
**INNOVATIONS IN THE CONTEXTUALISATION OF SERVICE
RECOVERY MODELS: IS ENTREPRENEURIAL LEADERSHIP THE
RESPONSE FOR CHANGE MANAGEMENT CHALLENGES IN TODAY'S
CHINA**

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ABSTRACT

The purpose of this study is to explore the role of Chinese entrepreneurship in the innovation of new China-specific customer and service recovery models, as part of the overall transformation in China's economic model for development and growth. This research is of six sections. First, it presents a brief review of the Chinese economy. Secondly, it provides a discussion of the forces impacting on China's consumer market. Thirdly, the characteristics of the new Chinese consumer are explored. This is followed by an evaluation of the Chinese decision to adopt, adapt or innovate new Chinese specific models of service recovery. Fifthly, this study evaluates the role of entrepreneurship as a response to China's current challenges. Finally, the current study concludes with directions for future research.

Keywords: Creativity, Innovation, Entrepreneurship, China, Contextualization of Service Recovery Models.

INTRODUCTION

The rise of the consumer in China requires an investigation of the changes in the properties of the Chinese end-user, and their request of the state-of-the-art in goods and services. It also requires a review and evaluation of representative marketing model, and the need for possible innovations in light of the Chinese customer behaviour and service recovery. The aim of the current study is to evaluate the extent to which Chinese entrepreneurial leadership would adopt, adapt, or innovate new managerial models to address China's change management issues in dealing with consumerism and service recovery.

To this end, this study is six-fold. First, it presents a review of the Chinese economy, its current challenges and the forecasts regarding the future of its economic growth. Secondly, this study provides a discussion of the forces impacting China's consumer market, and their implications for the Chinese economy and the rest of the world. Thirdly, this research investigates the

characteristics of the Chinese consumer. This is followed by an evaluation of the Chinese decision in terms of either adopting Western service recovery models, adapting the available Western models to complement the psychology of the Chinese consumer, or innovating new models to fit the Chinese context. Fifthly, the current research study evaluates the role of entrepreneurship as a response to China's current challenges. This section further provides insight into the education and training of future entrepreneurs needed within the Chinese context. Finally, this study provides a conclusion and directions for future research into the need for innovation and entrepreneurship relevant to the contextualization of service recovery and its management in light of the psychology of the Chinese customer.

REPRESENTATIVE SERVICE RECOVERY MODELS

Service recovery management models have been developed in relation to services management in Western markets, including the American market (Tai, 2005). Manning (1997) confers that customer service is an exchange process between the service provider and the customer, where the service provider is influenced by the value delivery system as conditioned by their mission, purpose, resources and positioning strategies; while the customer is influenced by a value demand system, determined by the demographic, geographic, psychographic and behavioural profiles. Even though Manning's (1997) framework contributes to the understanding of the consumer decision making process, it fails to emphasise dissatisfaction and service recovery states.

To study service recovery options, Boshoff (1997) built on Hirschman's (1970) Decline-Recovery Model, and the three factor typology of *exit* (stop all purchases from the service provider), *voice* (complain and lobby to incur a change in the behaviour by the business firm), and, *loyalty* (continue purchasing from the same service provider, hoping that their offerings will improve); to develop the Service Recovery Model, a theoretical framework that explains the resulting possible outcomes consequential to customer satisfaction/dissatisfaction and the disconfirmation paradigm. The framework is comprised of four factors, namely: 1) Customer satisfaction of the firm to customer complaints; 2) response and behaviour of the firm to customer complaints; 3) technology of service, referring to service recovery options; and, 4) outcome of service recovery.

Even though Boshoff's (1997) Service-Recovery Model contributes to the firm's understanding of customer dissatisfaction, and explains the customer service recovery process, it is not flawless. First, it fails to detail the several factors that impact on consumer satisfaction/dissatisfaction levels. That is, even though the firm may concede to the customer's problem, it may not remedy the situation. This may lead to even higher levels of customer dissatisfaction. Secondly, Boshoff's (1997) model fails to consider the range of possible outcomes or responses to

satisfaction and dissatisfaction situations. The Service-Recovery framework is exclusively limited to the three-factor typology developed by Hirschman (1970). For example, it fails to discuss the issue of captured consumers, and the rationalization strategies used by them. Thirdly, Boshoff's (1997) framework fails to distinguish between two different types of consumers, namely, the dissatisfied and the difficult. A difficult consumer may be loyal, but often complaining. Fourthly, the Service-Recovery Model fails to discuss the interrelationships between the firm's strategies and leadership patterns in practice, and their response to dissatisfaction and recovery. Finally, while the emphasis of the marketing exchange process has shifted to relationship marketing (Bagozzi, 1995), the Boshoff's (1997) discussion of loyalty has been brief, and fails to discuss its determinants, including customer-firm relationships, and their impact of loyalty.

CHINA: AN ECONOMY IN TRANSITION, CURRENT CHALLENGES AND FUTURE ECONOMIC GROWTH

China represents the second world's largest economy, which makes it extremely important for other markets around the world. The Chinese economic slowdown has been of great concern to the government (Ebner, 2014), and has been greatly felt by other economies around the globe. The economic slowdown in China continues to echo across countries around the world. For example, in early 2015, the Chinese government has decreased its five-year annual GDP growth target to 6.5%, which represents the slowest pace since the 2008-2009 global financial crisis (Ebner, 2014; Kuo, 2016). Nevertheless, economists and business analysts forecast that in the long-run, China will overcome its current economic slowdown (Kuo, 2016). Many economies contemplate China's future growth, and its consequential effect on them and the rest of the world. For example, by 2020, China's consumer market is projected to grow by about half, that is, to \$6.5 trillion (Kuo, 2016). Its developing international role as an international economic superpower is on the rise. In the long-term, China is in need to restructure its economy in a way that would emphasise local consumption over government investment (Doctoroff, 2015). Even though possible challenges to the transition may surface, the country's economic transformation is needed. In this context, it is worthwhile noting though that the economic model that led to the growth of the Chinese economy in the past may not necessarily continue to sustain its future growth. The Chinese government is under extensive pressure to fast-track the country's transition from a nation known for its cheap labor, to an entrepreneurial and innovative nation, a shift that would sustain its long-term economic growth (Ebner, 2014).

Since 1978, the economic landscape in China has gone through substantial change (Ash and Kueh, 1996; Bastin, 2014; Qiu, 2011; Yueh, 2008). Furthermore, since 1978, there has been an interest from Chinese managers and leaders with Western models and Western management practices, as they consider whether to adopt them in assisting their reform process. This

continued change commenced consequential to the government's decision to transform China from a command style economy, where the customer as a concept did not exist, to an economy where market forces are allowed. This resulted in the emergence of the customer. Chinese consumers continue to encounter changes with the manner with which goods and services are provided to them. Chinese end-users are nowadays consuming products that were not previously in their evoked set (Hu and McAleer, 1997). This is a period of historic change in China.

Shanghai, for example, the largest city in China, has been altered to an international economic centre.

This research study considers the strategies that Chinese entrepreneurs will need to develop as a means of attaining a better understanding of the psychology and the behaviour of the customers in their respective markets. The question is: will the Chinese entrepreneurs adopt and adapt Western models of consumer behaviour and service recovery models, or will they innovate with new models of their own to strictly fit the psychology of the Chinese consumer?

THE RISE OF CHINA'S NEW CONSUMER CLASS: DEVELOPING AN UNDERSTANDING OF CUSTOMER PSYCHOLOGY

The rise of China's new customer class necessitates the development of a better understanding of the customer psychology. The power relationship between producers and consumers have been changing, in favour of the consumer. That is, consumers are becoming more forceful, self-confident and independent. They no longer accept the producers' broken promises in workmanship or delivery times (Manning, 1997). Entrepreneurs are continuously analysing their respective markets in search for a better understanding of consumer psychology and behaviour, as a means of developing effective marketing strategies incorporating efficient loyalty programs and customer recovery frameworks.

Research clearly indicates that it is less expensive to recover a dissatisfied customer than to cultivate a new one, as such, the need for the implementation of effective service recovery practices. Nevertheless, an accurate measurement of customers' extent of satisfaction or dissatisfaction is difficult (Rosenberg, 1996), and the dependence on pure quantitative analysis in measuring the degree of customer dissatisfaction (Soteriou and Stravrinides, 1997), could lead to myopic explanations. Furthermore, as Rosenberg (1996) explains, the impact of inertia should be taken into consideration, that is, a problem with customer service may not immediately lead to customer dissatisfaction. In the same vein, an increase in customer service may not simply neutralise a once dissatisfied customer.

Consumers' dissatisfaction usually develops out of their comparisons between promised and/or expected product performance and actual product performance. With ongoing interactions

between consumers and the business firm, expectations start to form, and with time, they get set. That is, consumer expectations are highly dependent on organizational past performance of service delivery. Therefore, effective management of customer service expectations in managing customer satisfaction/dissatisfaction is of the essence.

WHAT ARE THE CURRENT FORCES IMPACTING CHINA'S CONSUMER MARKET?

The transition to a consumer-driven economy has not been an easy ride. Nevertheless, in the years to come, the growing middle class, and its rising income (Kuo, 2016; Qiu, 2011), will prove to be major consumption growth drivers. This will bring millions of consumers into diverse economies around the world. It will also have major economic consequences for China and the rest of the world. Currently, the Chinese consumer market is experiencing new transformations that offer prospective opportunities. According to Kuo (2016), there are three main interrelated forces of change that are profoundly altering the landscape of the Chinese consumer market, namely: 1) The rise of the upper-middle-class and affluent households; 2) the emergence of a new generation; and 3) the growing role of e-commerce. Accordingly, the emerging role of the new consumer class characterised by being richer, younger and internet-savvy, will increase the demand for more services, that will be purchased through different kinds of retail channels, mostly over the internet. This would, in turn, alter the structure of the Chinese economy. Furthermore, due to the rise of China's new consumer class, and the evolving role it plays, the following trends will consequently emerge: Services, as opposed to pure goods, will constitute the main economic engine; volume growth will be replaced by value growth; young Chinese consumers will engage more with brands; and e-commerce will transform the marketplace (Kuo, 2016; Qiu, 2011).

IS IT ADOPTION, ADAPTATION, OR CREATIVE INNOVATIONS?

It is worthwhile to note that the Chinese leaders have not adopted or adapted Western management practices. Furthermore, they have not followed the managerial practices of other countries in transition. For an effective application of Western service recovery models to the Chinese context, information is needed regarding the Chinese market and other relevant macro-environmental forces (Okpara, 2007). On the other hand, joint ventures illustrate that Chinese managers look towards the West. Nevertheless, there are success stories, such as Amway and Mary Kay, as well as failure stories, such as Nestle, Total and Toyota. The question then remains as to whether the answer to China's change management issues relate to either importing Western managerial models, adapting Western practices to suite Chinese contexts, or creatively innovating new Chinese specific frameworks that address specific Chinese issues.

As, in the past, demand exceeded supply in the old China, quality was not even an issue. Likewise, service recovery was not an issue either. With the rising of China's new customer class, the service recovery concept, customer attitudinal changes (Thomm, 1996), and customer service expectations, will start to be of great significance in today's China. Effective customer service strategies are now in need to be developed for firms to succeed, especially with increased emphasis on service offerings. Furthermore, with the increased level of education and income experienced by China's new consumer class, customers will become more sophisticated with what they view as intolerable business performance.

The above-mentioned flaws of Boshoff's (1997) model, for example, do not limit its application to the Chinese context. There are additional considerations though that limit its transplantation to the new "socialist market" economy, namely, its failure to explain the influence of customers' cultural value systems on customers' expectations, their levels of satisfaction and dissatisfaction, and the options that they may decide to follow in the event of post-purchase or post-consumption dissatisfaction. For example, would exit still be an option for a loyal but dissatisfied Chinese customer, or will it be ignored in favour of voicing complaints?

It is worthwhile noting that for China, it has been a Chinese solution to a Chinese problem, that is, innovating with their move from a pure "socialist economy" to a "socialist market" economy. This could be a typical decision for the Chinese, who according to Garnier (1986), will not practice Western management practices, nor adopt them due to China's long history and culture. It is not a matter of hostility, but an issue of distrust in the practices because they are foreign.

IS ENTREPRENEURSHIP THE NEXT CATALYST FOR CHINA'S ECONOMIC GROWTH?

The study of Chinese entrepreneurs has been of great interest to scholars, academics, researchers and professionals alike. Since the late 1990s, China's entrepreneurs have been the main driver of the country's progress, growth and advancement (Bastin, 2014; Ebner, 2014; Wu, 2002; Yueh, 2008; Zhang et al., 2006). The easing of the state's grip over the economy enabled the development of Chinese entrepreneurs, who, in turn, introduced innovation, competition and profitability into the economy. As Yueh (2008) explains, the rise of the Chinese entrepreneur has not been without impediments, including limitations to access credit, and shortages of key assets such as land and property. In terms of personal traits, like Western entrepreneurs, Chinese entrepreneurs tend to have large social networks, a tendency to work hard, and willingness to take risk (Wu, 2002; Yueh, 2008; Zhang et al., 2006).

As previously discussed, China is entering a new era. The country is in need to evaluate its current economic growth model, that has largely been dependent on ample and cheap labour, and replace it with a different comparative advantage model that is capable of leading the country

into long-term sustainable economic growth (Yueh, 2008). That is, a new growth model is needed that is partly dependent on private enterprises, in the hope that they would become a main driver of sustainable growth, thus, ensuring social stability and the political legitimacy of the Party, being major current challenges (Kuo, 2016). Entrepreneurship is acclaimed as a salient driver of economic growth and development, as it contributes to increasing employment opportunities, escalating the level of technological innovation, and escalating market competition (Ebner, 2014). Thus, increasing the levels of entrepreneurship allows China to become more competitive in terms of knowledge and technology when compared to North America and other European countries (Yueh, 2008). As Ebner (2014) explains, there are a number of obstacles and challenges for entrepreneurs to address, given the high risk involved with private investments in China, namely: Relatively high corruption levels in the Chinese court system; starting a business is still relatively bureaucratic and time-consuming; and the funding shortage in the private sector.

Another main hurdle facing future Chinese entrepreneurs is the limited opportunities for entrepreneurial education in China. According to the Financial Times, entrepreneurial education is new in China's universities. As Bastin (2014) states, "Creativity, innovation and entrepreneurship are considered key to easing the mounting job-search worries of China's university graduates. Yet entrepreneurship education remains a relatively new concept and practice, particularly in China's university sector", and "Although China may have arrived late to the table when it comes to entrepreneurship education, it may provide the country with a key advantage". He further explains that the traditional Chinese culture, which is still influenced by Confucian values such as "obedience", "respect for authority" and "emotional control", is not compatible with entrepreneurial values and spirit; and that China's education system, being a product of the Confucian values, is also incompatible with the approach needed for effective entrepreneurial education. He further advises that entrepreneurship education is in its infancy in China, and that Chinese universities have an opportunity to construct programs that include input, not just from the typical business academic disciplines of marketing and finance, but also from the social sciences including psychology and sociology. As discussed above, a prerequisite for Chinese entrepreneurial success is a deep understanding of the changes with the Chinese consumer culture, especially with the rise of China's new, rich, young and e-commerce-savvy consumer class.

CONCLUSION AND DIRECTIONS FOR FUTURE RESEARCH

Most of the representative and available customer satisfaction and service recovery literature and models have been developed in North America, with total indifference to basic multicultural variations (Tai, 2005). Furthermore, given the influence of cultural values, and social and individual situations on the purchase and consumption processes within the Chinese context, the

direct application of the North American models to the Chinese context could lead to misleading outcomes (Tai, 2005).

In light of the above analysis, the adoption of Western marketing concepts and models may not be effective in the Chinese context. Chinese entrepreneurial leaders may need to either adapt the available models to contextualise them to be harmonious with the needs of the Chinese consumer, or create and innovate brand new models that meet with their needs. A prerequisite to the adaptation and contextualisation of Western models to apply within a Chinese context is the development of an understanding of the needs of the Chinese consumers, their expectations, and the effective management of these expectations. As such, at present, China makes an interesting research laboratory for studying economies in transition, and the consequential need for the development of effective entrepreneurial strategies to address the emerging change management challenges.

Finally, the current study provides directions for future research related to the transition from a purely product-focused economy, with high concentration on goods, to a purely service-focused economy, or even to a product economy with a high service concentration. Another area of interest for future applied research is evaluating the role of innovation and entrepreneurship in addressing the change management challenges in the new China.

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