 2.1.1.1 Definition of the term “business-to-business markets”

The term “*business-to-business markets*” has been defined differently across literature, but a key characteristic is the notion that customers are represented by organizations rather than consumers (Brennan, Canning and McDowell 2007, p. 2). More specifically, *business-to-business markets* have been defined to comprise

*“firms, institutions, or governments that acquire goods and services either for their own use, to incorporate into the products or services that they produce, or for resale along with other products and services to other firms, institutions or governments” (Anderson, Narus and Narayandas 2009, p. 4).*

On the basis of this definition, it can be stated that business-to-business markets are represented by organizational entities rather than individuals, which engage in economic exchange activities with other entities. In particular, *business-to-business markets* have been differentiated into three market sectors *commercial enterprises, institutions* and *governments*, whereas each of these sectors reflects distinctive characteristics (Hutt and Speh 2004, p. 18). Although the transaction volume of business markets considerably exceeds those of consumer markets, the academic pervasion of business markets is largely lagging behind consumer markets (Backhaus and Voeth 2007, pp. 4-5).

#### 2.1.1.2 Characteristics of business-to-business markets

A controversial discussion has emerged on whether a distinct marketing theory for business markets is required or a universal marketing theory, which may be applied to business-to-business and business-to-consumer markets, is sufficient. This discussion is mainly based on the inherent differences in the nature of business and consumer markets. A persuasive scope of literature supports the notion that business markets substantially differ from consumer markets along several dimensions and the same marketing approach may not be used for consumer and business markets (Cooke 1986, p. 14; Lilien 1987, p. 16; Webster 1978, p. 22). In particular, Coviello and Brodie (2001) suggested that a “classical dichotomy” between business and consumer markets is apparent in the marketing discipline (p. 383). In contrast, this dichotomy has been challenged by other studies based on the notion that more similarities than differences are existent between business and consumer markets (Fern and Brown 1984,

p. 75; Wilson 2000, p. 794). From an empirical perspective, Coviello and Brodie (2001) noted that a clear dichotomy could not be detected as marketing practice reflects that firms in consumer and business markets employ the same marketing approaches. Nevertheless, since the study of Coviello and Brodie focused on observations of *marketing practice* rather than *theoretical conceptualizations*, their findings reflect limited insights on the characteristics of business versus consumer markets. In contrast to their findings, there may be more substantial, structural differences between business and consumer markets, which require a consideration in the development of conceptual frameworks for these market contexts. A review of the recent marketing literature reveals that the characteristics of business markets significantly differ from consumer markets along several dimensions – such as *markets*, *products / services*, *customers* and *relationships* (cf. table 2.1).

Category	Criteria	Business-to-Business Markets	Business-to-Consumer Markets
Markets	Nature of demand	Derived demand	Direct demand
	Concentration of demand	Higher concentration	Lower concentration
	Elasticity of demand	Lower elasticity	Higher elasticity
	Volume of demand	Larger volume	Smaller volume
Products / services	Complexity	Higher complexity	Lower complexity
	Combinations	More combinations	Less combinations
	Individualization	More individualization	Less individualization
	Functionality	Higher functionality	Lower functionality
Customers	Nature	Institutions	Individuals
	Professionalism	Professionals	Consumers
	Multi-personality	Multiple individuals	Single individuals
	Rationality	Higher rationality	Lower rationality
Relationships	Continuity	Higher continuity	Lower continuity
	Importance	Higher importance	Lower importance
	Functional interdependence	Larger interdependence	Smaller interdependence
	Buyer-seller interdependence	Larger interdependence	Smaller interdependence

Table 2.1: Characteristics of business-to-business versus business-to-consumer markets

Source: adopted from Brennan, Canning and McDowell 2007, pp. 7-18

According to marketing literature, business-to-business markets differ from business-to-consumer markets based on the characteristics of the *market*.

- *Nature of demand*: The demand in business markets is derived from the demand of downstream markets (i.e. consumer markets) and therefore has been defined as “derived demand” (Kleinaltenkamp 2000, p. 176). Customer firms purchase products or services

to facilitate the production of other goods and services, while consumers buy products or services to fulfill their individual needs (Brennan, Canning and McDowell 2007, p. 9).

- *Concentration of demand*: In business markets, customers typically attain a large proportion of revenues of the seller firm and the number of customers in business markets is smaller than in consumer markets (Narayandas 2005, p. 131). Therefore, demand is concentrated among few customers with high purchasing power, while demand in consumer markets is allocated across many customers with low purchasing power (Tsiros, Ross and Mittal 2009, p. 272).
- *Elasticity of demand*: Since customer firms in business markets are dependent on the reliable supply of products or services for their operations, these are assumed to be less price-elastic than individual consumers (Hutt and Speh 2004, p. 10). Accordingly, business markets reflect a reversed price elasticity of demand due to the criticality of supply (Brennan, Canning and McDowell 2007, pp. 13-14).
- *Volume of demand*: In comparison to consumer markets, transactions in business markets tend to be much larger in value (Narayandas 2005, p. 131). The volume of transactions where the customer is an organization, is larger than those where the customer is an individual consumer (Hutt and Speh 2004, p. 4).

Furthermore, business-to-business markets further discern from business-to-consumer markets on the basis of the characteristics of its *products and services*.

- *Complexity of products and services*: The degree of complexity of products and services in business markets is usually higher than in consumer markets (Cooke 1986, p. 13). Accordingly, business markets reflect a larger complexity of transactions, which makes critical incidents more likely to occur (Backhaus and Bauer 2001, p. 28).
- *Combinations of products and services*: Due to the technical complexity of products and services and its importance for their operations, customers in business markets often demand supplementary services (Lilien 1987, p. 15). Thus, tangible products are frequently accompanied by intangible services before and after the sale in a business market context (Hutt and Speh 2004, p. 13).
- *Individualization of products and services*: Customers in business markets tend to reflect more specific requirements, which results in individual specifications for products and services (Homburg and Rudolph 2001, p. 16). Therefore, business customers frequently demand customized products, volumes or prices in contrast to consumer markets where a large number of customers share similar needs (Narayandas 2005, p. 131).
- *Functionality of products and services*: In general, customers in business markets primarily draw upon the functionality or performance of products and services as the central decision criteria, whereas customers in consumer markets tend to base purchasing

decisions on individual aesthetics or personal taste (Anderson, Narus and Narayandas 2009, p. 5).

With respect to the existing literature, business-to-business markets may be further differentiated from business-to-consumer markets based on the characteristics of its *customers*.

- *Nature of customers*: Customers in business markets are represented by organizations such as firms, governments or institutions, whereas customers in consumer markets consist of individual consumers (Hutt and Speh 2004, p. 32).
- *Professionalism of customers*: The level of professionalism of customers in business markets has been considered as one of the key factors differentiating organizational from consumer buying (Wilson 2000, p. 783). More specifically, customers in business markets engage in purchasing processes designed and executed by professionals compared to rather inexperienced customers in consumer markets (Brennan, Canning and McDowell 2007, p. 14).
- *Multiplicity of customers*: Since multiple individuals need to be considered in organizational buying decisions (Hutt and Speh 2004, p. 74), purchasing decisions in business markets are usually taken by a larger group of managers (i.e. buying center) compared to individual customers in consumer markets (Brennan, Canning and McDowell 2007, pp. 39-42).
- *Rationality of customers*: In business markets, decision-making is generally based on objective criteria such as requirements and cost efficiency rather than subjective criteria such as brand or image (Cooke 1986, p. 11). Accordingly, organizational buying is rather based on rationality, while consumer buying is based on consciousness (Wilson 2000, p. 783).

With respect to the *relationships* between sellers and customers in business-to-business markets, substantial differences compared to business-to-consumer markets have been identified in literature.

- *Continuity of relationships*: According to prior research, relationships constitute the foundation of business marketing (Håkansson and Snehota 2000, p. 75). Therefore, relationships between sellers and customers in business markets tend to be more intensive and continuing compared to consumer markets (Hutt and Speh 2004, p. 13).
- *Importance of relationships*: In business markets, relationships have been acknowledged to be more important to customers since “a firm’s success in business markets depends directly on its working relationships” (Anderson and Narus 2004, p. 21).

- *Functional interdependence*: Buyer-seller relationships in business markets tend to reflect a higher degree of functional interdependence in contrast to relationships between sellers and customers in consumer markets (Hutt and Speh 2004, p. 7).
- *Buyer-seller interdependence*: In general, business markets reflect a higher degree of interdependence between customer and seller compared to consumer markets since products or services are integrated into the operational processes of the customer firm (Webster 1978, p. 23).

Based on these specific characteristics, it gets apparent that business-to-business markets substantially differ from business-to-consumer markets. Hence, previous research has acknowledged that business and consumer markets reflect significantly different requirements (Hutt and Speh 2004, pp. 9-10). Since conceptualizations developed for consumer markets are likely to fail under business market conditions, the development of conceptualizations specific to the business market context are required to prevent theoretically distorted conceptualizations and misleading findings (Narayandas 2005, p. 131). On the basis of the definition of business-to-business markets provided by Anderson, Narus and Narayandas (2009, p. 4), the present investigation focuses on the market context where organizations exchange products or services for their own utilization to incorporate these in their own products of services or reselling these to other firms. Consequently, non-profit organizations and government institutions are not considered in the scope of this investigation since these types of entities are assumed to reflect different characteristics and requirements.

### 2.1.2 Terminological foundation of recovery management

Consistent with the terminological basis of *business-to-business markets*, the terminological foundation of recovery management is based on the definition of the term *recovery management* (paragraph 2.1.2.1) and the delineation of the term *recovery management* (paragraph 2.1.2.2).

#### 2.1.2.1 Definition of the term “recovery management”

Over the last three decades, several definitions of the term “recovery” have emerged in academic research. This situation may be related to the fact that academic research on recovery has developed across several disciplines (i.e. service marketing, relationship marketing, and operational research), while being in the course of emerging into a general research stream (Parasuraman 2006, p. 590). The term *recovery* has been applied across various research contexts. During the 1960s, the term *recovery* has been widely used for the restoration of information technology equipment or the restitution from natural catastrophes (Brown, Cowles and Tuten 1996, p. 34). From the late 1970s, scholars began to relate *recovery* to the restoration of service failures (e.g., Andreassen and Best 1977) and in the 1980s the resulting benefits such as customer satisfaction and loyalty were discussed (e.g., Bell and Zemke 1987). In the 1990s,

scholars began to develop the first theoretical concepts of *recovery* based on anecdotic (e.g., Hart, Heskett and Sasser 1990) and empirical (e.g., Johnston 1995) evidence. From the late 1990s, the concept of recovery gained increased attention by researchers from several disciplines. Accordingly, scholars have noted that recovery research has attained significant consideration in the academic literature (Parasuraman 2006, p. 590), but still “is in need of consolidation” (Smith, Karwan and Markland 2009, p. 178). Nevertheless, despite the large number of studies, till date contemporary recovery research lacks a universal definition of the term “recovery”. This situation is certainly caused by the fact that the term has been related to different concepts and associated with different meanings. In operations research, *recovery* has been used to describe the return and recycling of products at the *end of life* stage in the product life cycle (e.g., Thierry et al. 1995; Toffel 2004), thus, being focused on the recovery of ecological value of products (*product recovery*). In service research, *recovery* has been related to the restoration of customers (*customer recovery*) with the aim to reinstate customer satisfaction (e.g., Priluck and Lala 2009). Furthermore, *recovery* has been related to the support of employees in dealing with failure situations (*employee recovery*) intended to lead to satisfied employees after recovery (e.g., Johnston and Michel 2008; Michel, Bowen and Johnston 2009). In relationship marketing, *recovery* has been used to describe the efforts of firms to regain customers (*relationship recovery*), who have already left the relationship (e.g., Homburg and Schäfer 1999; Bruhn and Michalski 2001). Based on a profound review of the recovery literature, it gets evident that the existing definitions of recovery are related to different contexts, which has prevented the development of a general definition of recovery in contemporary recovery research till date (cf. table 2.2).

Author(s)	Definition	Object	Objective
Bell and Zemke (1987, p. 32)	“The word ‘recovery’ has been chosen carefully – it means ‘to return to a normal state; to make whole again’”	Service failures	Customer satisfaction
Zemke and Bell (1990, p. 43)	“... thought-out, planned process of returning aggrieved customers to a state of satisfaction with the organization after a service or product has failed to live up to expectations”	Product failures Service failures	Customer satisfaction
Grönroos (1990, p. 7)	“... those activities in which a company engages to address a customer complaint regarding a perceived service failure”	Service failure	Failure handling
Johnston (1995, p. 213)	“... has been used as the expression to seek out and deal with service failures”	Service failures	Failure identification Failure handling
Johnston and Hewa (1997, p. 467)	“... the actions of a service provider to mitigate and/or repair the damage to a customer that results from the provider’s failure to deliver a service as is designed”	Service failures	Failure mitigation Failure resolution

Hocutt, Chakraborty and Mowen (1997, p. 457)	“Service recovery consists of all the actions people may take to move a customer from a state of dissatisfaction to a state of satisfaction”	Product failures Service failures	Customer satisfaction
Miller, Craighead and Karwan (2000, p. 387)	“... involves those actions designed to resolve problems, alter negative attitudes of dissatisfied consumers and to ultimately retain these customers.”	Product failures Service failures	Problem resolution Customer satisfaction Customer retention
Sparks and McColl-Kennedy (2001, p. 210)	“... is the process of dealing with a situation whereby a customer has experienced a failure in the firm’s offering. Service recovery aims to return the customer to a state of satisfaction.”	Product failures Service failures	Failure handling Customer satisfaction
Priluck and Lala (2009, p. 44)	“Recovery efforts are an attempt by the firm to keep the customer happy by suitably compensating the customer in case of a product failure”	Product failures	Customer satisfaction
Michel, Bowen and Johnston (2009, p. 267)	“... are the integrative actions a company takes to re-establish customer satisfaction and loyalty after a service failure (customer recovery), to ensure that failure incidents encourage learning and process improvement (process recovery) and to train and reward employees for this purpose (employee recovery)”	Service failures	Customer satisfaction Customer retention Process improvement Employee satisfaction
Fang, Luo and Jiang (2013, p. 1)	“... 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”	Service failure	Customer satisfaction

Table 2.2: Selected definitions of recovery from literature

Source: own illustration

With respect to the *object of recovery* the existing studies on recovery reflect different directions. In the initial studies on recovery, the term *recovery* has been related to the handling of product *and* service failures (Zemke 1994, p. 17; Zemke and Bell 1990, p. 43). More specifically, recovery has been defined as a “thought-out, planned process of returning aggrieved customers to a state of satisfaction with a firm after a service or product has failed to live up to expectations” (Zemke and Bell 1990, p. 43). In subsequent studies, however, scholars have predominantly related recovery to service failures leading to the establishment of the term “service recovery” in academic literature (e.g., Grönroos 1988; Johnston 1995; Smith and Bolton 1998), which currently dominates the academic landscape of recovery research. Nevertheless, several studies have related recovery to product failures, either *implicitly* (e.g. Boshoff 1999; Sparks and McColl-Kennedy 2001; Maxham and Netemeyer 2002a) or *explicitly*



itly (e.g., Priluck and Lala 2009). A number of studies have related recovery to products and services likewise (e.g., Boshoff 1999; Sparks and McColl-Kennedy 2001; Maxham and Netemeyer 2002a). The majority of recovery research, however, failed to consider products and services as the *object of recovery* and solely focused on the recovery of services.

In terms of the *objective of recovery*, previous research conveys different goals related to recovery activities. The largest number of studies have related recovery to the restoration of *customer satisfaction* after failure situations (e.g., Boshoff 1999; Miller, Craighead and Karwan 2000; Sparks and McColl-Kennedy 2001). The term *recovery* has been related to the efforts of a seller firm “to return to a normal state; to make whole again” (Bell and Zemke 1987, p. 32) and refers to the restoration of customer satisfaction. Consequently, recovery has been defined to represent “a cornerstone of a customer satisfaction strategy” (Tax and Brown 1998, p. 87). Previous research has also related recovery to *problem resolution* in failure situations (e.g., Maxham 2001; Miller, Craighead and Karwan 2000; Simons and Kraus 2005). Accordingly, Zemke and Bell (1990) noted that “[s]olving problems is what recovery is about” (p. 43). Similarly, Smith and Karwan (2010) stated that “[t]he successful rectification of service failures is the ultimate goal of the recovery effort” (p. 4). The term *recovery* has been also associated with *customer retention* (e.g., Miller, Craighead and Karwan 2000). In particular, Andreassen (2001) noted “that the primary goal of the recovery strategy is to retain existing customers” (p. 47). The term recovery has been recently extended to consider process improvements based on failure information and employee satisfaction after failure situations as objectives of recovery for the seller firm (Michel, Bowen and Johnston 2009, p. 267).

The systematic efforts of the seller firm related to the development, implementation and improvement of recovery activities has been described by the term “recovery management” (Auerbach, Bednarczuk and Büttgen 1997, p. 78). In general, the term “management” has been defined as “the process of planning, organizing, leading, and controlling the efforts of organizational members and the use of other organizational resources in order to achieve stated organizational goals” (Stoner and Freeman 1989, p. 3). In the context of recovery, early research has noted that although firms cannot prevent problems, but they are able to develop mechanisms to recover from them (Hart, Heskett and Sasser 1990, p. 148). Therefore, Mattila (2001b) argued that “effective recovery needs to be carefully planned and managed” (p. 98) as the specific nature of recovery requires the systematic planning and management of recovery activities (La and Kadampully 2004, p. 392). Prior research has concluded that seller firms are required to engage in a systematic management of recovery activities to develop and maintain long-term customer relationships (Holloway and Beatty 2003, p. 94). Similarly, Kau and Loh (2006) noted that “[r]ecover management is considered to have a significant impact on customers who experienced service failures” (p. 102). Nevertheless, Bhandari, Tsarenko and Polonsky (2007, p. 181) reasoned that the management of recovery activities is more complex

than the management of ordinary service encounters since failure situations may occur in all processes and are difficult to predict. Consequently, it is stated that the effective handling of failure situations requires the systematic management of recovery activities by seller firms. With respect to the increasing consolidation of products and services in business-to-business markets (Hutt and Speh 2004, p. 331) and based on the ambiguous definitions of recovery in previous research, the term *recovery management* is defined for the subsequent investigation as

*a systematic approach for the development, implementation and controlling of activities by the seller firm to handle product or service failures in order to regain customer satisfaction and attain customer retention in the context of business-to-business markets.*

This definition constitutes the terminological foundation for the conceptual and empirical investigation on *recovery management in business-to-business markets*. To fundamentalize this definition, the term “recovery management” is further delineated from related terms in marketing literature.

#### 2.1.2.2 Delineation of the term “recovery management”

To integrate the term “recovery management” in the nomological net of marketing and service research, it needs to be delineated from similar, but distinct concepts in academic research. In literature, the term *recovery management* has frequently been mixed (Davidow 2003, p. 227; DeWitt, Nguyen and Marshall 2008, p. 271) or used interchangeably (Johnston 2001, p. 61; Maxham and Netemeyer 2002a, p. 239) with the term “complaint management”. For example, Davidow (2003) defined his conceptual model as a “complaint recovery framework” (p. 227) and did not clearly differentiate between the theoretical concepts of recovery management and complaint management. Since both terms represent distinct concepts (Smith, Bolton and Wagner 1999, p. 359), a conceptual delineation of the term recovery management from the term complaint management is required.

The term *complaint management* has been related to the organizational response of the seller firm to customer complaints (Fornell and Wernerfelt 1988, p. 289; Homburg and Fürst 2005, p. 96). More specifically, customer complaints denote the dissatisfaction of customers related to problems with the direct or indirect benefits of the exchange or the behavior of employees (Fürst 2005, p. 10) and is related to the expression of dissatisfaction by customers as reflected by the act of complaining. Accordingly, *complaint management* has been described as “a system, set up by the firm, that offers an opportunity for customers to have their grievances resolved” (Fornell and Wernerfelt 1988, p. 288). Based on prior definitions, *recovery management* may be differentiated from *complaint management* along the several dimensions.

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