



Ministry of Higher Education and Scientific Research  
Université 8 mai 1945 Guelma



Faculty of Economic, management and trade sciences  
Department of Trade Sciences

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Master's thesis in Trade Sciences  
Specialty: Marketing Technical sales and relationship  
customer

**CUSTOMER SATISFACTION IN THE  
SECTOR OF SERVICES  
CASE STUDY: The Algerian National Bank  
(BNA)**

**THESIS SUBMITTED BY :**  
BOUAGAL CHAOUKI

**SUPERVISOR:**  
A. BOUCEID

*Academic year*  
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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

## Dedication

I dedicate this interesting topic to my great MOM, DAD, my family and all my friends.

I would like to dedicate this thesis too to all those who helped me to reach at this level.

## Aknowledgement

I thank God Almighty, who helped me to accomplish this modest work.

I would like to extend my sincerest thanks and regards to my supervisor: ((AHCEN BOUSSAID)) and I Also thank him for his value advices.

Unforgettable thanks goes to all employees in BNA bank of Ain beida Oum el-bouaghi.

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**PART - I**

**INTRODUCTION**

## PART I: INTRODUCTION

### Chapter 1: Introduction and Overall Methodology

#### 1.1 Setting the Scene

As with many other European societies, Algeria has moved an economy based on agriculture to an acronym based on services. Asia and North Africa is becoming a predominantly service-based economy. Explosive yet erratic growth in this area, coupled with decline in traditional agri-based manufacturing, means that whether measured by income or numbers employed, more than 30 per cent of workers in most North Africa economies are today employed in the service sector. Intense competition, encouraged by deregulation as well as the application of new technology, has fueled this growth. In Algeria approximately 40% of the working population is employed in the tertiary sector (American Statistic Book 2004). The tertiary sector includes private businesses for example banking, insurance companies, hotels, restaurants, consulting, repair and maintenance, supermarkets, travel agencies, transportation, and others. In addition to the private businesses, we also find public services like hospitals and social institutions, education, tax offices, etc.

In today's increasingly competitive environment, quality services and customer satisfaction are critical to corporate success. Delivering high quality services is closely linked to profits, cost savings and market share. As stated by Piercy (1995), it is striking that one of the few elements that links many of the otherwise disparate recommendations made to managers over the past several decades has been the need to focus on customer satisfaction as a route to sustained high performance. Companies should, to a much higher degree, be aware of the fact that customer dissatisfaction equals both defection and long-term losses. As stated by various

Authors (Ballantayne *et al.* 1996; Berry, 1986; Collier, 1994; Schneider and Bowen, 1995): It is easier - and much cheaper - to keep existing customers than to get new ones. Additionally, another benefit from achieving satisfied customers is the fact that the willingness to repurchase is much higher for satisfied customers than for dissatisfied and indifferent ones.

Despite this awareness concerning the importance of customer satisfaction, it is beyond the ability of many of today's service companies to maintain satisfied customers.

Empirical surveys concerning the proportion of satisfied versus dissatisfied customers reveal that a large amount of service industries suffer from an insufficient number of satisfied customers. A survey conducted in the survey from a European University take Europe and Northern Africa reveals extreme low levels of overall customer satisfaction. He examined the overall customer satisfaction levels in various service branches: Grocery chains (31%), fast-food outlets & Res. (24%), and banks (15%). One can argue that these results constitute a low range of general service provision. However, even companies which focus their efforts on achieving satisfied customers, rarely exceed a customer satisfaction ratio above 50-70% (Scheby, 1998). However, it is important to emphasize that it is almost impossible to compare various levels of satisfaction, as the numbers depend heavily on the specific method of measurement. As a result, it is not possible to refer to the degree of satisfied versus dissatisfied customers in absolute terms, but only in relative terms.

Based on the results above, the impression rises that the discipline of satisfying customers is not always successfully translated into activities practiced by service companies. This fact has supported our interest in conducting an investigation concerning the relationship between service providers and customer satisfaction.

## 1.2 Problem Formulation

From a firm's perspective it is important to ensure that customers are satisfied with the product they purchase as well as with the way the product is delivered. This is true for companies producing pure goods or pure services, or for companies selling goods and services. Customers have specific needs, expectations, and perceptions, but if a company is not able to exceed or at least meet these expectations, the customer becomes dissatisfied and probably does not consider a repurchase. One prerequisite for customer satisfaction is therefore that the company knows their customer's needs and expectations.

According to Parasuraman *et al.* (1995), the larger the gap between a company's and customer's perception concerning both service product and service delivery the smaller the probability of satisfying the customers. This indicates that service providing companies and to

have a more profound understanding of the crucial question. An investigation of the relationship between service provision and customer satisfaction appears therefore of interest.

### 1.21 Identifying the problem

Despite the growing awareness among North Africa service companies only have succeeded in reaching acceptable levels of customer satisfaction. In order to explain the sources of service failure, it is of interest to examine the theoretical relationships between service companies and the satisfaction of their customers. A thorough investigation of all elements constituting to this relationship is beyond the scope of this thesis, hence we have chosen to narrow down the analysis to encompass only a specific number of elements affecting customer satisfaction.

We believe that one way to achieve good service is to have motivated and effective people within the service organization, hence one of the elements in focus will be a discussion of the internal dimension of service quality and customer satisfaction.

Additionally, it is almost importance that the service providers are aware of the provider-customer interface. That is, how can service companies deliver external value to their customer satisfaction, this concept will be discussed and analyzed. These thoughts lead to the following Topic Sentence:

#### TOPIC SENTENCE

*The aim of this thesis is to analyze specific elements  
Influencing, restricting, and enhancing customer satisfaction in  
The service industry. These elements will be examined both  
From a theoretical and an empirical perspective.*

### 1.2.2 Interpretation of Topic Sentence

In order to be able to conduct an in-depth analysis of the relationship between the service providers and customer satisfaction, I have chosen to encompass only a specific number of elements, in the interaction between the customer and the service provider which have influence on customer satisfaction. I examine the internal dimension of the relationship, along

with the customer-provider interface, that is how the service companies can deliver external value. In addition to the internal and external dimensions of the relationship, I have chosen to analyze the concept of customer satisfaction in the context of service quality. Finally, the impacts and results of achieving customer satisfaction will be examined: Customer loyalty and customer profitability.

Having identified the elements affecting customer satisfaction in theory, it is of interest to examine these elements by conducting an empirical research. The main purpose of our empirical research in this context will therefore be to find out whether the elements influencing customer satisfaction in theory also prevail in practice, or whether other kinds of problems occur. However, it has been chosen to conduct our research from the BNA's perspective in order to gain insights into how managers in service branches evaluate their own perception of services, and their orientation on towards customer's needs.

### 1.2.3 Research Questions

Based on our Topic Sentence, I have identified a number of Research Questions which should guide us in the theoretical discussion and analysis of the elements within the relation between the service provider and customer satisfaction presented earlier. Hence, the Research Questions are to be seen as an operationalization of the Topic Sentence.

In order to understand the factors influencing customer satisfaction it has been chosen to take a starting point in an in-side out approach. To investigate which impacts internal activities, for example management style, communication among employees, and employee involvement, etc. have on the external value a service company provides to their customers, leads to the first Research Question:

Research Question 1:

*How do internal operations in service companies contribute to external performance?*

Having identified critical elements concerning internal operations within service companies, which have an impact on the external performance, it is of interest to analyze the relation between service performance and customer satisfaction. When purchasing physical goods it is more or less easy to determine the quality of the product.

Due to the characteristics of services, this evaluation is somehow more difficult. The influence of service performance on customer's evaluation and perception of services needs to be investigated. Therefore the second Research Question is formulated as follows:

Research Question 2:

*What impact does the external performance of a service organization have on customers and their level of satisfaction?*

Having identified the factors influencing customer satisfaction, It is furthermore of interest to analyze the consequences of customer satisfaction. The goal of most service companies is to make profit, at least in the long-run. In order to motivates and stimulate customers to a repurchase, it is important for a service company to satisfy their customers. In most cases only satisfied customers consider a repurchase, and become regular customers. It is therefore of interest to analyze the relation between customer satisfaction and customer loyalty; which, in return leads to profit in the long run.

The third Research Question is stated as follows:

*Research Question 3:*

*Which factors lead from customer satisfaction to  
loyalty and thereby profitability?*

All three Research Questions will be utilized as a guide for both the theoretical analysis and the empirical research. The answers to these questions will be presented throughout the thesis and will be summarized in the conclusion.

### 1.3 Overall Method and Structure

In this section the method behind the thesis will be outlined. It includes the process we have employed in writing the thesis. Thereafter, the structure of the thesis will be presented. The information given in this chapter will supplement the logic of the thesis.

### 1.4 Overall Methodology

Based on our literature research we have identified various ways to describe the relations between service company's performance, and customer satisfaction. However, most models and theories cover only some aspects of the elements which we have identified as being important: Effective internal operations, external value, customer satisfaction, and the profitable consequences of achieving customer satisfaction. Only one particular model - The Service-Profit Chain - was found to encompass all the elements of interest; thereby ensuring a holistic view of customer satisfaction in a service context. The Service-Profit Chain - originally developed by Heskett *et al.* (1998) - is based on the convergence work being carried out by Reichheld and Sasser (1996) concerning customer satisfaction and loyalty.

As the Service-Profit Chain provides a comprehensive link between profitability / growth and employee satisfaction with focus on customer satisfaction, it has been utilized as a starting point for this thesis. However, having analyzed each link of the Service-Profit Chain, it appeared appropriate to undertake minor modifications. These modifications were useful in order to find valuable answers to our problem formulation, and to our three Research Questions.

In order to address the Topic Sentence, the following approach has been chosen. First of all, each link of the modified Service-Profit Chain has been analyzed with regard to elements influencing, restricting, or enhancing customer satisfaction. Hereafter, it has been possible to formulate success factors to each link of the chain which are either important to consider or critical in relation to customer satisfaction. Moreover, these success factors were identified to mirror potential problems for service companies from a theoretical point of view as well.

Having created a solid theoretical foundation on the basis of the Service-Profit Chain illustrating factors which have an impact of customer satisfaction, the next important step is to investigate which factors influence customer satisfaction in practice. The empirical analysis aims therefore to fine out whether the same success factors prevail in practice as in theory. It has been chosen to conduct an empirical research; which, based on a questionnaire, takes the management perspective in different service branches into account with respect to customer satisfaction and the success factors.

Conducting the empirical research enables us to draw conclusions regarding the relation between internal operations and external performance, the impact of external value for the customer and their satisfaction, and handling of loyal customers. Moreover, the empirical research enables us to identify significant differences among selected service branches. By doing this, it is possible to compare different perceptions and opinions in different service branches. It is worth emphasizing that only the firm's perspective is of interest, and no conventional customer satisfaction analysis is conducted. Thus, no objective evaluation concerning customer satisfaction in these particular service company of our sample is possible

### 1.3.2 Structure of the Thesis

The thesis starts with an introducing Part I, consisting of chapter one and two. Chapter one includes the setting of the scene and formulation of the problem; which, provides information about the purpose, and focus of this thesis. Whereas in chapter two, the Service Value Chain will be introduced. This is done firstly by outlining the characteristic and evolution of services; which will provide important background information no how we will deal with services throughout the thesis. In a second step, the original-Profit Chain will be presented and discussed, leading to our proposal of a modified chain. The various links of the modified chain will be analyzed in Part II; which functions as the theoretical foundation of the thesis.

Part II constitutes the theoretical foundation, and consists of chapter three to six. In chapter three the first element of the modified chain, internal service dimension, will be discussed. This dimension deals with internal operations which have an impact on the external performance of a service company. The focus will be on theories dealing with internal operation which improve the efficiency and satisfaction of employees in service companies. Thereafter in chapter four, the second link of the Service Value Chain, the external value which service companies deliver to their customers, will be discussed. By doing this strategic marketing perspectives will be provided.

Customer satisfaction or dissatisfaction as outcome of the provided external value, is the third link of the chain, and will be investigated in chapter five. This includes both the identification of key parameters influencing and enhancing customer satisfaction in relation to services, and the examination of service quality models which play an important role in this context. Customer dissatisfaction might lead to defection in the long-run; customer satisfaction, to retention and loyalty. The latter constitutes the fourth link in the Service Value Chain, which will be surveyed in chapter six.

Theories which explain the potential outcome of customer loyalty will be presented, and thereby the relation to growth and profitability from a firm's perspective will be clarified. Each chapter of the theoretical foundation will end up with a subconclusion which contains both the main ideas of the corresponding chapter, and a presentation of the critical success factors, and summarizes applied theoretical approaches and the most central authors used in each chapter of the theoretical section of the thesis.

Part III constitutes the analysis of our empirical survey, and consists of chapter seven. This part begins with seven-one which includes the methodology behind the empirical research, delimitation, reliability and validity, and finally a presentation of the service branches participating in our research sample.

Thereafter in seven-two, the internal activities affecting customer satisfaction will be investigated. This considers the factors identified from the corresponding theoretical

perspective, such as internal marketing, management styles, motivation, performance, control and training.

In seven-three the research sample's service product and its development will be examined, referring to the external value provided by service companies. Of special interest in the development of core-and secondary services along with the company's customer orientation. In the following seven-four, the firm's assessment of service quality and customer satisfaction is addressed. The last one of Part III deals with complain management in service companies as a tool for service recovery, and the positive consequences of obtaining satisfied customers-loyalty and profitability.

Finally, in Part IV the conclusions of this thesis will be presented, including an evaluation of the critical success factors provided in the subconclusions of the various chapters of the theoretical foundation.

## Chapter 2: Service Value Chain

The Purpose of this chapter is twofold. First an introduction to services will be presented. This is done in order to provide valuable background information regarding how we deal with services throughout the thesis. Second, because the Service-Profit Chain is used in this thesis as a structural tool when analyzing the relationship between internal operations and customer satisfaction in services, the model will be introduced and discussed. Having identified the critical issues of the Service-Profit Chain a modified version will be proposed thereafter.

### 2.1 Introducing Services

The introduction of services is subdivided into three parts. First a short historical development of the marketing and management literature of services will be presented. This is done in order to provide background information about service research. Second, service characteristics will be outlined, and a distinction between various goods and services will be introduced. Finally, a service-good continuum will be presented which assigns different industries on a continuum between pure goods and pure services. This continuum will be utilized in Part III of this thesis.

#### 2.1.1 History and Evolution of Services

In the literature there has been a tremendous number of publications dealing with the marketing and management of services. According to Fisk, Brown and Bitner (1998) the development of service marketing and management can be divided into three phases.

First, there is the "Crawling-Out Phase" from 1950 to 1980, when only a few researchers made efforts to distinguish between marketing strategies for goods and services. These few researchers proclaimed that services are different from goods, and therefore need specific marketing and management attention. In her article,

"Breaking Free from Product Marketing" Shostack (1977) demanded further research interest in services. She states that the traditional marketing and management theories do not provide relevant tools for the characteristics of services. This critique has been accepted later by academicians and practitioners.

Second, in the so called "scurrying-Out Phase" from 1981 to 1985, further concentration on the marketing and management of services took place. With significant publications from Gronroos (1981), Berry (1980), Zeithaml (1981), and Shostack (1984), marketing and management of services received the right to be considered as an independent discipline. During this period several articles were published in some of the best known journals, i.e. *Journal of Marketing*, *Journal of Retailing*, and *Harvard Business Review*. New service specific journals also emerged, for instance the *Journal of Services Marketing and International Journal of Service Industries Management*. There have been strong efforts to develop marketing and management tools which are applicable to improve services. As a consequence, relationship marketing (Berry 1983) and internal marketing (Gronroos 1981) have their roots in the intense research of the service sector.

Finally in the "Walking-Erect Phase" from 1986 until today the number of contributions in books, articles and dissertations have increased explosively. Efforts have been undertaken in order to improve the understanding of the heterogeneity of services, designing and controlling intangible processes (Fisk *et al.*, 1993). According to Wright (1995) the emerging interest in services can be labeled a new service paradigm from the marketing discipline's traditional focus on marketing purely physical goods.

### 2.1.2 Characteristics of Services

Having described the development of service marketing and management, it is now important for the overall understanding of services, to examine what actually characterizes services. Although service industries are themselves quite heterogeneous, there are some service characteristics upon which it is useful to generalize. The characteristics we have chosen to discuss are:

- Intangibility
- Inseparability
- Heterogeneity
- Perishability

### 2.1.2.1 Intangibility

Services are not tangible, as stated by Berry: "A good is an object, a device, a thing; a service is a deed, a performance, an effort" (Berry, 1984). When a service is purchased, there is generally nothing tangible to show for it. As argued by Berry, "Services are consumed but not possessed" (Berry, 1984). Although the performance of most services is supported by tangibles, the essence of what is being bought is a performance rendered by one party, for another. Most market offerings are a combination of tangible and intangible elements. It is whether the essence of what is being bought is tangible, or intangible, that determines its classification as a physical good or a service.

### 2.1.2.2 Inseparability :

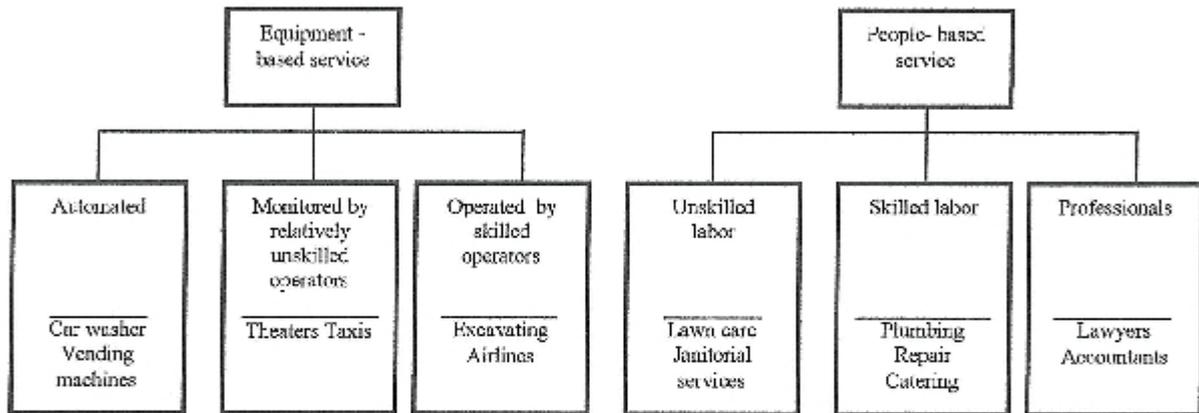
Another characteristic concerning services is that production takes place simultaneously with consumption. Generally, goods are first produced, sold, then consumed. Services on the other hand are usually sold first, and then produced and consumed simultaneously. This raises a number of problems which marketers of goods do not face: Participation of customers in the production process, or delivery process, the interaction between the service provider, the service environment and the customer, and the merging of operations, human resource and marketing responsibilities in one individual. Additionally, some service organizations such as passenger transport companies and restaurants, produce and deliver their service for many customers simultaneously. In these cases, customers interact not only with the service organization; but also with each other. As a result, other customers are a part of the service consumption experience.

### 2.1.2.3 Heterogeneity

Compared to goods services are normally less standardized and uniform. Services are not homogeneous. Service industries tend to differ regarding the extent to which they are "people based" or "equipment-based" (Thomas, 1978). That is to say, there is a larger human component involved in performing some services than others.

Equipment-based services vary depending on whether they are automated or monitored by skilled or unskilled operators. People-based services also vary depending on whether they are provided by unskilled, or professional workers.

Figure 2.1: Types of Service Business



Source: Thomas, 1978

One of the implications of this distinction is that the outcomes of people-based service operations tend to be less standardized and uniform than the outcome equipment-based service of goods-producing operations. Stated differently, the extensive involvement of people in the production of a service introduces a degree of variability in the outcome that is not present when machines dominate.

Because the customers buying services meet face-to-face with service employees; thus experiencing their behavior and attitudes, service outputs can hardly be standardized. The marketing issue here is to assure consistent service quality. In the absence of a tangible attribute, it is hard to establish objective standards of service product quality (Armistead, 1994). This implies that quality is hard for customers to assess prior to, or even after, purchase.

#### 2.1.2.4 Perishability

Services cannot be stored, hence services are highly perishable, e.g. empty tables in a restaurant can be seen as a revenue opportunity lost for ever. Time cannot be held over for future sale, thus, services cannot be inventoried. The Perishability of services is not a problem when demand is steady, because it is easy to staff the services in advance, when demand fluctuates, service companies have difficult problems. Service marketers need therefore to manage not only the demand, but also the supply so that a profitable equilibrium is consistently obtained. All of these mentioned service characteristics are associated with several marketing problems.

The different marketing problems specific for service companies are illustrated and summarized in Table 2.1.

Table 2.1: Service Characteristics and Marketing Problems

Service Characteristics	Marketing Problems
Intangibility	<ul style="list-style-type: none"> <li>- Services cannot be stored</li> <li>- Services cannot readily be displayed, demonstrated or communicated</li> <li>- Processes are difficult to set and keep adjusted</li> <li>- No patent protection is possible for services</li> </ul>
Perishability	<ul style="list-style-type: none"> <li>- Services cannot be inventoried</li> </ul>
Heterogeneity	<ul style="list-style-type: none"> <li>- Services cannot be standardized</li> <li>- Quality control is difficult</li> </ul>
Inseparability	<ul style="list-style-type: none"> <li>- Customer interacts with service production and delivery systems and the service environment</li> <li>- Customer may be part of the product, production, and the delivery system.</li> <li>- No clear distinction between marketing, human resource management, and operations management can be made.</li> </ul>

Source: Zeithaml, Parasuraman and Berry, 1985.

The characteristics discussed above constitute the four traditional characteristics of services; however, in business marketing two additional characteristics can be added: Specialization and technology. Much more than in consumer marketing the business marketing of services involves the provision of specialized, custom-designed bundles of services. The management consultant for example identifies the unique problems of the business client and recommends unique solutions. As business markets involve more and more complex high-technology products, the service sector has to keep pace in meeting the customers more sophisticated needs (Barwise, 1995)

### 2.1.3 The Service-Good Continuum

Having identified the main characteristics of service, a further distinction between services and physical goods will be conducted. This is done by presenting different definitions of services which stress the difference between services and goods, and finally by demonstrating the service-good continuum.

There exists a large amount of different definitions regarding the concepts of service. Gronroos (1983) defines service as:

"An activity or series of activities of more or less intangibles nature that normally, but not necessarily, take place in interactions between the customer and service employees and/or physical resources or goods and / or systems of service provider, which are provided as solutions to customer problems".

Sasser *et al.* (1978) defined another meaning for service; which, Fitzsimmons and Sullivan (1982) refined to read:

"A service is a package of explicit and implicit benefits performed with a supporting facility and using facilitating goods".

Collins and Payne (1991) define service as:

"Any primary or complementary activity that does not directly produce a physical product - that is, the non-goods part of the transaction between customer and provider".

Another commonly used definition of service is proposed by Kotler (1991).

"Any act or performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything.

Its production may or may not be tied to a physical product.

One common characteristic of these definitions refers to the proportion of the intangible part of a product. This leads to a more sophisticated distinction between goods and services. The service component can be a minor or a major part of the total offer. In fact, the offer can range from pure good on one hand, to a pure service on the other. Generally, four categories of offers can be distinguished (Koter, 1991).

### **1. Pure Tangible Goods.**

Here the offer consists primarily of a tangible good, no services accompany the product (e.g. soap).

**2. Tangible Good with Accompanying Services.**

Here the offer consists of a tangible good accompanied by one or more services to enhance its customer appeal. Levitt (1976) observes that "the more technologically sophisticated the generic product the more dependent are its sales on the quality and availability of its accompanying customer services (e.g. automobile).

**3. Major Service with Accompanying Minor Goods and Services.**

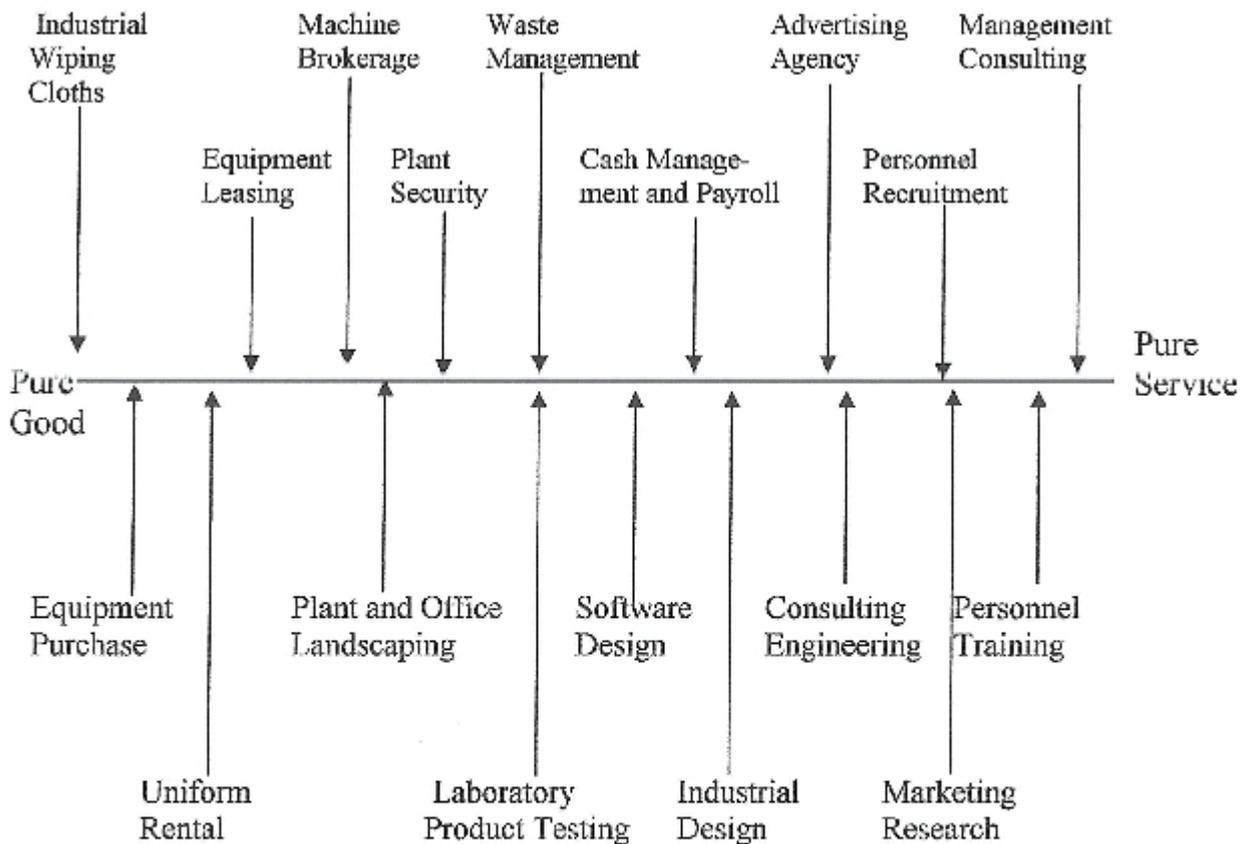
Here the offer consists of a major service along with some additional services and/or supporting goods (e.g. airline transportation).

**4. Pure Intangible Service.**

Here the offer consists primarily of a service (e. g. psychotherapy)

The concepts of "pure goods" and "pure services" are not ideal concepts. They cannot be found in the real world of business. Rather, most company' offers lie along a continuum which combines varying degrees of goods and services. Examples of business goods and services are illustrated in the service-good continuum shown in Figure 2.2:

Figure 2.2: Service-Goods Continuum



Source : Gross *et al.* , 1993

When moving from the "pure good" towards to the "pure service" and of the spectrum, the proportion of tangible physical good, of the total value purchased decreases, and the intangible element increases. In personnel training, the trainee may not receive any tangible physical items. Training may be achieved entirely through verbal communication and demonstration. For this reason, personnel training is shown at the extreme right as one of the business services that most closely approximates the "ideal" of a pure service.

## 2.2 Service-Profit Chain

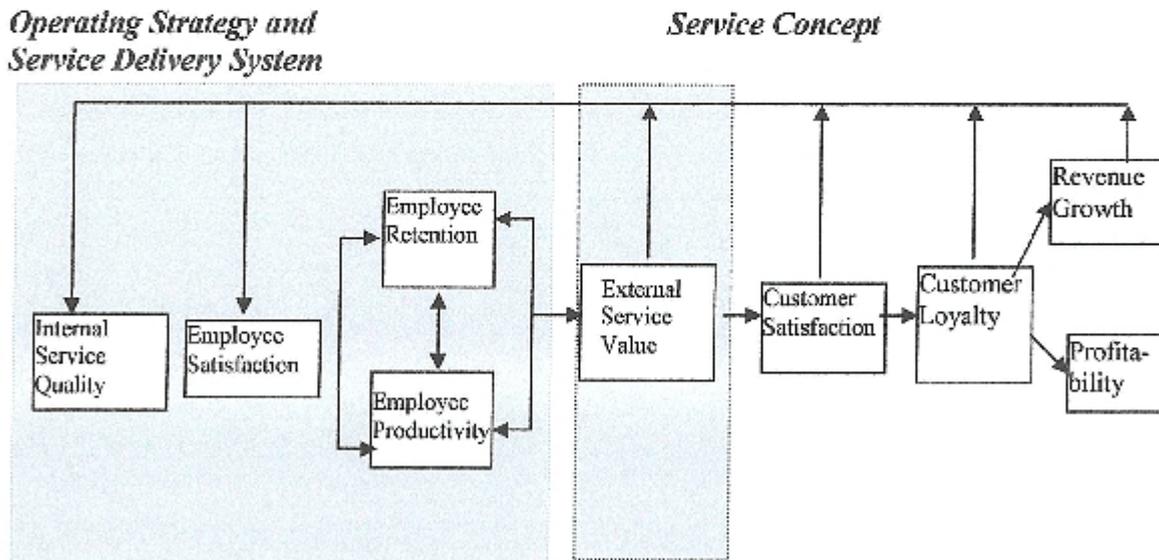
Having introduced services, it is now of interest to relate services to customer satisfaction. One way to illustrate the relation between internal operations and customer satisfaction in services is proposed in the Service-Profit Chain by Heskett et al. (1994). Because this model functions as the overall framework for the analysis of the relation between service delivery and customer satisfaction in services, we find it appropriate to introduce the Service-Profit Chain.

The convergence of work being carried out by Reichheld and Sasser (1990) on customer satisfaction and loyalty, associated with the cycle of failure in front-line human resources management led to the creation of a broader framework with day-to-day management relevance. Reichheld and Sasser (1990) identified a close relationship between the defection of customers and dissatisfaction of employees in service companies. These indications resulted in the Service-Profit Chain (Schlesinger and Heskett, 1991), which provides a link between profit and growth with employee satisfaction, by focusing on customer satisfaction (Heskett et al., 1994; Schlesinger and Heskett, 1991).

The Service-Profit Chain also been influenced by the analyses of successful service organizations. It is perceived as a valuable tool for managers to target new investments and to develop their service offerings and satisfaction levels for maximum competitive impact, as such widening the gap between service leaders and their merely good competitors (Heskett et al. 1994). The Service-Profit Chain establishes relationships between profitability, customer loyalty and employee satisfaction, loyalty and productivity. It is not solely the various

elements of the chain that are of interest, it is also the links in the chain that focus should be placed on.

Figure 2.3: The Service-Profit Chain



Source: Heskett *et. al.* 1994

The links in the chain are to be seen as propositions. Each component of the Service-Profit Chain is influenced primarily by the previous components in the chain: Profit and growth at the end are stimulated primarily by customer loyalty. Loyalty in return is a direct result of customer satisfaction. Customer satisfaction among other things, is influenced by the value which creates customer satisfaction stems from employees of a service company who are satisfied, loyal, and productive. A strong influence on employee satisfaction in return, results primarily from high-quality support services and policies that enable employees to deliver results to customers. But it is solely the specific components of the chain which are of importance, attention should also be paid to the links between the elements. By taking a closer look at each link, it reveals how the Service-Profit Chain functions as a whole. Heskett et al. (1994) emphasize that the Service-Profit Chain is circular. A direct influence to each link stems from the previous one; but, indirectly all links are interrelated and therefore interdependent.

Even so, the main focus of the Service-Profit Chain is the relation between internal operations, customer satisfaction, and loyalty. The importance of customer loyalty is stressed by Reicheld and Sasser (1990). They suggest that companies should be aware of the

disadvantages concerning defection of customers on the preferable aspects of loyal customers. It is estimated that a 5% increase in customer loyalty can produce profit increases from 25% to 85% (Reichheld and Sasser, 1990).

The importance of customer loyalty has affected leading service firms currently to quantify customer satisfaction. However, today's customers are strongly value orientated, and research programs have shown that it is extremely important to distinguish between very satisfied and satisfied customers as they have different repurchasing behavior. Customers perceive value as the results they receive in relation to the total costs. Therefore many organizations have started to measure relationships between individual links in the Service-Profit Chain; but, only a few have related for achieving lasting competitive advantage.

### 2.3 Service Value Chain

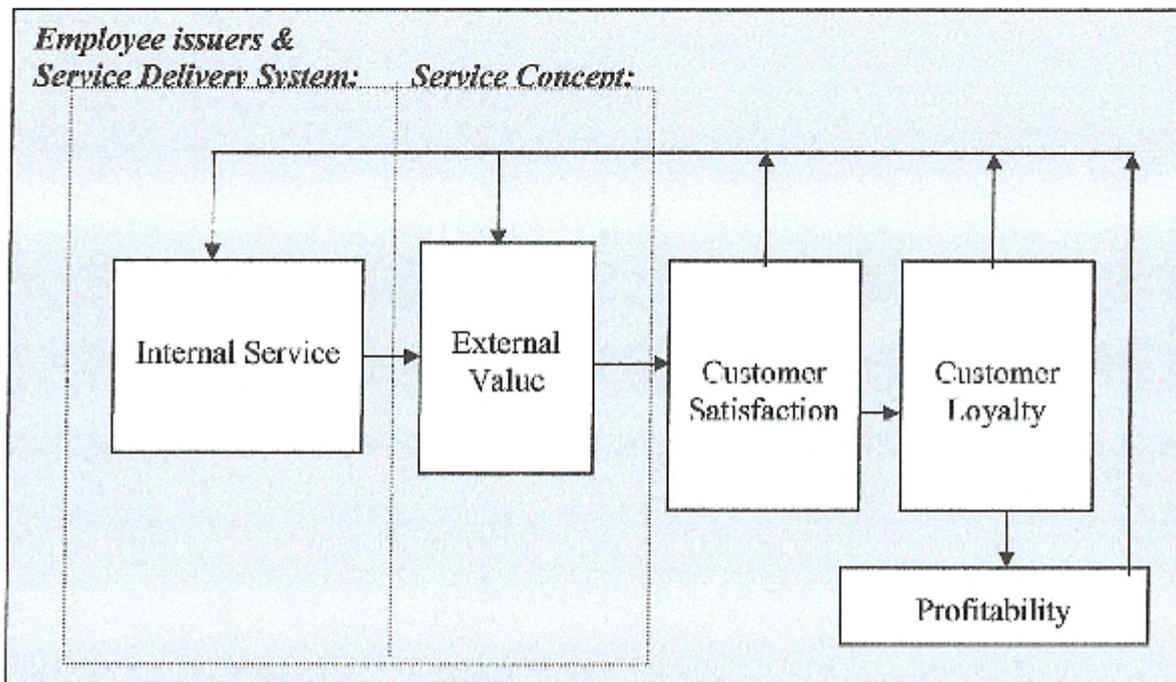
One of the greatest advantage of the Service-Profit Chain is the fact it covers the horizontal spectra entirely. It puts attention both on elements backwards and forwards, e.g. it encompasses both elements concerned with employees, employee satisfaction, and productivity; but, also on elements concerned with the customer, customer satisfaction, and customer loyalty.

However, the first link of the Service-Profit Chain, which can be viewed as the starting point constitutes the operating strategy and service delivery system. This encompasses, according to Heskett et al. (1994), internal service quality, employee satisfaction, employee retention, and employee productivity. The main focus is solely on employee satisfaction which in return has a direct influence on employee retention and productivity. According to the model, the latter has a positive influence on the value of services provided to external customers.

At the same time; this interrelation can be criticized for being too exclusive and too narrow. In order to fit the model to the specific problem formulation formulation of this thesis we have chosen to substitute the first link of the chain. The value of services provided to customers depends on internal operations. One important but not sole issue, thereby is employee satisfaction. Internal operations take place among employees both in front-line and back-office positions and are characterized by employee interactions. A decision one employee makes has in general an impact on other employees, and vice versa; which makes inter

organizational behavior complex. Looking for example at consumers, price is not the only buying parameter; such as staff performance does not depend solely on one parameter as suggested in the Service-Profit Chain. A modification of the model seems therefore necessary. The main purpose of the modification is simply to adjust the Service-Profit Chain in a way which serves our analysis best, thus it can be used as our overall structural model. The modified version which we have termed "The Service Value Chain" is illustrated below.

Figure 2.4: The Service Value Chain



Source: Inspired by Heskett et al., 1994, p. 166

In order to take the complex structure of organizations into account, it is suggested to label the first link of the Service Value Chain as Internal Service. Internal service is concerned with organizational behavior with focus on employees. It includes, for example decision making processes, intra-organizational communication, and employee motivation. The purpose of terming it internal services is to create a starting point for a Service Value Chain which is not too narrow. This will be of help when analyzing the interrelation of internal operations and provided external value. A further investigation concerning internal services will be conducted in the following chapter three.

In comparison with the original chain, the final link has been modified as well. The direct influence of customer loyalty to growth of revenue and profitability is still considered; but, it

is less emphasized. It is argued that profit is caused by loyal customers. This is true, but, revenue growth and profitability have many different determinants such as for example, prices of services, costs, and repurchase frequency.

As we see the most critical issues of the Service-Profit Chain are the relations between internal operations and customer satisfaction, which in return lead to customer loyalty. Besides this, profit is considered to be one possible out come of customer loyalty. In order not to neglect the final link, profit is included in the Service Value Chain. It rank, however, below customer loyalty. Therewith, profitability remains an element of the chain which influences other links, as for example internal service; but, it becomes subsequent to customer loyalty. As such, customer loyalty gains importance in the Service Value Chain.

The main elements of the original Service-Profit Chain continue; however, to prevail. Also the circular character of the chain remains. This means that the interrelation between the different links is still emphasized. In order to analyze the relationship between internal operations and customer satisfaction and loyalty, the various links of the Service Value Chain will be further discussed in the following Part II.

# PART II

THEORETICAL FOUNDATION

## PART II: THEORETICAL FOUNDATION

### Chapter 3: Internal Service

Internal service is the first links of the Service Value Chain. By internal service we interpret the operations, processes, and activities which influence the behavior of employees in service organizations, e.g. decision making processes, communication, empowerment and employee motivation. Hence, internal service is concerned with the service company's employees. The starting point is taken in the assumption that the effective functioning of the personnel of service organizations is one of the main prerequisites for its external performance (Gronroos, 1985; Kotler and Armstrong, 2002).

The purpose of this chapter is to discuss concepts dealing with the human resources and internal processes of a service organization which has an impact on the service delivery. As a point of departure, the internal marketing concept has been chosen because it provides valuable insights to the role of employees and theories will be discussed dealing with internal operations which support the performance of service employees.

#### 3.1 Internal Marketing

The first link of the Service Value Chain focuses on employee satisfaction as the driving force for providing value to external customers. In the field of service marketing and management, this basic assumption has been elaborated upon. The current outcome is a perspective labeled internal marketing. Internal marketing is defined as a philosophy which views employees as internal customers. In return, internal customers are described as anyone in an organization who is supplied with products or services by other in the organization (Nagel and Cillicrs, 1998). By satisfying the needs of internal customers, service companies enhance their ability to satisfy the needs of external customers (Berry and Parasuraman,

1999, Gronroos, 1995, Heskett, 1997, Schlesinger and Heskett, 1998, Schneider and Bowen, 1995). They all imply the provision of good internal services to internal customers is crucial to the overall performance of service companies (Gronler, Bitner and Evans, 1998).

Internal marketing can be seen as one way to achieve external performance by improving internal operations. The critical factor of external performance is the interaction between service companies and customers. But the quality of the external service encounter is influenced by internal service encounters, which is the interaction between internal customers. It is argued by Lewis and Entwistle (1990): "If these internal encounters are unsatisfactory, then the external customer may end up dissatisfied, complaining, and see the fault as lying with the customer-contact employee"(p.50).

Various research studies have focused entirely on internal processes, operations, and activities of employees which include human resource management, training development, and improvement of employees motivation through enhanced communication, empowerment, and involvement (Christopher, 1992, Lundberg, 1990) Whereas internal marketing approaches internal operations with an attitude towards personnel by utilizing external marketing activities and strategies. The analogy between internal activities and external marketing is shown by Collins and Payne (1991) and Gummesson (1987). The validity of the parameters determining external customer satisfaction have also been identified for internal customers (Gronroos and Bitner, 1992). The validity of the parameters determining external customer satisfaction have also been identified for internal customers(Gronroos and Bitner, 1992). Recover - employee responses to service delivery system failures, Adaptability - employee responses to special needs and requests, Spontaneity - unprompted and unsolicited employee behaviours.

Heskett (1997) emphasizes that successful service companies have achieved their position by turning their strategic service vision inward, meaning that employees receive the same attention as customers. The positive correlation between external

success and a supportive organizational environment is supported by Payne and Clark (1995). Even when the external customer is in the center, internal marketing is seen as a tool to ensure employee participation and involvement. Some researcher market. They suggest that even suppliers of an organization can be included in the concept of internal marketing (Gronroos and Gummesson, 1995, Hakonsson, 1992).

A more holistic idea of internal marketing is presented by Gummesson (1997). He includes customer-supplier relationships between employees inside one organization, the application or marketing know-how concerning internal relations, activities involved in getting a company to be marketing-oriented, and finally the marketing that exists among profit-centers. Gronroos (1990b) stresses that internal marketing is an approach to develop a service orientation and an interest in the customer among all personnel. The aim is thereby to create motivation among all personnel to support the goals of the organization.

Gilmore and Carson (1995) summarize the parameters of internal marketing by identifying five types of activities. First, they create the internal and external interface. It is stressed that the human factor has a crucial effect on a customer's experience when dealing with a service organization. "The interpersonal behavior of the front-line staff, their knowledge and competence, their responsiveness and willingness to help is obviously important from the customer's perspective"(Gilmore and Carson,1995, p.302).

Second, the application of an internal marketing mix to customers is seen as another part of internal marketing activities (Piercy and Morgan, 1999). This approach can be criticized for being unrealistic. A traditional marketing strategy may not be applicable to a employees; because, in contrast to external customers, they do not have a purchase choice which in turn has an important impact on the marketing strategy (Nagel and Cilliers, 1998). External customers can usually purchase their services elsewhere if they are not satisfied with the service provided. Additionally, internal marketing mix may fail because the internal product or the external strategy could be unwanted by employees. The marketing mix framework is considered to be too narrow and insufficient for complex organizational structures; thus, this approach will most likely fail in practice (Rafiq and Ahmed, 1997).

Third, the functional responsibility of internal marketing is discussed. In the literature there is no consensus regarding which department has the responsibility for internal marketing (Collins and Payne, 1995; Flopo, 1996; Gronroos, 1990a; Rafiq and Ahmed, 1997). Some argue that it is a discipline of the marketing department, others perceive it as a function of human resource management. As internal marketing refers to the whole organization this discussion seems redundant. Every manager and every subordinate in each department, business unit or profit center has the responsibility of executing the concept, and taking part in

a circle of continuous improvement. Gummesson (1997) has created the term, part-time marketer and claims that everybody in an organization is a part-time marketer; thereby, he emphasized the importance of everyone in an organization.

The fourth element belonging to the internal marketing concept is the empowerment and involvement of personnel. Empowerment refers to the organizational circumstances which enable employees to work effectively. This includes transparency about the organization's performance, provision of rewards, provision of support development possibilities, and to give employees responsibility (Bowen and Lawler, 1998). Many managers fear concerning employee empowerment, that the subordinates might get too much responsibility, and thereby reducing their own level of relevance and power. It is reported that mainly in established bureaucratic organizations a reluctance against delegation prevails (Gilmore and Carson 1995).

Staff roles form the final parameter of internal marketing. One aspect is the provision of training programs to employees. These training initiatives intend to improve the inter-employee communication as well as communication between different departments or working groups (Tenner and De'oro, 1998). The effect is questionable; because sporadic meetings are not likely to change employee's behavior or attitude. It is therefore suggested to implement an environment which enables a continuous process of enhanced communication rather than single training arrangements. The continuous improvement of processes and communication is very much in the literature dealing with Total Quality Management (TQM).

The last two arguments for internal marketing, employee involvement and the role of the staff are seen as crucial areas for internal service, and will therefore receive special attention. By analyzing the background of employee's involvement and the role of the critical points will be examined.

### 3.2 Employee Involvement

In order to ensure a high employee commitment, researchers suggest to increase the level of employee involvement. Waterman (1998) identifies three central elements concerning employee participation: Influence, interaction, and information sharing. Their model has been improved by Marchington (1996). He classifies employee involvement into three elements:

First, employee participation in the decision making process without the intention to quantify their impact on the final decision. Second, employees intention to have an impact on the decision making process and the final decision. Finally, employees ability to link participation and control in decision making processes.

### 3.2.1 Managerial Issues in Decision Making

Managers are supposed to make decisions. This is certainly true for companies producing goods and for companies providing services. In general, one can distinguish between two main streams of theories concerning decision making (Schermerhorn *et al.*, 1991). The first one of interest is the classical decision theory. This theory assumes that everything is certain implying that the manager knows all alternatives and consequences his decision has. This theory has been criticized for being hypothetical, static, and unrealistic.

The second theory is the behavioral decision making style. This theory explains decision making processes in an uncertain world. Managers make decisions with respect to their individual perception of situations and have only limited information available. They choose the alternative which satisfies them best (Simon, 1977). The key difference between the classical theory where the manager makes an optimum decision and the behavioral decision theory where the manager tends to make a satisfying decision, is the presence of cognitive limitations and their impacts on our perception of the problem. Cognitive limitations explain the manager's limited ability to recognize problems and solutions.

When it comes to decision making, three different approaches are possible. First, the manager makes an individual decision. He gathers information on his own and then makes the decision based on this information. This style reflects an authority management style, and the manager's power and position within the organization

The second way to make decisions is based on a more consultative style. Here the manager seeks to get information from their subordinates. They can be front-line employees who have intense contact with customers or back-office employees who possess supportive tasks. The manager discusses problems with the employees and receives additional information concerning the problem, and perhaps also proposals to help solving the problem. But the main characteristic of the consultative decision making style is that the manager makes the final decision himself

Finally, group decisions are possible. The manager receives input from other employees; but, does not making the final decision. Instead, a discussion between the manager and other employees takes place which results in group consensus.

### 3.2.2 Management Styles

The three basic decision making methods have been further expanded by Vroom and Jago (1998). They suggest two variants on the authority decision. The first one is that the manager makes the decision solely based on the information available to him at that time. The other variant implies that the manager obtains information from employees and then decides on the problem solution. Employees are not directly involved in the gathering of alternatives.

Concerning the consultative decision making style Vroom and Jago (1998) propose two further distinctions. The first variant is that the manager gets information and alternative ideas for solving the problem from different employees, thereafter, making the final decision himself. The key factor is that those employees are not brought together, indicating that no discussion or joined alternative gathering takes place among the manager and subordinates. The second variant of the consultative decision is that the manager initiates a discussion between employees concerning a problem. Suggestions and ideas are obtained collectively, but the manager makes the final decision by reflecting on the discussion.

None of the outlined managerial decision styles can be seen as a general tool. For different problem attributes, there are different ways to obtain suitable solutions. The drawback of the authority decision is, that only a limited amount of information is accessible. Due to a distance from the real problems which occur during production or with customer relations, it can be a disadvantage for the organization, when the manager decides individually. This can provoke misunderstanding between the manager and employees and can thereby create employee resistance because they have not been involved in the decision making process. The main drawback of the authority decision is the advantage of the group decision. When people are involved in a decision making process, they can identify with the solution. As a result they tend to support and execute the decision in their work place.

In order for the employee to be able to get involved in some of the everyday decisions it is important that the managing staff of service companies are aware of the way they manage their organization. Today it is not sufficient for the managers to manage in the older and more "traditional" way. The traditional management style builds upon disciplines like planning, organizing, directing, coordinating, and controlling. If managers of today's service companies want to have success, they need to execute the management disciplines in a much broader perspective. They need to focus much more on the "modern" management disciplines like empowering, coaching, caring, and focusing on the company's vision. However, it is important to note that the modern management disciplines are supplementary to the more traditional management disciplines, and therefore not a substitute.

This change in focus concerning the management disciplines is in agreement with the change we have seen concerning the organizations orientation. The past trend has been for companies, to become very result. This implies that the managers of today's service companies need to be concerned with the more "softer" element of the organization (Tanner and DeToro, 1996).

We agree on the need for this change in focus. It is however, by improving the organizations processes that one can influence and affect the overall result of the company and not the other way around. Another argument for this changed focus is that in service companies the satisfaction of the employees is of so huge importance, that it makes no sense just to look upon the financial results. One has to encompass the various processes of a service organization, as these processes are seen as the means of reaching satisfying results. As empowerment is to be seen as probably one of the most important factors of the modern management disciplines, it will be further elaborated upon in the following section.

### 3.2.3 Empowerment

Having examined different managerial decision making styles where employees are partly involved, it is of interest to investigate methods which encourage personnel to take part in decision making processes. One method is found to be of crucial relevance which relates to the empowerment of employees.

Empowerment can mainly be found in the service industry. For example companies such as south west Airlines, Marriott, American Express, and Federal Express use the term to describe their success (Schneider and Bowen, 1995). In service companies, empowerment corresponds to both providing front-line personnel with their own responsibility when handling customer and encouraging and rewarding employees to exercise initiative and imagination (Zemke and Schaefer, 1989).

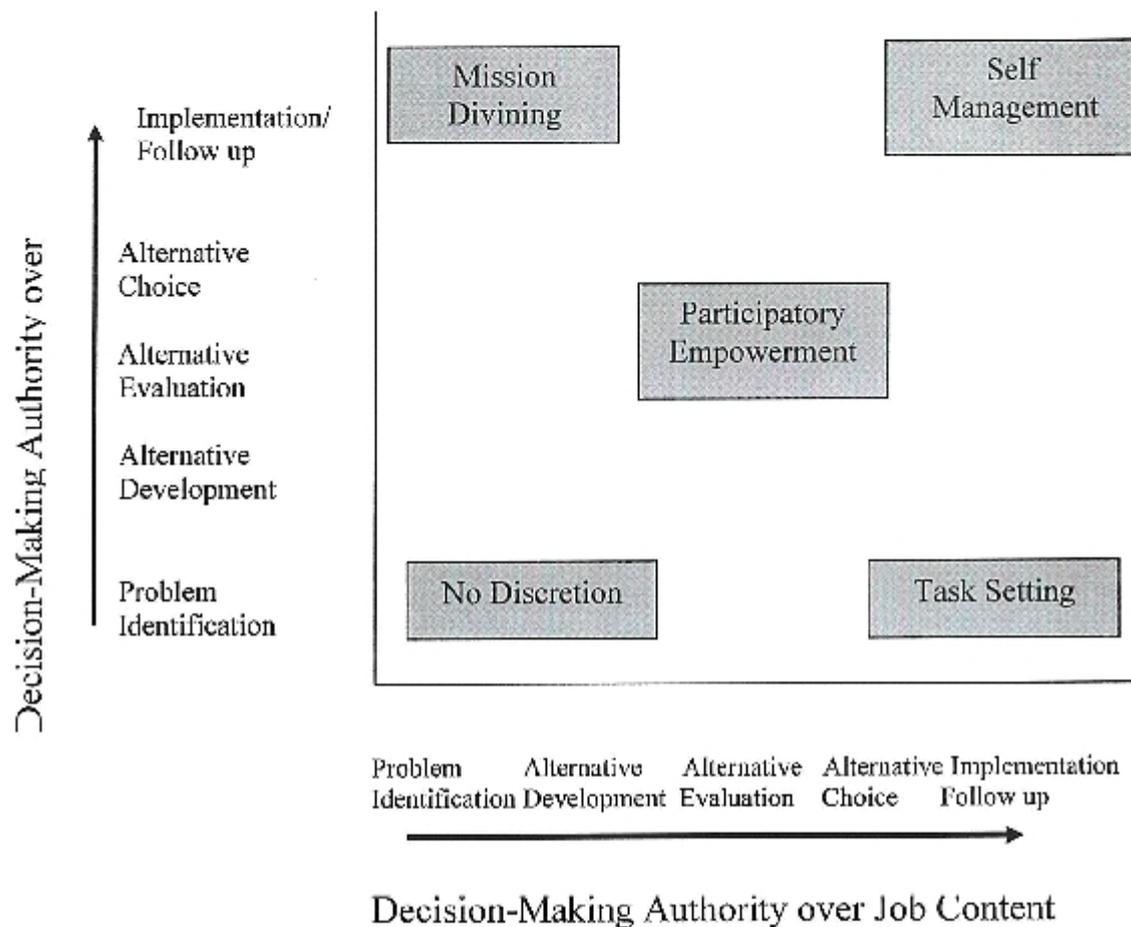
Firms like e.g. Southwest Airlines have enhanced their service offer by getting front line personnel involved in essential decisions. The approach chosen goes even further to customer involvement when, for instance recruiting stewardesses. Frequent fliers are invited to present their opinion and preferences regarding service personnel (Heskett et al., 1994). It is more or less surprising that this offer is widely accepted by passengers who can be assumed to be heavily occupied with their own business. However, this example demonstrates that service companies are on their way to taking other people's opinions into account, and not solely the opinion of executives.

Empowerment is a question of balance: Giving employees control over their own work processes without losing the over them. This twofold aspect requires limitations to empowerment which is the real challenge when providing employees with self management and authority (Ford and Fottler, 1995). One prerequisite for empowerment is that information is shared between employees and management "which enables them to understand and contribute to organizational performance, rewarding them based on the organization's performance, and giving them the authority to make decisions that influence organizational outcomes" (Ford and Fottler, 1995, p.22).

When decentralizing making employees have to share information which is a prerequisite for controlling their own work processes (Pfeffer et al., 1994). Thereby it is stressed that participation increases both satisfaction and employee productivity. Burack et al. (1994) call this development "A new paradigm". They do not focus solely on the freedom to make decisions, but emphasize a shared vision throughout the organization. It is not only the top management that is concerned with the organization vision. Employees also share the idea. What used to be an exclusive task for the top management, thereby becomes a task for the lower levels of the organizations. This indicates that hierarchical distances in "new paradigm organizations" are minimized, and a closer co-operation among all employees and management is established.

Ford and Fottler (1995) propose the employee empowerment grid which demonstrates the different related stages concerning decision-making authority over job content and context

Figure 3.1: The Employee Empowerment Grid



Source: Ford and Fottler, 1995

According to Ford and Fottler (1995), all jobs have two dimensions: Content and context. The job content includes tasks and prescription necessary to execute a job. Job context refers to the both organizational overall mission and vision, as well as the organizational setting and structure, and how the particular job is carried out. Decision making processes are divided into five stages: Identifying the problem, discovering alternative solutions, evaluation, making a choice and, finally, implementing and follow-up on the impact of that choice. The figure above illustrates five different combinations of empowerment where employees are involved in decision making processes in the job content/ context dimensions.

The involvement of employees in making processes requires an exchange of information among all participants. To make valuable decisions it is necessary obtain as much information as possible concerning possible outcomes of a decision and potential alternatives. Thus, the level of empowerment and provided information depends on two aspects. First, the dimension (content/context) the employee is involved in the decision making process and second, the service business. Where service is customized or personalized, relationships are long-term, and employees have high growth and social needs and strong interpersonal skills, the potential gains from empowerment can be significant (Bowen and Lawler, 1992)

Examples, where service companies fail to integrate their employees are not difficult to find. Pfeffer *et al.* (1994) report "When Robert Beck was head of human resources for the Bank of America, he perceptively told the management committee, reluctant to disclose the bank's strategy and other information to its employees, that the competitors almost certainly knew the information already, typically, the only people in the dark are the firm's own employees.

Bowen and Lawler (1992) summarize the advantages of empowerment as follows: Quicker on line responses to customer needs during service deliver; quicker on line responses to dissatisfied customers during service recovery; employees will interact with customers with more warmth and enthusiasm; empowered employees can be a great source of service ideas; and finally; great word of mouth advertising and customer retention.

The model above suggests that motivation has its source in being energized, directed, and persistent. Employees are energized by needs. They are directed by the pursuit of goals which yield rewards that gratify needs, and they are persistent in behaviors that regularly yield rewards which gratify their needs (Schneider and Bowen 1995). The theory which supports this approach is Maslow's needs theory as examined before.

### 3.3 The Role of Staff

As the second important aspect of internal marketing, the role of the staff has been identified. According to Bounds *et al.* (1994), roles are important determinants of managerial performance for managers throughout the service organization. Roles are the responsibilities, behaviors, or performance accomplishments expected of a person in a particular position. "Formal roles" are prescribed, and list task, requirements, and responsibility. Very soon after a person begins a new job, "informal roles" which may differ from formal roles, evolve to suit

social and personal preferences. Leaders are responsible for putting in place, systems that ensure people are competent for continuous improvement of responsibilities. These include systems for selection, placement, education, coaching and ongoing development.

One evident example of a changed set of roles is the change in focus with regard to management style, where today's leaders are expected to handle disciplines like coaching, empowering, and caring as the more traditional roles like planning, organizing, coordinating, and controlling.

According to Schermerhorn et al. (1995) roles are closely related to communication, especially in an organizational context between management and staff, but also among employees. Roles are defined as a set of activities expected of a person holding a particular office or position in a group or organization (Katz and Kahn 1978). The role expectations are mutually based, the manager has role expectations to his subordinates and visa versa. It is stressed by Schermerhorn et al. (1995) that role expectations are communicated among all members of an organization. This might result in a number of problems.

One "role expectation problem" refers to human resources. Every employee needs to know the role expectation the superior manager has concerning him. This is important in order to satisfy the superior by executing tasks well, but when the employee has not received enough information about both his task and role, he can hardly live up to the superior's expectations. This conflict is termed role ambiguity. In order to avoid these kinds of misunderstanding, it is necessary to communicate the role expectations one has. There can also occur another kind of conflict which refers to the inability of fulfilling the expected role.

Role conflicts can have different causes. Schermerhorn *et al.* (1995) suggest five basic types of role conflicts. First, intrasender conflict. This refers to role expectations which cannot be fulfilled. Second, interceder role conflict. The expectation is understood, but different opinions are prevailing between sender and receiver. Third, person role conflict which is rooted in a conflicting value difference. Finally, interrole conflict where role expectations of two or more persons are in conflict.

### 3.4 Subconclusion

Chapter three is concerned with the internal service of service companies. First of all the managers of service companies have to pay a great amount of attention to their employees, in order for the companies to survive in the fierce competition that they are facing in the service industry. They have to recognize that one way to achieve good service is by having effective, productive, and satisfied employees within the organization and especially in customer contact positions.

The managers have to treat their employees in the same way as their external customers, as internal satisfaction is a prerequisite for external performance. If the internal encounters are unsatisfactory, the external customer may end up dissatisfied and complaining. The managers of service companies have to encompass the various processes into the overall strategic vision, which implies that they have to turn the strategic vision inward. Moreover, they need to equally emphasize both processes within the organization and the overall result of the service operations. They have to keep in mind that the processes are the means to the end, and that they must not be neglected.

In order to ensure a high employee commitment it is suggested to increase the level of employee involvement. Employees feel much more satisfied with their work if they get a chance to influence some of the various everyday decisions, or if they get a sufficient amount of information. The most important job for managers of service organizations is to empower and coach the employees instead of just doing all the work themselves. In service companies, empowerment corresponds to providing front-line personnel with their own responsibility when handling customers, and also encouraging and rewarding employees to exercise initiative and imagination.

However, for service companies, empowerment is a question of balance. Giving employees control over their own work processes without losing the control over them; hence, the real challenge is to provide the employees with self management and authority.

If one of the overall goals of a service organization is to provide their customers with high quality services, then it is of utmost importance for the managers to build the provision of

## Chapter4: External Value

Having examined internal processes which have an impact on external performance, it is necessary to focus on the relation service companies and their customers. The objective of this chapter is therefore to investigate the service provider-customer interface. First, a strategic service marketing perspective will be presented which is considered to be useful tool for marketing services to customers. Therefore the service delivery process will be analyzed by distinguishing core service products, peripheral and delighting services, and finally the service encounter which is defined as a dyadic interaction between a customer and a service provider (Surprenant and Solomon, 1997) will be analyzed.

### 1.1 Strategic Service Marketing:

Traditionally the function of marketing has been divided into three main components (Payne and Clark, 1995). First, is the marketing mix which includes elements that determine the service company's marketing program, second, the market forces which constitute the environmental conditions, which as such, have an impact on the marketing program, and finally, the matching process which is the strategic and managerial process to ensure that market forces are taken into account when developing a marketing strategy.

The marketing mix has its origin in the marketing of goods for consumer markets and consists of the well known 4P's: Price, Promotion, Place, Product. The marketing mix approach has been criticized for being incomplete, because it does not bear in mind customer needs and it industrial marketing (Bitner, 1995, Gronroos, 1990a; Gummesson, 1997). Judd (1997) proposes the fifth element as People and takes thereby the human resource factor into account. Booms and Bitner (1981) create 7P's by adding Participants, Physical Evidence, and Process to the original 4P's.

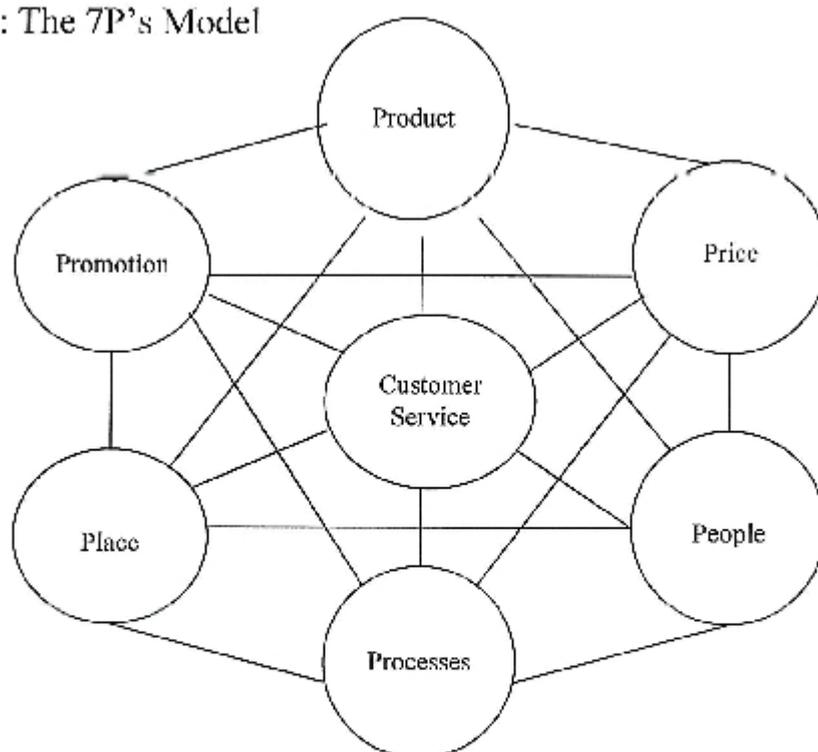
Their creation aims to include service in the marketing mix, and therefore the additional P's are called "Service P's. Another solution is suggested by Baumgarner (1991). He identifies 15 elements for a complete specification of the marketing mix adding among others probe, partition, priority, position, profit, plan, performance, positive implementations to the traditional mix.

However, Gummesson (1994) points out that the approach of filling a marketing mix only with a single letter P is too restrictive. Instead he prefers relationship marketing as a more useful tool to fulfilling marketing tasks. Relation marketing is defined as the understanding, explanation and management of the ongoing collaborative business relationship between suppliers and customers. For Porter (1993), "relationship marketing is the process whereby the buyer and provider establish an effective, efficient, enjoyable, enthusiastic, and ethical relationship" one that is rewarding to both parties." Berry and Parasuraman (1991) regard relationship marketing as the preferred approach to marketing services. There can be identified 30 relationships which need to be considered when conducting marketing strategies (Gummesson 1991). However, a more detailed discussion of relationship marketing will be provided in chapter six.

### 1.1.1 Service Marketing Mix

Still, the expanded marketing mix suggested by Booms and Bitner (1981) has been considered to be a valuable tool for marketing service. Payne and Clark (1995) support Booms and Bitner's 7P's but they propose one minor modification which leads to their expanded marketing mix for services.

Figure 4.1.: The 7P's Model



Source: Payne and Clark, 1995

Payne and Clark (1995) argue that the traditional 4P's model is insufficient for service marketing because it does not consider the complexity of services. In addition, the 4P's model does not take into account the prevailing interrelations in service businesses. The expanded model can be utilized for service marketing due to its cross-functional character and thereby is typically more concerned with "keeping the customer (relationship marketing) than catching the customer (transaction marketing)" (Payne and Clark, 1995, p.339).

Having identified the expanded marketing mix as an important concept for strategic service marketing, it appropriates to address the three additional elements: People, processes, and customer service. However, in the previous chapter the human factor in service organization has been elaborated upon, and will therefore not be discussed in this section. Next processes and customer service will be investigated.

#### 4.1.1.1 Processes

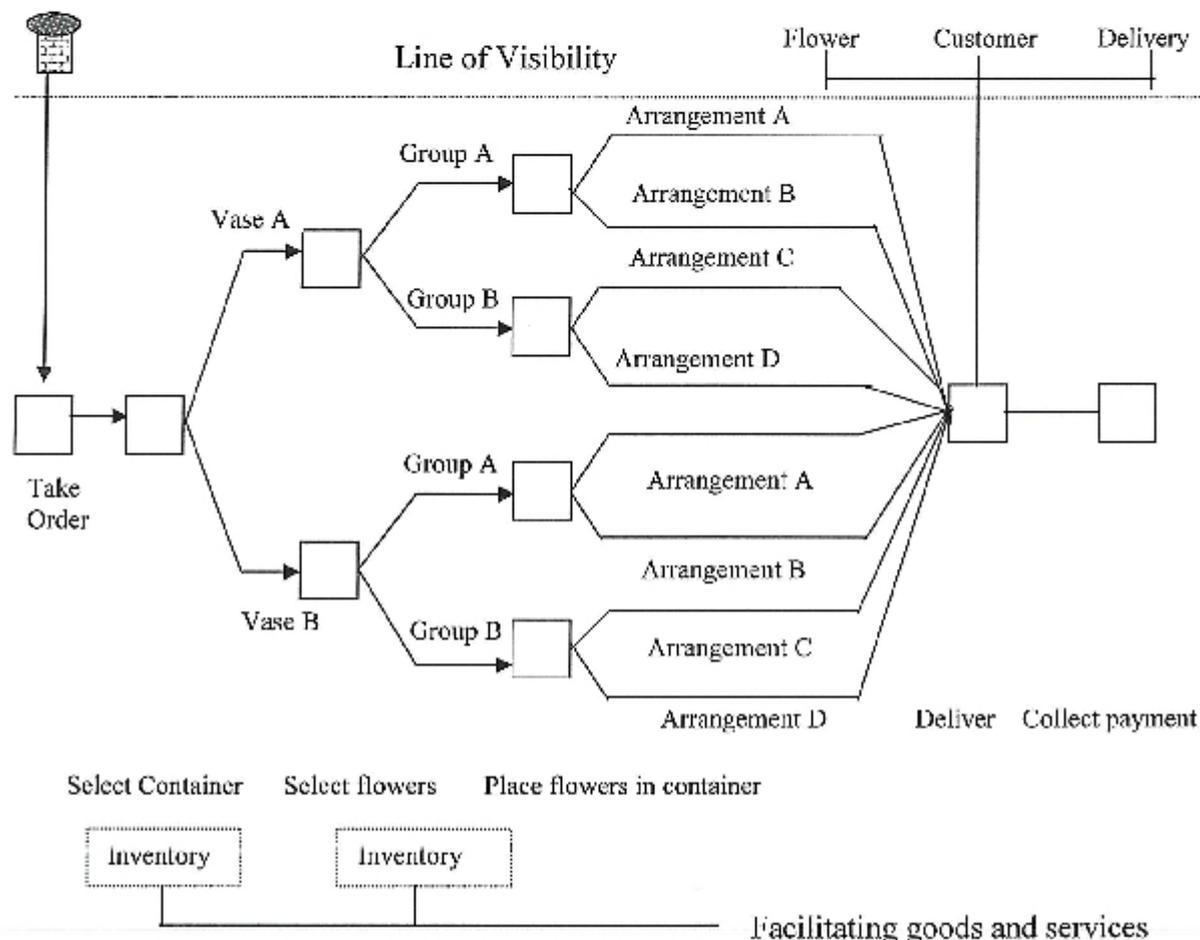
Delivering services is characterized by processes. This is mainly due to the characteristics of services, as such the inseparability between consumption and production. The service delivery becomes part of the purchase. Gronroos (1990b) refers to the functional quality of services which refers to *how* services are delivered. In contrast, the service product is the technical quality, and refers to *what* is delivered.

The consideration of processes in the service marketing mix is justified because it includes procedures, tasks, activities and operations which are of importance for the interaction between the service provider and customer. A large number of activities supports the actual service delivery which often is invisible to the customer. Payne and Clark (1995) emphasize that a close cooperation is needed between the marketing and operations staff who involved in process management.

There are found a large number of research studies which aim to identify the processes in service operations. One of the "pioneers" in this field is Shostack. Her early contributions have influenced the way service processes can be illustrated. The objective of service blueprinting is to structure processes for service companies (Shostack, 1984). It is seen as a practical tool to "engineer" services at the drawing board, as well as a tool for identifying gaps, analyzing competitions, aiding in market research, and controlling implementation (Shostack, 1987). Moreover, the adequate process design is then a mechanism that can

substantially increase the impact and role in the service sector. One example illustrates the breaking down of service processes.

Figure 4.2: Sub-processes of the Service Delivery Process

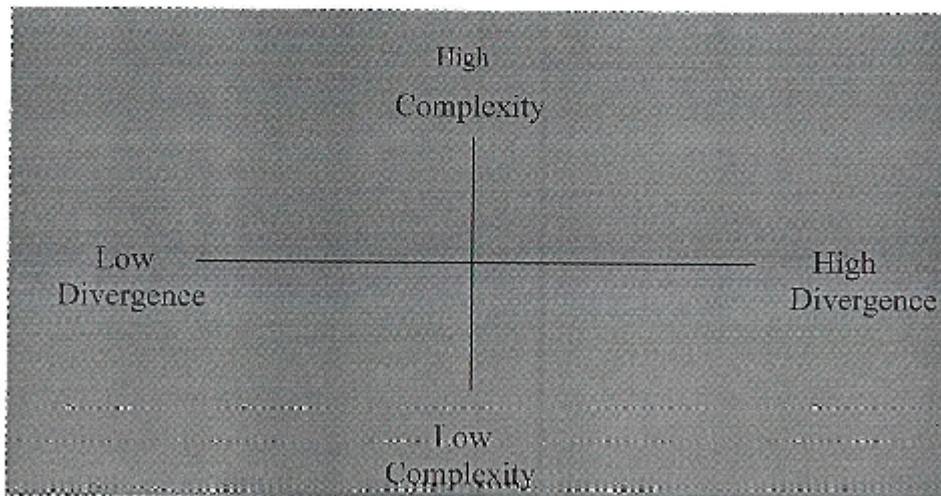


Source: Shostack, 1987

Figure 4.2 indicates that internal processes are invisible to the customer. It is possible to divide the service delivery processes into subprocesses in order to identify potential strength and weaknesses. Schneider and Bower (1995) stress that the breaking down of service processes as shown above produces a picture of the components of service delivery system which can help to weave together the competing logic of different organizational functions. Another way to structure service processes is to analyze the degree of complexity and divergence as suggested by Shostack (1987). Thereby complexity is concerned with the nature of the steps and sequences that constitute the service process. On the

other hand, divergence refers to the variability of the steps and sequences. This distinction enables a service company to position itself on the relevant market and to determine the direction it is going to choose in order to reinforce the position or establish a new position.

Figure 4.3 Complexity and Divergence



Source: Shostack, 1987

There are four divergence/complexity combinations possible (Shostack, 1987): First, reduced divergence, which is concerned with lowering the costs and increasing the effectiveness of the service company. The negative impacts might be seen in a reduced focus on individual customer's needs. Positive effects are a standardization of service delivery. Second, increased divergence. This is concerned with the customization of services. Service processes aim to meet the customer's individual needs. On the other hand, this requires additional resources which in return have an impact on increasing costs, thus higher prices.

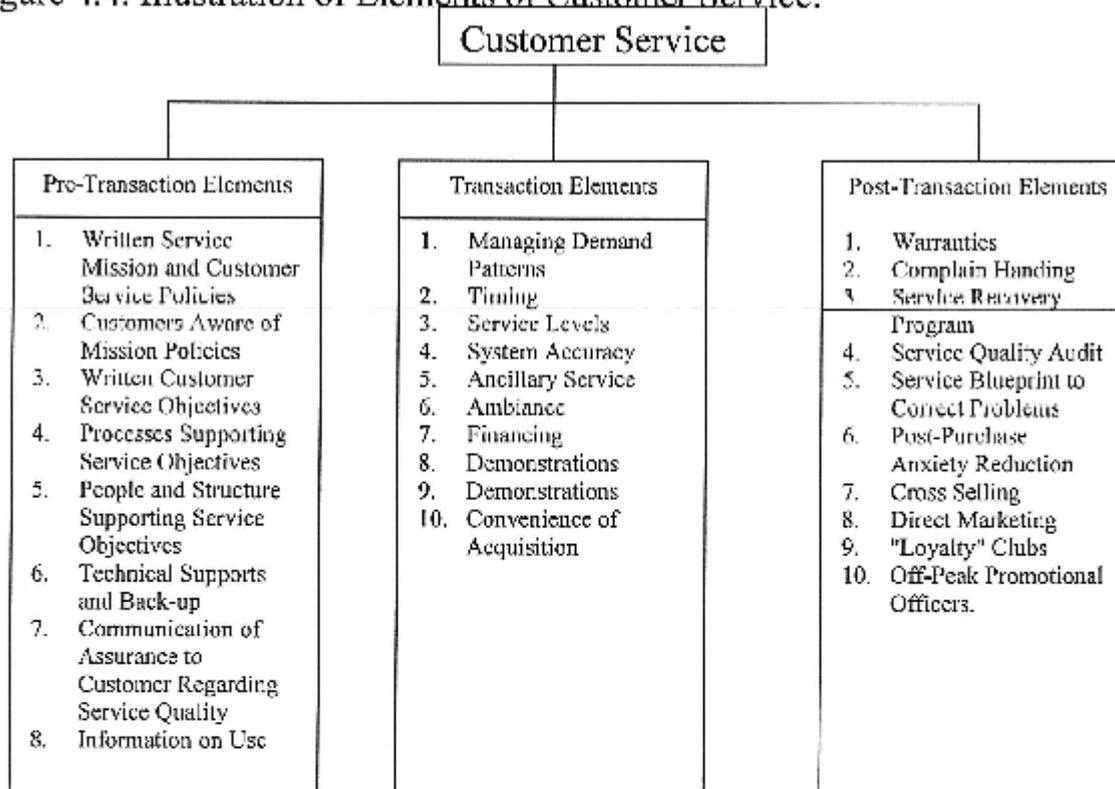
The third option is the reduced complexity. This focuses on making the service delivery easier by omitting steps and activities from the service process. Finally, increased complexity. This is concerned with the augmentation of the service business. More kinds of services are offered to customers in order to cover more customer's needs. It is thereby not necessary that the additional service products are directly related to the "original business", for example grocery shops or car dealers offer financial services. The option aims to penetrate the market and to create a competitive advantage. The strategic aspects will be examined in section 4.2.

## 4.1.1.2 Customer Service

Customer service is the heart of the service marketing model in Figure 4.1 (p.45). Especially in service providing firms, the needs of the customer should be the primary focus. Customer service can be defined as "being concerned with the building of bonds with customers and other markets of groups to ensure long-term relationships of mutual advantage which reinforce the other elements of the marketing mix" (Payne and Clark, 1995, p. 357).

The goal of service companies is to add value to their customers which is a prerequisite for customer satisfaction. But in order to meet customer needs, it is first of all necessary to understand what their needs are. In a second step, services need to be designed and developed, which fulfill the requirement of adding value to customers. Payne and Clark (1995) point out that "customer service can be regarded as a process which provides time and place for the customer, and which also involves pre-transaction and post-transaction considerations relating to the exchange process with the customer" (p.357). They propose the following model for approaching customer service.

Figure 4.4: Illustration of Elements of Customer Service.



Source: Payne and Clark, 1995

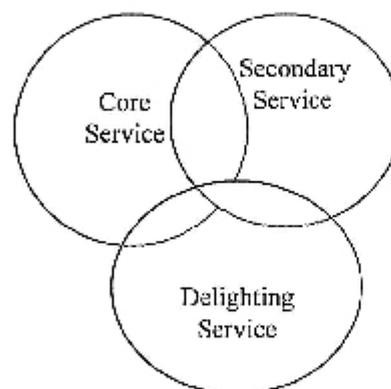
Figure 4.4 breaks down the delivery of customer service into three phases: Pre-transaction elements, the transactions themselves, and post transaction elements. It should be stressed that the actual transaction - the delivery of services to the customer – includes less elements than the phases before or after the purchase. From a strategic point of view, Christopher (1992) offers four steps of how service companies, could create customer service: First, the identification of a service mission. Service companies have to develop a mission which sets customer needs into focus, thereby reflecting the company's philosophy and commitment to customer service. Second, customer service objectives need to be set. When setting the objectives dimensions of service quality should be considered. Further discussion of service quality will take place in the following chapter.

The third step is the development of a customer service strategy. In order to do this four additional steps are suggested: Identification of service segments identification of the most important products and customers prioritization of service strategy, and the development of the service package. The final step of the customer service strategy is the implementation. The service package then vacuums a part of an integrated marketing mix.

#### 4.2 Service Delivery

Having outlined specific strategic service marketing issues this analysis will now address the delivery of services. Service can be distinguished concerning the importance they have to the service company and the customer. The following figure shows the three levels of services.

Figure 4.2: Core /secondary and Delighting Services



Source: Payne and Clark, 1995

First the core service product will be analyzed. As every service company has a prime service i.e. an initial business purpose which they deliver to customers the most important aspects in this context will be discussed. Thereafter secondary or peripheral service attributes will be analyzed. The secondary services can be seen as a supportive means in order to deliver the core service product. Finally, delighting services will be examined. Those are elements in the service delivery, which exceed the standards of the service business or exceed the expectation of customers. Often the competitive advantage of a service company is not grounded at the core service but in the provision of provision or delighting services.

#### 4.2.1 Core Services

Core services relate to the basic customer benefit received or the primary customer reason for the service transaction (Gornroos, 1990, Normann, 1984) For example a hotels core service product relates to overnight stays. However in today's competitive environment offering a valuable core service is not sufficient to survive. In addition to the core services organizations need continually to create and offer new attracting secondary services.

#### 4.2.2 Secondary Services

In contrast to core services secondary services are facultative or ancillary the core service. These secondary or peripheral services support the delivery of the core service product. Today, the success company is highly related to the number and quality of the secondary services attributes offered to the customers. Secondary services encompass many different aspects. We will clarify the term with the following example.

A hotel has overnight stays as the core service product. There can be found different institutions which support the delivery of overnight stays, for instance, hall, quick check-in, groomed personnel and guests, elevators, technical equipment in a clean hotel room such as television, telephone, VCR, safe, and furthermore a beach, etc. This example shows that one core service (overnight stays) is coupled with many secondary services.

Schneider and Bowen (1995) distinguish between the core service and service bundles. "Service bundles have longer lives because it is difficult for competitors duplicate the bundles even though they may duplicate the core services themselves" (P.192). Accounting to the

given example, the competitive advantage of a hotel is based upon the service bundle which it offers to its customers. The provision of a room for overnight stays is very easy to imitate, but its combination of all the secondary services causes a competitive advantage.

As a consequence of the fierce competition between service companies, it has become necessary, in addition to delivering high quality core and secondary services, to create and delivery delighting services to the customers as well.

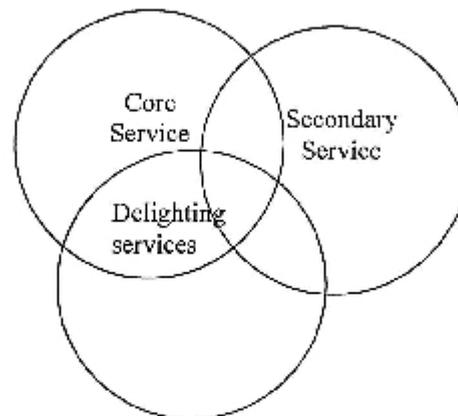
### 4.2.3 Delighting Services

The final distinction of services refers to service attributes which delight customers. Service companies can delight customers when customers when the offered service attributes are beyond customers expectations. To come back to our illustrating example: in addition to secondary services, a hotel can delight their customers by offering welcome drinks, immediate fulfillment of individual desires, i.e. water-bed, delivering special video films, serving dinner at the hotel room. The delighting offers are difficult to imitate because they are the outcome of a service design process which is tailored to the specific service provider and its customers.

To sum up, core services describe the basic service provision which in most cases are easy to imitate. Those core services are supplemented by secondary ones. Those service levels are regarded to support the delivery of core services. In general, customers expect secondary services when purchasing services. If service providers do not live up to those expectations it will be hard for the service organization to gain to competitive advantage.

In industries of fierce competition, secondary services become often expected attributes which sooner or later turn into standards in the particular industry. Moreover, if a service provider is able to offer a service product which delights customers it can be seen as a source for sustaining a competitive advantage.

Figure 4.6: Competitive Advantage on Three Service Levels



Source: Payne and Clark, 1995

Figure 4.6: Illustrates the relation between core, secondary, and delighting service. It should be emphasized that the three levels are closely interrelated and difficult to differentiate between. The gray shaded area indicates the area where a service company is able to create and sustain a competitive advantage in a particular industry.

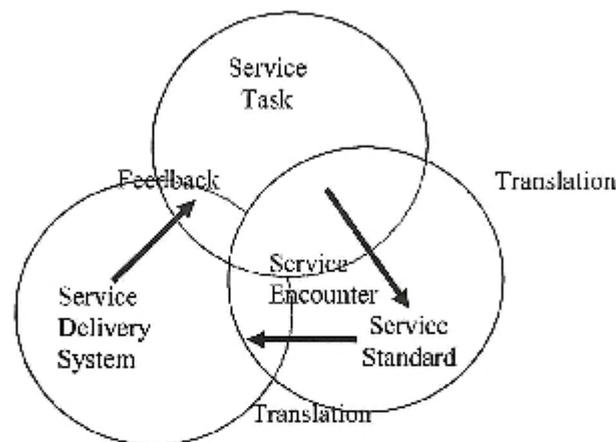
### 1.2 Provider-Customer-Interaction

Having outlined specific strategic marketing issues and a distinction between core, secondary, and delighting services, it is important to orientates services to the customer's needs. The period of time during which the customers and the service provider interact, over the phone, or through other media is defined as the service encounter (Shostack, 1984). The service encounter is a discrete event occurring over a

Definable period of time. Carlzon (1987) emphasizes the importance of the service encounter for the provider because this is the moment when the service company has to perform well in order to satisfy the customer. As the customer cannot directly assess the internal operations of the provider, the encounter becomes one of the determining factors for the customer when evaluating the service performance. This is why the service encounter often is called "the moment of truth".

Schwenner (1995) includes three dimensions which have an impact on the service encounter: Service task, service standards, and service delivery system. The suggested dimensions are interrelated and circular. This gives the model a more dynamic character.

Figure 4.7: The three Dimensions of the Service Encounter

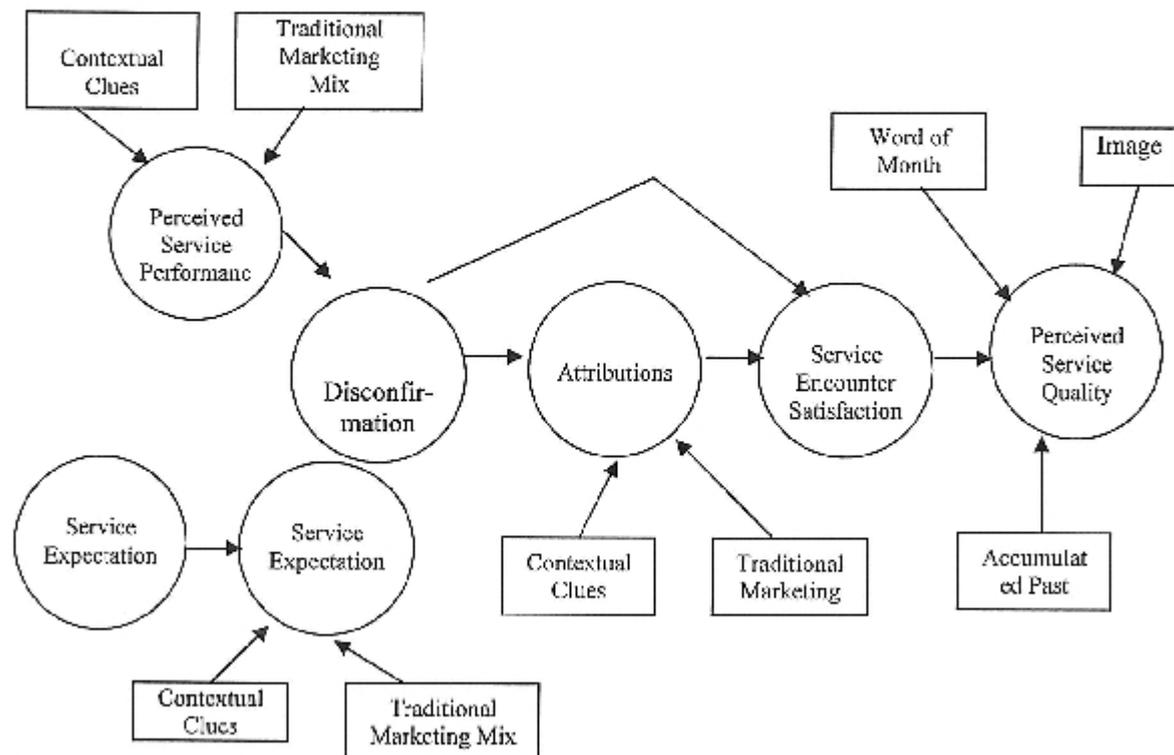


Source: Schwenner, 1995

First, there is the service task which explains why the service exists in the marketplace and what the customer expects from the service- it can also be called the "voice of the customer". Second, the service standards which define what effective service provision is to the customer and thereby refer to controls, the quality, and cost efficiency in the service firm. Finally, the service delivery system which specifies how the service is produced, including how it is controlled for quality, cost, and customer satisfaction, Schwenner (1995) stresses that the service delivery system need to be coordinated with the other two dimensions and that the service encounter is strengthened when those three dimensions are mutually consistent.

Concerning the interaction between the service provider and customer, Bitner (1990) developed a comprehensive model to explain the impacts of the physical surrounding and participants, the so called front-line employees in service companies, during the service encounter. She points out that service companies, during the service encounter. She points out that service companies should manage and control every single service encounter because this is the period of time which has most influence on the customer's evaluation of the provided service product. Figure 4.8 shows the relationship between service encounter and service quality.

Figure 4.8: A Model of Service Encounter Evaluation



Source: Bitner, 1995

Figure 4.8 illustrates insights to how the service encounter is evaluated by customers. It is worth mentioning that the traditional marketing mix, consisting of price, place, promotion, product elements, and the contextual clues, representing people, physical surrounding, and processes, have a direct influence on the service expectations and the perceived service as well as on the attributions. The latter describes the level of control the service provider has on specific incidents in the service delivery context, such as: Was the service company able to avoid a delay; is it likely that a service failure will happen again; did the service provider cause dissatisfaction purposely, etc. Through their influence on expected and perceived service and attributes, the traditional and service marketing mix have an indirect impact on the customer's evaluation of the service encounter..

Effective management of the service encounter involves understanding the complex behaviors of employees which determine the level of customer satisfaction or dissatisfaction, and it includes as well, training, motivation and reward systems to exhibit their behaviors (Bitner, Booms and Tetreault, 19890). Their study shows critical service encounters in three service

industries (airlines), hotels, and restaurants) where particular events or related behaviors of contact employees behavior during the service encounter cannot be overemphasized.

### 1.3 Subconclusion

In Chapter four the external value of service companies has been analyzed from a strategic point of view. First of all the service marketing mix for services has been presented. It argues that in addition to the traditional price, place, promotion, and product, it is necessary, when managing a service company, to encompass additionally three elements in the marketing mix. The three elements being: Participants, physical evidence, and process. By taking all these elements into account, it is possible for managers of service organizations to handle the complexity of services and the interrelations which are prevailing in service businesses.

In order to identify potential strengths and weaknesses for service companies, it would be valuable to divide the various processes into sub processes. Managers of service companies must never forget the fact that the customer should always be in focus. Every process within the company should in some way or the other - directly or indirectly - provide value to the customer. Service companies should be fully occupied by customer service, which means that they should be concerned with the building of bonds with customers and other markets or groups to ensure long-term relationships of mutual advantage. However, in order for the companies to meet or even exceed the customers needs, it is necessary for the company to identify and understand the various needs and expectations of the customer.

Moreover, the service provider - customer interface has been examined. Companies should put a lot of emphasis on the service encounter, as it is the moment when the service company has to perform well in order to satisfy the customer - it is the "moment of truth". Here it is important that the service delivery system is coordinated with the service task and the service standards. Service task explains why the service exists, and service standards define what effective service provision is to the customer. Effective management of service encounters requires an understanding of the complex behaviors of employee and customers which determine the level of customer satisfaction or dissatisfaction.

The following proclamations are to be seen as Success Factors which are considered as critical in the context of external value provided to customers.

#### Success Factor 1:

The service delivery is divided into a technical part and a functional part. A service company has to consider both aspects when satisfying their customers.

Success Factor 2 :

Service can be distinguished into three levels: Core, secondary, and delighting service. The competitive position is determined by the service company's ability to provide secondary and delighting service attributes which are in accordance with customer needs.

## Chapter 5: Customer Satisfaction

Having examined strategic issues of service marketing and a distinction of services, and having presented the interrelation between service companies and their customers, the purpose of this chapter will be to analyze the reasons behind customer satisfaction and dissatisfaction concerning service delivery.

First, a presentation of consumer buying behavior will be provided in order to create a background for how to achieve customer satisfaction. Thereafter, the parameters causing customer value will be defined which in return have an impact on customer satisfaction. Having determined reasons behind achieving customer satisfaction, the concept of service quality will be examined, what is of utmost importance in the context of customer satisfaction in relation to services. The service quality discussion will be based upon the gap model introduced by Parasuraman *et al* (1985), and a presentation of the dimensions which constitute service quality (SERVQUAL). Finally elements in the context of service recovery will be investigated which is of importance when dissatisfaction occurs among customers.

### 5.1 Consumer Buying Behavior

Consumer buying behavior can be distinguished between purchase decision processes and purchase learning processes. The process of purchase decision will be outlined first. Thereafter specific learning behaviors will supplement the consumers buying behavior.

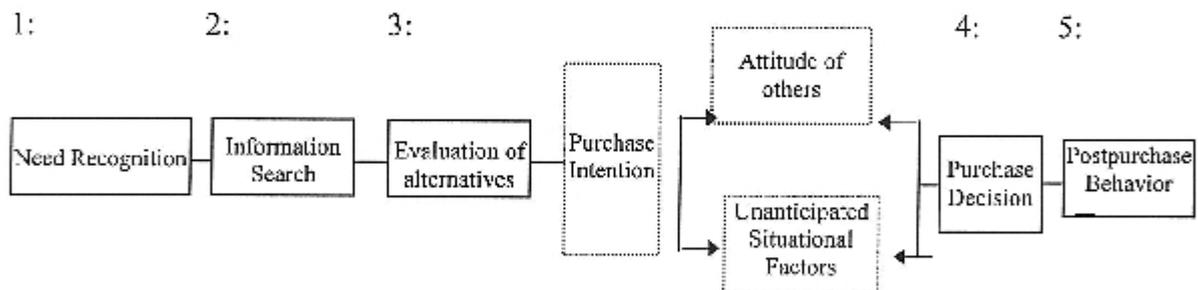
#### 5.1.1 Purchase Decision Processes

The buying decision processes and buying behavior are different for consumer and end-users than for organizations. As we are solely dealing with consumers the discussions in this section will focus on consumer buying behavior, and thereby eliminating organizational buying behaviors.

There have been strong efforts by researchers to analyze the buying behavior of consumers, both with respect to product and service purchase. One of the proposed models will be discussed in detail. Kotler (1991) identifies different stages in the consumers decision and buying process. This model illustrates that consumers pass through five stages, and thereby he

emphasizes that the buying process starts long before the actual purchase, the so called "post-purchase behavior" take place which has consequences long after the purchase.

Figure 5.1 The Consumers Decision and buying process



Source: Kotler, 2002

The buying process starts when buyer recognizes a problem or need. The buyer senses a difference between his actual state and a desired one. Hence, the marketer, both in production and service organizations, needs to identify the circumstances that trigger a particular need. An aroused consumer will be inclined to search for more information. One can distinguish between heightened attention or a phase where the consumer the consumer may feel like going into an active and more profound information search (Kotler, 2002)

No buying situations are alike, thus, the buying decision process vary with the type of product/service the consumer has intended to buy. There are great differences in decision making processes as related to, for example buying daily groceries, consumer durable goods or choosing a restaurant. Complex and expensive purchases are likely to involve more buyer deliberation and more participation. Assael (1997) distinguishes four types of consumer buying behavior based on the degree of buyer behavior based on the degree of buyer involvement and the degree of differences among brands.

Figure 5.2: Four types of buying Behavior

	High Involvement	Low Involvement
Significant Differences between Brands	Complex buying behavior	Variety seeking buying behavior
Few Differences between Brands	Dissonance-reducing buying behavior	Habitual buying

Source: Assael, 1997

Figure 5.2 indicates that in cases of high involvement and significant brand differences the buying behavior can be characterized as being highly complex. With respect to services it might be for example the selection of a hotel for the purpose of holding a business conference. In other cases for example choosing a restaurant for the daily lunch break or driving with a taxi habitual buying prevails.

However when it comes to evaluating the information it turns out that there is no single and simple evaluation process used by consumers in all buying situations. There are several decision evaluation processes concerning several parameters, e.g., price location, appearance, purpose, time, experience, reputation, etc. One theory which explains consumer evaluation process as a cognitive learning process will be examined in the section hereafter. The evaluation of alternatives will lead to a purchase intention and finally purchase decision. Having purchased the product or service the consumer will experience some level of satisfaction or dissatisfaction which in return will influence his post-purchase actions and, hence, his repurchase decision.

Kotler's five stages considers very well the phases before the purchases; but, insufficiently considers the ones after the purchase. According to the customer service model presented in Figure 4.4 (p. 50) a service company has to make several efforts after the actual service delivery in order to satisfy their customers and to get customers to repurchase their service product. With respect to services Kotler's stage model needs to be extended. The re-purchase phase especially needs to be specified.

### 5.1.2 Consumer's Learning Processes

Having presented different kinds of stages the consumer goes through when buying services, the consumer's learning processes will be addressed. This is important in order to enhance the understanding of customer's behavior. Services often involve customers in some kinds of routines. These routines have to be learned over time as the customers get better in the usage of the particular service. Hence, the customers pass through a learning process. We interpret the term "learning" as a relatively permanent change in behavior that is caused by experience. The consumer's knowledge about the world is constantly being revised as they are exposed to new stimuli and receive ongoing feedback, hence learning has to be seen as a continual process.

The concept of learning covers a lot of ground, ranging from a consumer's simple association between a stimulus and a response, to a complex series of cognitive activities. Additionally, sometimes learn even when they are not trying, e.g. consumers recognize many brand names and can hum many product jingles, this casual, unintentional acquisition of knowledge is known as incidental learning (Solomon, 1996). Psychologists who have studied learning behavior have developed several advanced theories to explain the learning process. These theories range from those focusing on simple stimulus-response connections, These theories range from those focusing on simple stimulus-response connection, to perspectives that regard consumers as complex problem solvers who learn abstract rules and concepts by observing others (Solomon, 1996).

We have chosen to concentrate our discussion of the learning process upon three dominating learning processes:

- ◆ Behavioral Learning Processes
- ◆ Cognitive Learning Processes
- ◆ Observational Learning Processes

According to behavioral learning consumers simply respond to various stimuli. Hence, the behavioral learning theories assume that learning takes place as the result of response to external events. No attention is paid to the mind of the consumers, instead the mind of the consumers are referred to as a 'black box'. Therefore, consumers who receive compliments on

a service choice will be more likely to purchase this particular service again, while those who have had experiences probably would not consider a repurchase.

The second dominating learning process is cognitive learning, which occurs as a result of mental processes. In contrast to behavioral theories of learning, cognitive learning theory stresses the importance of internal mental processes. This theory views people as problem solvers who actively use information from the world to master their environment. Supporters of this viewpoint stress the role of creativity and insight during the learning process (Schermerhorn *et al.*, 1991). The cognitive learning theories expand the concept of behavioral learning one step further, as they try to explain what is happening inside the mind of the consumers, they try to explain the "black box of consumers."

The third learning process is observational learning. This kind of learning occurs when people watch the actions of others and note the reinforcement they receive for their behavior. This kind of learning is a complex process, people store these observations in memory as they accumulate knowledge. This process of imitating the behavior of others is called modeling.

According to Bandura (1986) attention is created when the customer focuses on a model's behavior. The customer retains this behavior in memory, and thereby retention is evoked. After having stored the particular behavior, the customer, might experience a situation where the behavior is useful to the customer. Finally, observational learning occurs when the customer acquires and performs a behavior which was earlier demonstrated by a particular model. In services, observational learning might occur when a customer orders a meal in a restaurant. His choice of meal might be influenced by what other guests are eating.

## 5.2 Service Evaluation

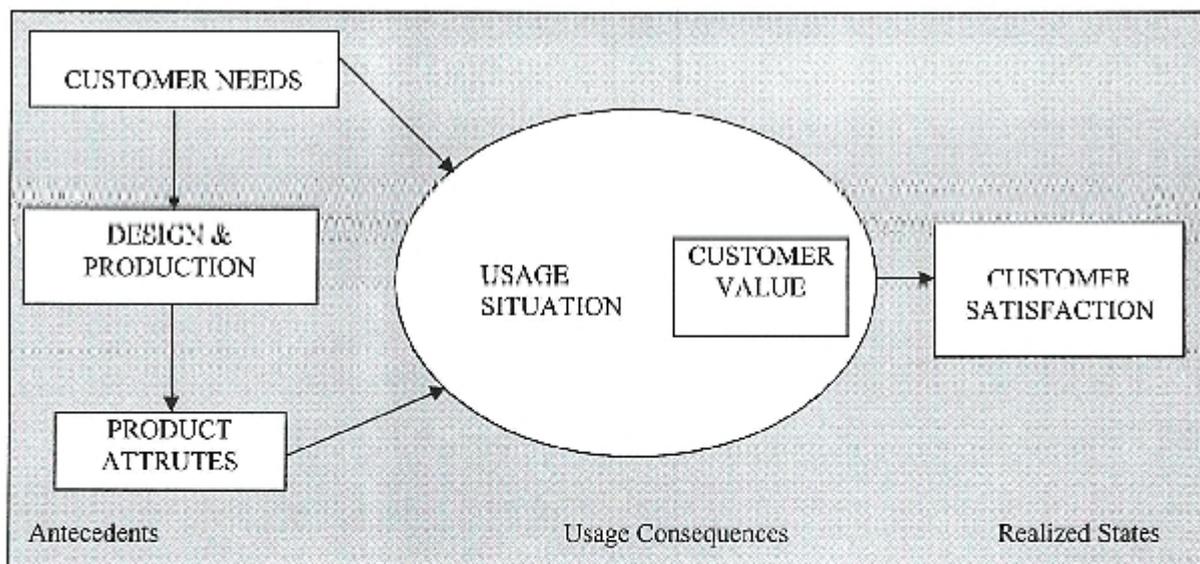
Having investigated buying behavior it is now of interest to analyze how customers evaluate service and the service encounter. It is assumed that one of the overall purposes of service companies is to continuously enhance their ability to meet the customer's needs and expectations, and thereby increase customer satisfaction. Many managers however, begin at the end of the buyer behavior model by measuring

customer satisfaction. It would be much more beneficial for firms to begin by planning a value strategy, learning customer needs, or measuring product quality, than to use measures of customer satisfaction and dissatisfaction to assess their firms performance (Bounds *et al.*, 1994).

The use of customer satisfaction measurement are naturally of utmost importance for manager; but, the managers should not rely on these measurements exclusively. In past years, dissatisfaction measures have become more popular, as managers have realized the importance of pursuing customer satisfaction in an organized, disciplined manner. But still, managers remain confused about the meaning of the varies types of measures. According to Hausknecht (1990), more than thirty different measures of the phenomenon have been documented.

Customer satisfaction is highly based on the concept of customer value. Companies have to, in one way or the other, deliver value to the customer; either by expanding the amount of product attributes, or by fulfilling other customer needs, see Figure 5.3.

Figure 5.3 Antecedents, Consequences and Realized End States of Satisfaction



Source: Bounds *et al.*, 1994

Figure 5.3 illustrates the main elements influencing customer satisfaction, both concerning antecedents and usage consequences. In order to realize the benefits of a customer value strategy, the concept of customer value must be made operational for a service company.

According to Schonberger (1996) one way to render the concept operational is to devise methods to measure value and use the information to make better strategic and operational decisions. To meet this imperative managers must develop a comprehensive system for measuring each point of the customer's meanness model i.e. Antecedents, usage consequences, and realized end states. (Bounds *et al.*, 1994)

Hence, in order for managers of service companies to clearly understand their market and to improve their opportunities, they should measure separately each of the different aspects of the model, i.e. customer's needs, wants and preferences, service quality, customer value, and customer satisfaction. "This comprehensive approach usually leads to much better understanding of unmet needs, important quality attributes, the relative value of various dimensions of service to the customer, and any (dis)satisfied customer derive from dealing with the firm" (Bounds *et al.*, 1994, p. 256)

As customer value constitutes such a central and valuable point in the chain illustrated in Figure 5.3, the concept of customer value will be analyzed in the following section.

### 5.3 Customer Value

The term "value" has many meanings and thereby produces confusion. The concept of customer value is defined as the summation of benefits and sacrifices and results as a consequence of a customer using a product/service to meet certain need (Bounds *et al.*, 1994). Focusing on customer value can yield big results. Various researchers have written about the concept of customer value. However, in order to realize the benefits of a customer value strategy, the concept of customer value must be made operational as stated previously. However, the task of measurements is not simple one. In addition to understanding which aspect is being measured, managers must identify the dimensions of each aspect that are most important to customers (Bounds *et al.*, 1994).

Some marketers erroneously define value to mean low cost or a price cut (Power, 1991). Of course, value always has a cost component, but consumers usually define value to include other parameters they want beyond the core service. Moreover, value for customers is not a fixed size, it is rather dependent on various factors, not least the physiological aspects of the customer. The specific value components are also depended on which industries/branches the organizations operate in. It is important to note that value for customers does not always equal

quality. In Table 5.1 the value- and quality-components of selected service branches are illustrated.

Table 5.1: Value versus Quality Components

<i>Category</i>	<i>Value Components</i>	<i>Quality Components</i>
Bank	Variety of services	Financial stability
	Ease of understanding	Personal interest in customers
Supermarkets	Items easy to find	Clean
	Variety	Attractive interior
	Well-stocked	Selection
	Check cashing	Specialty departments
Restaurants	Salad bar	Taste of the food
	Kids Menu	Atmosphere
	Fast service	

Source: Adapted from Bounds *et al.*, 1994

#### 5.4 Service Quality

The single most researched area in services marketing to date, is service quality. According to Fisk *et al.* (1993) early research in service quality disclosed its subjective nature, but it was not until several years later that the concept of service quality as the result of differences between actual and expected levels of service began to emerge. The interest in service quality has its roots in the area of quality, more specifically total quality management dominating the last decade. The roots of the service quality research reside in early conceptual work from e.g. Gronroos (1983), and Lehtinen and Lehtinen (1982), customer satisfaction theory, e. g. Horovitz and Jurgens-Panak (1992) and Oliver (1980).

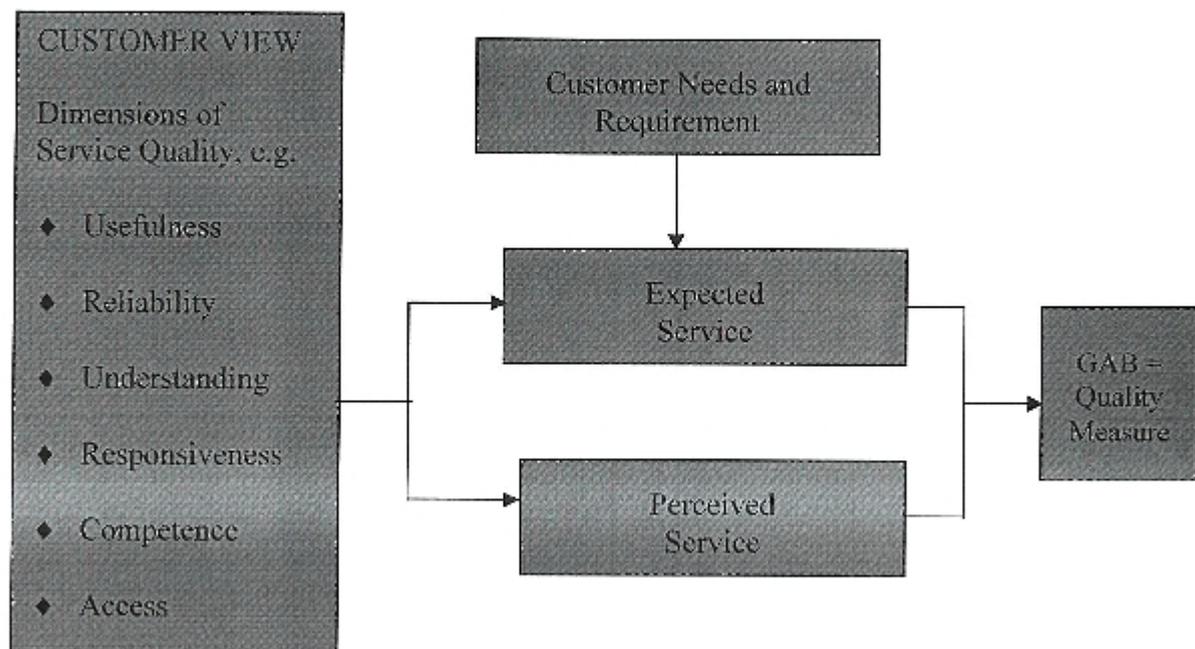
Most of the recent work within the area of service quality can be credited to Parasuraman, Berry and Zeithaml (1995). Their ongoing research has produced the well-known "Gap Model" (see Figure 5.5), and the measurement instrument "SERVQUAL" for assessing service quality. Since the start of the 1990s service quality has become the central agenda point for services marketing.

In today's increasingly competitive environment, quality service is critical to corporate success. In the past the focus was mainly on meeting internal quality or technical standards. The focus today has shifted to qualifying customer assessments of services, and translating these measures into specific internal standards (Brown, Hitchcock and Willard, 1994). Delivering high quality service is closely linked to profits, cost saving and market share. Improved service quality cuts cost because companies have fewer customers to replace, less corrective work to do, fewer inquiries and complaints to handle and less employee turnover and dissatisfaction with which to deal.

Service quality is the level of service that is delivered by the operation (Sasser *et al.*, 1978). Service quality is concerned with the ability of a company to meet or exceed customer expectations. The measure of performance is performance is perceived service quality. It has been argued previously that the quality of a service has two important components: "Technical Quality" and Functional Quality " (Gronroos, 1990a). "The technical quality refers to the outcome dimension of the service operation process whereas functional quality refers to the process dimension in terms of the interactions between the customer and the service provider" (Payne, 1993 p. 220).

Customers judge service quality relative to what they want. They view a company's service quality by comparing their perceptions of service experiences with their expectations of what the service performance should be. A service quality gap results when service perceptions fall short of expectations. Zeithaml, Parasuraman and Berry (1985) have developed what is called " A Service Quality Model" which is shown below in Figure 5.4.

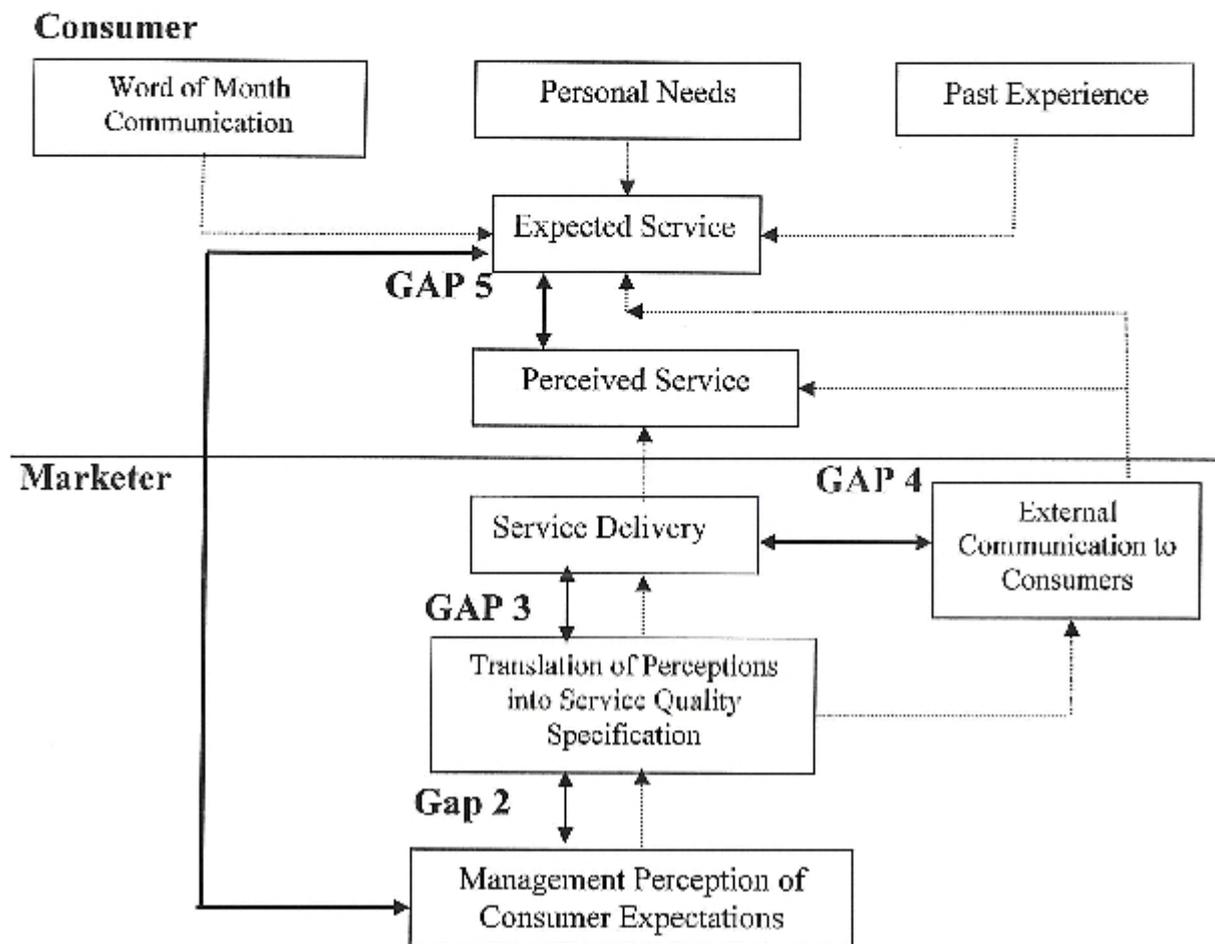
Figure 5.4: A Service Quality Model



Source: Delving and Dong, 1994

However, the gap between expected and perceived service is just one potential gap. Based on finding from their exploratory research, Parasuraman, Berry, and Zeithaml (1995) have developed a conceptual model linking customer perceived quality deficiencies to intra-company deficiencies or gaps. In this conceptual model, they have identified five potential gaps. Besides the gap presented in Figure 5.4 there exist potential between service delivery and external communications to consumers. The various potential gaps are illustrated in Figure 5.5.

Figure 5.5. Conceptual Model of Service Quality



**Source: Parasuraman, Zeithaml and Berry, 1995**

Perceived service quality; the more perceptions are than expectation; the lower the level of perceived service quality is (Parasuraman, Zeithaml and Berry, 1995). The danger is that if the service company has customers who do not complain, then the company moves on, thinking that they are meeting the customers expectations. Hence, the necessary first step for management in improving quality of service is to acquire accurate information about customers expectations, i.e. closing or minimizing gap 1.

#### **Gap 2: The Wrong Service Quality Standards.**

This gap illustrates the potential gap between management perception and service quality specification. Management's correct perceptions of customer expectations are necessary, but

not sufficient for achieving superior quality service. Another prerequisite for providing high service quality is the presence of performance standards mirroring the management's perceptions of customers expectations. In fact the real reason for the potential gap between awareness into appropriate service standards, may be the absence of management commitment to service quality (Parasuraman, Zeithaml and Berry, 1995).

However, the main advantage of specifications and standards is that they provide signals to front-line personnel of what the management priorities are and which type of performance really counts. When service specifications and standards are absent or when the standards in place do not reflect customer expectations, the quality of service as perceived by customers is likely to suffer. In contrast, when there are standards reflecting what customers expect, the quality of services they receive is likely to be enhanced. Hence closing gap 2, by setting performance standards that reflect customer expectations, should have a favorable impact on a customers service quality perceptions, i. e. gap 5.

### **Gap 3: The Service Performance Gap.**

This refers to the gap between the service quality specifications and the service delivery process. Hence, it represents the discrepancy between service quality specifications documented in operating and training manuals and their successful implementation. In the research by Parasuraman, Zeithaml and Berry (1995) executives mentioned a variety of reasons for this discrepancy. Most of these reasons pertain to the willingness or inability of front personnel to meet the standards. Even when guidelines exists for good performing services and proper customer treatment, high quality service performance is not guaranteed. To be effective, service standards must not reflect customers expectation, but they also need to be backed up by adequate and appropriate resources, i.e. people, system, and technology (Parasuraman *et al.*, 1990). When the service-delivery performance falls short of the standards (gap 3), it falls short of what customers expect as well (gap 5). Hence, as a consequence of a association between gaps 3 and 5, it is possible for managers to reduce gap 5 by ensuring that all the resources needed to achieve the specifications and standards are in place.

### **Gap 4: When Promise Do Not Match Delivery**

This gap illustrates the misfit between service delivery and the external communications to consumers. Hence, it illustrates the potential discrepancy between actual service delivery during the service encounter and the external communications to the customers. The customer

should not be promised a certain type and level of service quality unless the service delivery system can achieve or exceed that level. A discrepancy between the actual service and the promised service in gap 4, has an adverse effect customers perceptions of service quality in gap 5. Hence external communication, through sales force or advertising, can effect not only customer expectations about a service but also customers perceptions of the delivered service. By effectively coordinating actual service delivery and external communications, gap 4 is narrowed and, hence, favorably affects gap 5 as well (Liljander, 1995).

The critical issues between service delivery and customer satisfaction are explained by the gap model. Bitner and Hubbert (1994) present a more comprehensive approach to service quality. They suggest the following distinction which refers to three different stages in the customer's evaluation of services. First there is a service encounter satisfaction. The consumer evaluates a discrete service encounter and is satisfied or dissatisfied. Second the customer feels an overall service satisfaction. The consumer is overall (dis)satisfied with the organization based on all encounters and experiences with that particular organization. the final stage is service quality . The consumer has an overall impression of the relative inferiority/superiority of the organization and its services. In contrast to be provided gap-model, Bitner and Hubbert (1994) regard service quality as an integrative part of an overall framework, which consists of the evaluation of all service encounters.

### 5.5 Service Quality Dimensions

Having discussed the gap model which provides valuable insights regarding the relation between expected and perceived service as a determinant for customer satisfaction the analysis will now address the dimensions of service quality. This is necessary in order to supplement the understanding of customer satisfaction in relation to services.

The term of service quality is a complex, multidimensional concept. It has been argued that the quality of a service has two important components: Technology quality and functional quality (Gronroos 1990a). Where technical service quality refers to the outcome dimension of the service operations process, and functional service quality refers to the process dimension in terms of the interaction between the customer and the service provider. In addition to the technical and functional dimensions, service quality is further composed of various unique dimensions which cover both the process of producing the service as well as the outcome. In recent years research has been undertaken in an effort to understand the factors which influence service quality.

The most important contributors to the research within the field of service quality are Zeithami, Berry and Parasuraman. In their exploratory research which dates back to 1995 they revealed that the criteria used by customers in assessing service quality fit ten, potentially overlapping dimensions. A listing of the dimensions, along with examples of the types of evaluative criteria falling under each, is shown in Table 5.2 below.

Table 5.2: The Dimensions of service Quality

<u>Dimension</u>	<u>Examples of Evaluative Criteria</u>
Tangibles	Appearance of physical facilities and personnel
Reliability	Performing service right the first time
responsiveness	Willingness and ability to provide prompt service
Communication	Explaining service to customers in language they can understand.
Credibility	Trustworthiness of customer-contact personnel
Security	Confidentiality of transactions
Competence	Knowledge and skill of customer-contact personnel
Courtesy	Friendliness of customer- contact personnel
Assess	Ease of contacting service firm
Understanding/ Knowing customers	Making an effort to ascertain a customer specific requirements

Source: Parasuraman, Zeithami and Berry, 1995

The authors used these ten dimensions as the basic structure of the well-known SERVQUAL which is considered to be a useful tool to determining service quality. In 1998, these ten dimensions have been narrowed down to five key areas, see Table 5.3.

Table 5.3: the Five Dimensions of Service Quality

<u>Dimension</u>	<u>Illustrative Examples</u>
Tangibles	The physical facilities, equipment, appearance of personnel
Reliability	The ability to perform the desired service dependably, accurately and consistently
Responsiveness	Willingness to provide prompt service and help customers
Assurance	Employees knowledge, courtesy, and ability to convey trust and confidence.
Empathy	Caring, individualized attention to customers.

Source: Parasuraman, Zeithami and Berry, 1998.

From table 5.3 it can be seen that three of the original 10 dimensions remain intact in the five service quality dimensions. These three dimensions are tangibles, reliability and responsiveness. The remaining seven dimensions are summarized into two broader

dimensions which cover according to Parasuraman *et al.* (1998) the corresponding content. The two broader dimensions are labeled assurance and empathy.

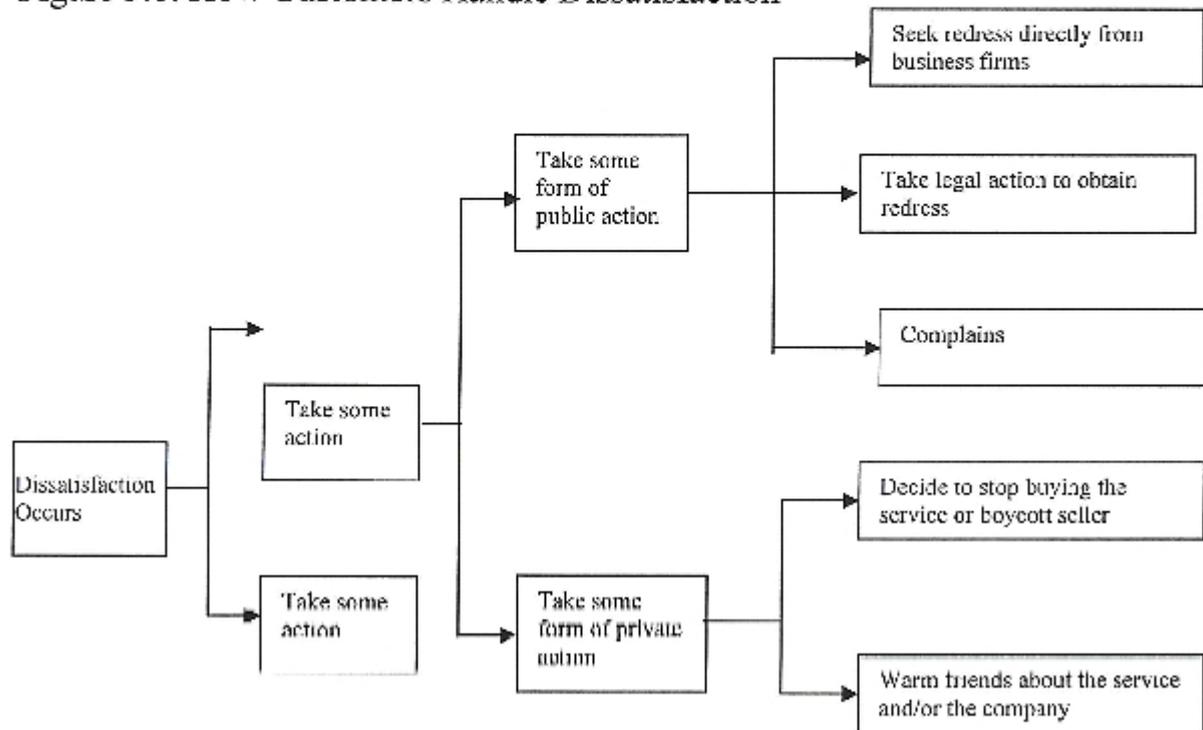
The five dimensions mentioned in Table 5.3 provide valuable knowledge concerning customer satisfaction before, during and after the service encounter. To provide services of high quality which in return leads of satisfied customers each dimension has to be considered. Payne (1993) stresses that human performance plays a critical role in the customers perception of service quality. Looking at the five above suggested SERVQUAL dimensions the impact of service contact personnel on each dimension is tremendous. Bitner, Booms and Tetreault (1990) found out that the behavior of service employees who have direct contact to customers is critical for the evaluation of the service delivery, and thus, for customer satisfaction.

### 5.6 Dissatisfaction

After purchasing a product or a service, the customer will experience some level of either satisfaction or dissatisfaction. The customer's (dis)satisfaction with subsequently influence his behavior. If the customer is satisfied, then he will exhibit a higher probability of purchasing the product again. The satisfied customer will also tend to say good things about the supplier to theirs. A dissatisfied customer on the other hand responds differently. The dissatisfied customer will try to reduce the dissonance because human beings strive to "establish internal harmony, consumers will resort to one or two courses of action. They may try to reduce the dissonance by abandoning or returning the product, or they may try to reduce the dissonance by seeking information that might confirm its high value (Kolter, 2002).

In handling customer dissatisfaction, it is of utmost importance to be aware of the full range of ways consumers handle dissatisfaction, see Figure 5.6.

Figure 5.6: How Customers Handle Dissatisfaction



Source: Day and London, 1977

Figure: 5.6 Illustrate that dissatisfied customers have two alternatives to choose from. Taking action or to remaining passive. When the dissatisfied customer decides to react he can choose to take either public or private actions. It can be seen that dissatisfied customers, when they react upon service failure, might have a negatively impact on the service company on several different levels. It is therefore indicated to analyze how dissatisfied customers should be handled by service companies.

### 5.7 Service Recovery

Typically service companies strive for "zero defection" in their service delivery, i.e. 100 per cent customer satisfaction, however, no matter what companies do to prevent these defections, problems and mistakes occur. Despite the TOM's call for "zero defects" and "Doing it right the first time" service providers typically cannot meet these high expectations.

Makes are a critical part of every service. Hard as they try, even the best service companies cannot prevent e.g. the occasional late busses, burned steak or missed delivery. The fact is, in

services which are often performed in the customer's presence, errors are inevitable. While companies may not be able to prevent all problems they can learn to recover successfully from them. A good recovery can turn angry, frustrated customers even into loyal ones. It can in fact, create more goodwill than if things had gone smoothly in the first place (Hart, Heskett and Sasser, 1990).

The challenge for the service provider, therefore, is to recover the problem or mistake and thereby turning frustrated customers into loyal ones (the concept of loyalty will be further expanded in chapter six). According to Lewis (1995) service recovery is defined as: "A planned process/strategy of returning an dissatisfied customer to a state of satisfaction with a company/service". When problems occur, companies have to expedite service recovery to meet customer's recovery expectations- which in some cases may be even higher than compared to the initial expectation. As Hart et al (1990) express it. "Service recovery is both emotional and physical repair."

When a customer experiences a service problem, three possibilities arise: in the first, the customer complains and is satisfied with the company's response. Second, the customer complains and is not satisfied with the response, and finally, the customer does not complain to the company and remains dissatisfied. In the first case, the service company has the opportunity to turn a dissatisfied customer into a satisfied one. Bitner, Booms and Tetreault (1991) report that an appropriate service recovery is able to initially delight dissatisfied customers.

Berry, Zeithaml and Parasuraman (1995) offer three prescriptions for excellent service recovery. First, encourage customers to complain and make it easy for them to do so. Only when the company gets feedback by dissatisfied customers it is possible to improve the service delivery and prevent customer defection. Second, make timely, personal communications with customers a key part of the strategy. This proposition aims to deliver quick and direct improved resolution to the problem which caused dissatisfaction. Finally, encourage employees to respond effectively to customer problems and give them the means to do so. Berry *et al.* (1990) argue that service employees need to have a freedom to serve customers; "thick rule books serve the customer not better than employees" (p. 32).

On the other hand Schneider and Bowen (1995) state that some customers prefer that their complaints are handled "by the book." This means that it is not always desirable that service employees develop their individual solutions to resolve a service failure. It is reported that customers feel they are treated more fairly when they have the impression that the service company provides specific recovery activities which they can rely on. The dissatisfied customer tends to evaluate the whole service company, and honors when his complaints are treated by plan, not by the coincidence of getting to a particular employee who carries out his own recovery.

Opportunities for service recovery abound. Any problem that employees who work close to the customer can discover and resolve is a chance to go beyond the call of duty and win a customer for life. Some service managers might find it tempting to dismiss the occasional problem as petty, and complaining customers as cracks; but, managers should resist those easy outs. No business can afford to lose customers, when it costs much more to replace a customer than it does to retain one.

Many company makes the mistake of regarding complaints as a time consuming necessary evil. Instead they should realize that by handling complaints effectively it is possible to convert dissatisfied customer into loyal ones. All service companies need to take recovery seriously. Customers may differ in their preference, but one thing is sure, all customers feel service companies ought to fix things when service is delivered improperly. However, as stated by Bowen and Lawler (1992), "service managers should not be seduced into too great a focus on recovery, as service companies that rely on recovery, may end up losing out to service companies that do it right the first time" (p. 35).

However, the need for a service recovery strategy is twofold as pointed out by Schmenner (1995). The first goal is to keep the customer from walking away from a potentially relationship ending situation, because the costs of getting new customers are higher than those of keeping existing customers. It is said that a satisfied customer is likely to tell his positive experiences to five or six other people, whereas a dissatisfied customer tell his negative experiences to an average of 14 other people (Normann, 1994). The loss of image which keeps potential customers away from doing business with the service company, is therefore the second main reason for a service recovery strategy.

## 5.8 Subconclusion

In this section the various issues discussed in chapter five, concerning the concept of customer satisfaction will be summarized.

As illustrated in the buying model, it is important for manager of service organizations to keep in mind that the customers buying process starts long before the actual purchase of a product or consumption of a service, and the customer " post-purchase behavior" has consequences long after the purchase. In relation to how customers buy, managers should be aware of the fact that no buying situation is alike. They need to identify exactly what kind of purchase situation their customers might execute.

it is widely recognized that one of the overall purposes of any company, is to continuously enhance the ability to meet the customers needs and expectations, thereby increasing customer satisfaction. Therefore it is important for service companies to keep track of their delivered service, as well as a need for continuous service evaluation. As customer satisfaction is highly based upon customer value, service companies need to identify very carefully, who their customers are and what customer value means to them.

However, in order to realize the benefits of a customer value strategy the concept of customer value must be made operational for a service company. One way to render the concept operational, is to devise methods to measure value and use the information to make better strategic and operational decisions. Hence, the managers of service companies must develop comprehensive systems to measure both customer needs, wants, preferences, and additionally service quality, customer value, and customer satisfaction. This comprehensive model leads to much better understanding of all aspects concerning customer satisfaction. Focusing on customer value can yield big results.

In today's increasingly competitive environment, quality service is critical to corporate success. In the past the focus was mainly on meeting internal quality or technical standards. The focus today has shifted to qualifying customers assessments of services and translating these measures into specific internal standards. Delivering high quality service is closely linked to profits, cost saving, and market share. Customers judge service quality relative to what they want. They view a company's service quality by comparing their perceptions of service experience with their expectations of what the service performance should be. Therefore it is important for service companies to control the signals they send to the

customers, thus, it is dangerous to promise more than they are capable to deliver. The service companies need to know in detail what the customers expect, and they need to get the promises to match the actual delivery.

Additionally, the managers of service companies need to be aware of the complexity of service quality. They need to focus both on the technical and functional parts of service quality. They need to focus both on the technical and functional parts of service quality, hence they need to be able to handle the outcome of the service operations as well as the processes in terms of the interaction between the customer and the provider. They should keep in mind that the customers judge the quality of the delivered service in terms of tangibles, reliability, responsiveness, assurance, and empathy. Finally, the manager needs to be realistic. Despite the TQM's call for "zero defections" and "Doing it right the first time" service providers cannot prevent defections from happening, hence, problems will occur and mistakes will happen. The real challenge for managers of service companies is to learn to recover successfully from problems. A good recovery can turn angry frustrated customers into loyal ones, sometimes it can even create more goodwill than if things had gone smoothly in the first place. Several opportunities for service recovery exist. Any problem that employees who work close to the customer can discover and resolve is a chance to go beyond the call of duty and win a customer for life.

Some service manager might find it tempting to dismiss the occasional problem as petty, and complaining customers as cracks, but managers should resist those easy outs. No business can afford to lose customers, especially considering the fact that it costs much more to attract new customers than it does to retain existing ones. All service companies need to take service recovery seriously.

The following proclamations are to be seen as Success Factors which are considered as critical in the context of satisfying customers.

### Success Factor 1:

Knowing customer's specific needs and requirements enables service companies to approach customer satisfaction.

### Success Factor 2

Closing the gap between customer expectations and management's perception of customer expectation, increases the level of customer satisfaction.

### Success Factor 3

Service quality can be measured on five dimensions: Tangibility, Reliability, Responsiveness, Assurance, and Empathy. Improving each dimensions in accordance with customer's expectations enables the service company to increase the level of customer satisfaction.

### Success Factor 4:

A customer who complains about a service failure provides the service company with the opportunity both to satisfy a dissatisfied customer and to improve future service delivery. Hence, service companies need to have an effective complain management.

## Chapter 6: Customer Loyalty

Having examined reasons and concepts behind customer satisfaction, it is now important to analyze the outcome of satisfied customers. One purpose of service companies is to satisfy their customers, and to do repeat business with them. To approach the term of repeat business it., is first of all important to outline the concept of customer loyalty. Hereafter switching costs will be investigated, which provides insights in the degree of customer loyalty towards a service provider due to satisfaction or barriers to switch to a competing service company. Hereafter the concept of relationship marketing will be discussed as an important element in the long-term relationship and repeated business between customer and service companies. Finally, the outcome of repeated business, which is long-term profitability, will be explored.

### 6.1 The Concept of Loyalty

Loyalty refers to repeat business. A customer is loyal when he is frequently repurchasing a product or service from a particular provider. The aim of a service company is to satisfy their customers in order to stimulate them to retain and to repeat their service purchase. It is argued by Reicheld and Sasser (1990) that the costs of losing a customer are very high. They point out that the customer who is continuously repurchasing, provides the largest revenue to a company. The reason is obvious; a service provider spends a lot of money on delivering services to its customers.

To cover the cost, many customers are needed. Just to attract new customer requires advertising expenditures, image improvements, enhancements on the five quality dimensions, etc. it takes in average some years before the invested money is paid back.

Losing a customer after one single transaction, represents in general a loss. On the other hand, a customer who repeats the service purchase several times represents a revenue provider, and a profit generator. The link between loyalty and profit will be dealt with in section 6.4.

### 6.2 Switching Costs

Switching costs in service are defined as the costs incurred in changing from one service provider to another service provider (Campbell, 1985). The higher the switching costs, the greater the specific investments each party has made in the relationship. Switching cost can

result from human as well as physical investments. Customers and service companies invest in getting to know each other. The customer needs to know the service provider, the front-line personnel, procedures, and their particular way of doing business. Whereas the service provider needs to get to know the customer and their specific needs and expectations.

However, switching costs in services are perceived as being high when the customer is strongly involved in the business relation to the service provider. The feeling of involvement might be enforced by either personal sympathy, or by specific service attributes which tie the customer to the service company. Personnel sympathy provokes customer loyalty to a service company, and is based only upon personal preference, for example habitual buying, reputation, or knowing the service personally.

On the other hand by offering specific attributes which make the customer dependent on the service company switching costs can be increased. Examples can be found in the financial sector Payments services, home-banking systems, credit cards, rabbits-arrangements, and mortgages, etc. All these examples imply that shifting business to a competing service provider, is associated with additional costs and thereby motivate customers to repeat business with the specific service provider.

When high switching costs prevail the customer is more likely to accept service failures because it is either inconvenient or expensive to switch business to another service provider. Therefore the zone of tolerance is most likely to be high when a customer is tied to a service company due to high switching costs. It is worth mentioning that switching costs prevail only when alternative service providers exist within a service branch.

However, according to Heskett *et al* . Positive incentives often involve the creation of some kinds of "membership" mentality in customers. For example frequent travelers need only sort through their wallet cards designation membership in airline, hotel, rental cars and other "clubs" to verify the increasing use of incentives to encourage repeated use of a service. Such incentive make each repeated use more valuable the moving the customer closer to some promised payoff as a specified service level. Once customer invest in switching costs they are hard to entice back to their former service. That is why outstanding service providers invest so much effort in building switching costs in the first place.

As outlined above a close relationship between service providers and customers is often existent. It is now of interest to analyze how this relationship can be marketed.

### 6.3 Relationship Marketing

It was in the 1970s that the main inspiration to marketing was grounded. It was based on the establishment and management of relationships and has emerged within two streams of research. These streams of research are the Nordic School of Service (cf. Gronroos and Gummesson, 1995, Berry and Parasuraman, 1991) which looks at management and marketing from a service perspective and the IMP Group (cf. Hakonsson, 1992) which takes a network and interaction approach to Understanding industrial businesses. The building and managing of relationships has become a philosophical cornerstone of the Nordic School of Service and the IMP Group since the late 1970s. However, "relationship marketing" as a term was not used until the later part of the 1980s (Gronroos, 1995).

In the literature there is no exact agreement on a definition of relationship marketing. Although most definitions have common denominators, there are differences in scope. An early definition is provided by Berry (1993).

*"Relationship marketing is the attraction, maintaining and enhancing customer relationships. The marketing mind set is that the attraction of new customers is merely the first step in the marketing process"*

A recent and more comprehensive definition is suggested by Gronroos (1995):

*Relationship marketing is to identify and establish, maintain and enhance relationships with customers and other stakeholders, at a profit, so that the objectives of all parties are met; and that this is done by mutual exchange and fulfillment of promises"*

This definition is further supplemented by a statement which argues that such a marketing approach should lead to a trusting relationship between the parties involved. Key aspects of such an approach to marketing are that not only getting customers and creating transactions are important, but also maintaining and enhancing ongoing relationships should be emphasized. Internal marketing becomes a critical issue in relationship marketing if the company is to be well prepared for its new marketing tasks (Gronroos, 1995). The latter part of the above definition of relationship marketing is emphasized in a recent article about relationship marketing written by Bitner (1995). She emphasizes the need for a firm to

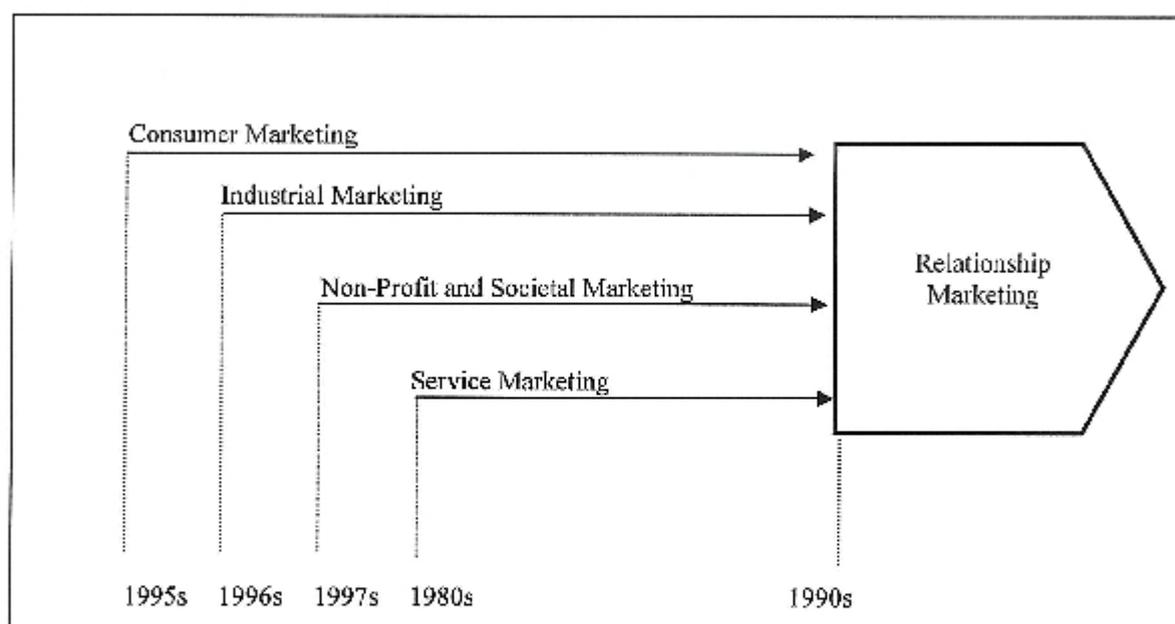
manage not only the task of giving and fulfilling promises but also the task of enabling the fulfillment of promises if marketing is to be successful.

Despite the variations in broadness and emphasis, most of the definitions on relationship marketing offered in literature have a similar meaning as the above definitions. For example, Sheth and Parvatiyar (1994) state relationship marketing is "the understanding, explanation and management of the ongoing collaborate business relationship between suppliers and customers" (p. 257), whereas Gummesson (1995) defines relationship marketing as a marketing approach that is based on relationships, interactions and networks.

### 6.3.1 The Evolution and Development of Relationship Marketing

Over the past few decades we have seen the focus of the formal study of marketing directed at an increasing number of specific sectors. In the 1995s, consumer goods companies were recognized as the most sophisticated marketers. They were often the first companies to develop formal marketing plans. In the 1970s marketing in non-profit organizations and the associated areas of public sector and societal marketing received attention. It was only in the 1980s that services marketing started to attract attention which is surprising considering the size and rapid growth of the service sector. In the 1990s, a new emphasis on marketing has emerged - relationship marketing (Payne, 0993). Relationship marketing has the potential to draw together the various streams of marketing into an integrated whole, as shown in Figure

Figure 6.1: The Changing Emphasis on Marketing



Source: Payne, 1993, p. 30

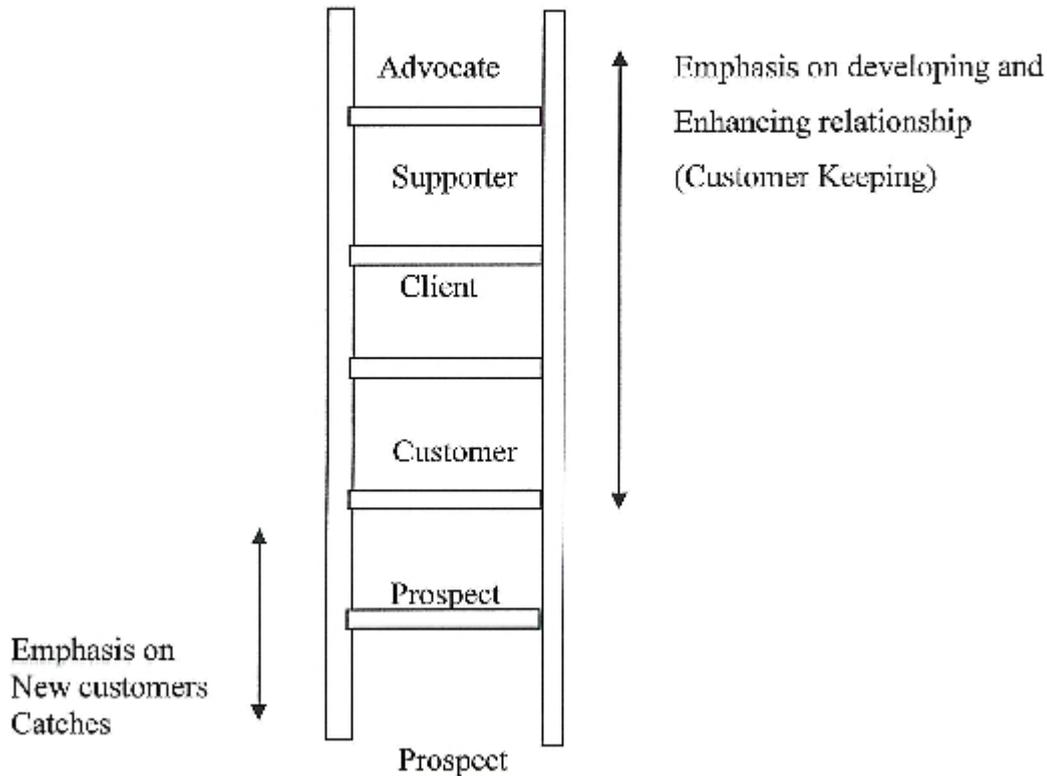
There are various difference between the traditional "transaction marketing" and the "relationship marketing". Transaction marketing focuses more on single sale and on product features whereas relationship marketing puts focus on customer retention and on product benefits of features. Transaction marketing involves a moderate customer contact and limited customer commitment, whereas relationship marketing involves high customer contact and high customer commitments. The two marketing paradigms are also different when it comes to quality and time horizon. In transaction marketing, quality is primarily a concern of production, and it is operating within a relation short time scale. On the other hand in relationship marketing quality is the concern of all, and it is operating in accordance with a relatively long time scale (Christopher et al. , 1991).

### 6.3.2 Developing and Enhancing relationship

The focus on relationships has been fully adopted by some service providers, but still it is wrong to assume that every service company has adopted this relationship focus. Unfortunately, many companies still pursue the transactional route. Service companies today are starting to recognize that existing customers are easier to sell greater emphasis and resources are often devoted to attracting new customers, existing customers are taken for granted. It is only when some breakdown in service quality occurs, and the customer leaves or is on the point of defection, that the existing customer becomes important (Payne, 1993).

This is not to say that new customers or clients are not important - indeed, they are vital to the future of most service providers. Rather, a balance is needed between the effort directed toward existing and new customers. Figure 6.2 shows the "Relationship Marketing Ladder" of customer loyalty which emphasizes this argument.

Figure 6.2: The "Relationship Marketing Ladder"



Source: Payne, 1993, p. 33

Figure 6.2 illustrates the distinction between customer catching and customer keeping. Payne (1993) argues that a large percentage of service providers put their main emphasis on the lower rungs of identifying prospects and attempting to turn them into customers. Instead, focus should be on the higher and ultimately more rewarding rungs of turning customers into regular clients, and subsequently into strong supporters and eventually active advocates for the company and its service.

However, the process of moving the customers up the "Loyalty Ladder" is not simple. Essentially, the only way to change someone from customer to advocate is to replace customer satisfaction with customer delight - by offering service quality that exceeds customer's expectations instead of just meeting the minimum requirements. The financial benefits of delivering high service quality will be examined in the following section.

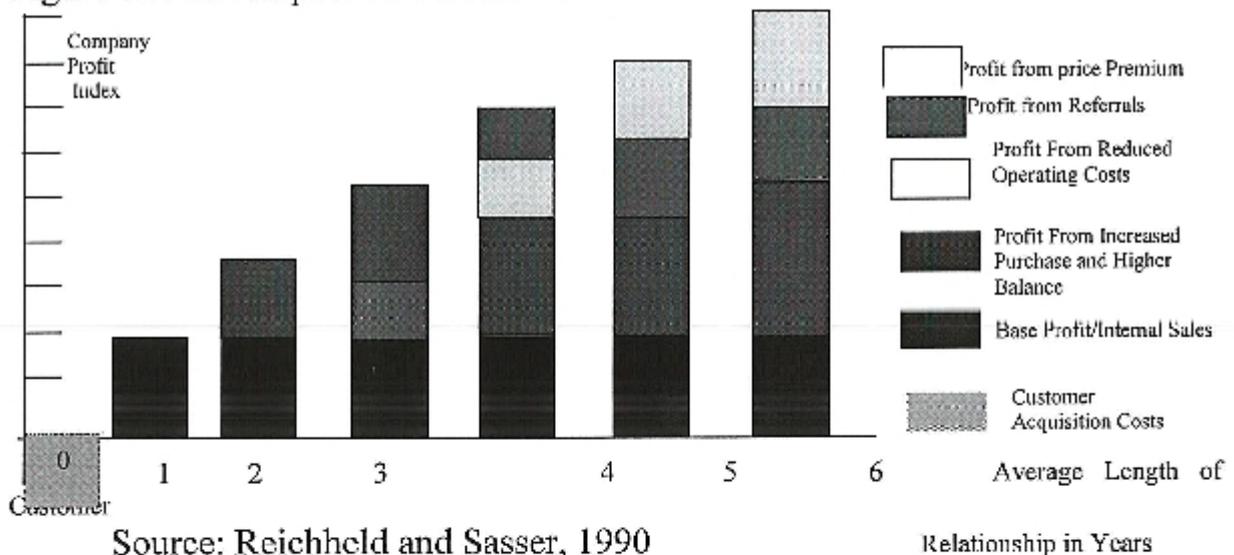
#### 6.4 Link between Customer Loyalty and Profitability

Customer loyalty and profitability go hand in hand as the costs of servicing repeat customers are less than the cost of attracting new customers as stated previously. As argued Heskett *et*

al. (1990) the process of getting new customers is associated with noticeable start-up costs. This may be in the form of a reduced price or costs associated with learning about the needs and characteristics of a new customer. Because repeat customers know a service, they are less costly to serve. This is because expectation levels are established which minimizes the expenditures used on conducting customer surveys. Furthermore, loyal customers know the role that they are expected to play in the service delivery process and how to play it, which implies a decreased need for information and support, compared to first-time users.

Holding on to existing customers costs less than attracting new ones. One study conducted shows that the cost of retaining a loyal customer is only one-fifth of attracting a new one (Seller, 1989). Another study carried out by Reichheld and Sasser (1990), supports the findings by documenting the dramatic impact of customer retention on profits in a sample of service-producing firms. They argue that the pattern of profits over the life of a customer relationship can be estimated as follows.

Figure 6.3: The Impact of Customer Retention on Profits



The Various components of the company profit pattern will now be further elaborated upon. **Customer Acquisition Costs.** As mentioned earlier, the process of replacing a former customer with a new customer is connected with a certain amount of acquisition costs. Very often acquisition costs are higher than the earnings of the customer in the first years of the relationship. The acquisition cost consists of expenses with regard to selling marketing , and administration costs.

**Base profit/Initial Sales.** This amount of profit refers to customers buying services the first time. It is assumed that over a period of time, new customers are constantly acquired. Therefore this component is the only profit element which is not influenced by the length of the relationship between customers and the service providers, hence, the base profit remains constantly over time.

**Profit from increased Purchases and Higher Balance.** In the early stage of a relationship between the customer and the service provider, it is only natural that the customer place only a limited amount of his total purchase with the new service provider. One reason for this caution is the fact that it is sometimes associated with a great amount of costs and risks to change suppliers. However, if the customer feels content and satisfied with the new service-provider, he reacts by gradually increasing purchase from the new provider. As the trust and confidence to the service company increase the customer is ready to expand the amount of purchase. The size of this profit component is therefore augmenting over time.

**Profit from Reduced Operating Costs:** The era of mass-production of standard products and services leads to the theory of economies-of-scale and "learning effects". Today we have seen a tendency that these assumptions have gradually become obsolete. The main reason behind this is that today's customers tend to prefer individual and customized products over mass-produced standard services.

This is in accordance with the main emerging trends of the 1990s - customization and individualism. Today's customers expect more than just high-quality products at favorable and competitive prices, they want tailored services which provide them with some degree of value. Hence, in order for the companies to survive in today's competitive environment they need to change focus from "economies-of- scale" to putting more effort in establishing, maintaining, and enhancing customer relations. By supplying a specific customer with an individualized product, the service providers are able to cut-down the operating costs by providing the same customer with even more products instead of expanding the range of customers (Elling and Jorgensen, 1996).

**Profit from Referrals:** This profit component is a direct result of what can be termed the "Ambassador-effect". It is extra amount of sales, which is brought about positive recommendations from loyal customers. This effect is of utmost importance especially to service companies. The more satisfied customers remain, the more loyal they become. As stated by Heskett et al. (1994) an "Apostle" is characterized by being one hundred per cent loyal and very satisfied. These apostles possess the ability to influence potential customers through positive recommendations. The impact of the ambassador effect varies from one

industry to another. Additionally, the effect is also highly influenced by the kind of service - the effect is much smaller in regard to low involvement services than to high involvement services.

**Profit from Premium.** Another positive effect of having satisfied customers with high seniority is the fact that these customers become much less price sensitive than new and less satisfied customers. The customers with whom the providers have developed a sound and deep relationship do not need or expect introduction discounts and other kinds of discounts. However, on the contrary, some of the customers having high seniority might demand "quantity-discount" (Elling and Jorgensen, 1996).

**Profit from price Premium:** Another positive effect of having satisfied customers with high seniority is the fact that these customers become much less price sensitive than new and less satisfied customers. The customers with whom the providers have developed a sound and deep relationship do not need or expect introduction discounts and other kinds of discount. However, on the contrary, some of the customers having high seniority might demand "quantity-discount" (Elling and Jorgensen, 1996).

Reichheld and Sasser (1990) argue that by making use of the philosophy behind these profit estimations, it is possible for service companies to find out how valuable an increase in retention rate is. To further expand the usefulness of their model, they have calculated the impact of a five per cent increase in retention rate for various service branches. While the power of retention depends upon the shape of the curve in Figure 6.3 and the point on the curve at which a company finds itself, the percentage increases in profit ranged from 25 per cent experienced in the insurance industry, to 125 per cent in the credit card industry (Heskett, Sasser and Hart, 1990). Hence, the process of retaining a customer should be of strategic focus to all service providing companies.

## 6.5 Subconclusion

In chapter six the concepts behind customer loyalty and profit have been discussed. Any service manager should treat customer loyalty seriously, as loyal customers imply repeat business, which is of utmost importance for the service industries. The overall aim of any service company should be to satisfy and thus stimulate their customers continuing their service purchase with a particular service provider instead of swatting to another competing provider. From a strategic point of view, an increase of switching costs due to personal preferences and other attributes can tie customers to a specific service company, thereby having a positive impact on customer retention and loyalty.

Customers who are continuously repurchasing, provide the largest revenue to a company, hence managers should keep in mind that the costs of losing a customer are very high. A customer who repeats the service purchase frequently, represents a revenue provider and a profit generator.

For service providers, it is necessary to understand and adopt the philosophy behind relationship marketing. In the past only a few service providers have approved the focus on close and extensive relationships to their customers. The majority of service companies on the other hand preferred the transactional route which focuses on single and short-termed transactions.

Today more service companies are starting to recognize that their existing customers are easier to sell to and generate higher profitability in the long-run. Hence, one immense challenge for service managers is to avoid taking existing customers for granted. Preferably they should spend more resources on existing customers than devoting all resources to attracting new customers. By adopting the relationship marketing philosophy it is possible to turn prospects into customers, and late into supporters and advocates.

Customer loyalty and profitability go hand in hand as the costs of serving repeat customers are less than the costs of attracting new customers. The costs of retaining a loyal customer is only one-fifth of attracting a new one. Hence, the process of retaining customers should be a strategic focus of all service providing companies.

The following proclamations are to be seen as Success Factors which are considered as critical in the context of customer loyalty and profitability.

#### Success Factor 1:

Understanding the importance of long lasting relationships to customers provides service companies with opportunity to gain profitability in the long run.

#### Success Factor 2:

The costs of attracting new customers is relatively higher than the ones of keeping existing ones. In order to ensure profitability in the long run, service companies should have customer retention as a strategic focus.

# **PART III**

## **EMPIRICAL ANALYSIS**

## PART III: EMPIRICAL ANALYSIS

### Chapter 7: EMPIRICAL ANALYSIS

#### 7.1 Empirical Methodology and Research Sample

##### 7.1.1 Purpose of the Empirical Study

Having examined the elements which influence customer satisfaction in services BNA from a theoretical point of view, the purpose of the empirical analysis is twofold. First it is of interest to analyze the elements which have an impact on customer satisfaction from a practical point of view. This will provide valuable information about potential problems of service companies. The second aim of the empirical research is to identify reasons behind the outlined potential problems. Thereby, it is of interest whether the characteristics of specific service branches have significant influence on the potential problems.

##### 7.1.2 Focus of the Empirical Study

In order to investigate how services BNA evaluate the relation between their own service and customer satisfaction, it has been chosen to focus the empirical research on elements which have been identified from a theoretical point of view. Hereby it is of main interest to look at four dimensions: first, internal operations, which have an impact on the external value. Second, the service product and development which considers need. Third, service recovery and customer loyalty. Each of the four dimensions will be analyzed with respect to the elements which have an influence on or are influenced by customer satisfaction.

##### 7.1.3 Research Design and Proceedings

As the focus of the empirical study is to investigate elements affecting customer satisfaction in practice, it has been necessary to approach services Bank directly. In the selection of services Bank we faced a lot of barriers. The optimal research design would have been to conduct our investigation encompassing a very large amount of bank services in many different branches. This demands a certain amount of time and some costs else, telephone and

travel which exceeded our resources. This problem forced us to limit our analysis geographically to the area of Oum El\_bouaghi when I born.

Having defined the geographical area we decided to include service branches bank. These branches represent in our opinion the service industry. In order to receive comparable conclusions we decided to keep a balance in the amount belonging to each branch. However, it has been chosen to select the 4 best known employees in each of the service branches.

#### 7.1.4 Data Collection

Having defined our target group for the empirical analysis we developed a questionnaire which was delivered to the selected service branches. The questionnaire was designed to provide answers to our Research Questions, and to cover the theoretical success factors. The questionnaire was reformulated several times in order to ensure that the participants in our survey were able to understand them. When redesigning the questionnaire we received valuable input by "test persons" to whom we presented the questionnaire for testing its comprehensibility.

When having questionnaires, usually it can be calculated with a response rate of 30 per cent or below (Amsden, 1989). In order to increase the response rate in our survey we decided to deliver the questionnaire to the selected bank services personally. As the bank were located in the area of Oum elboughi it weren't easy to reach. The questionnaire was handed -in to the managing employee branches. This was considered to be important because the questions in our questionnaire include issues which are closely related to managerial issues.

However, 100 per cent we picked-up personally. All in all we have contacted 4 services bank. Besides the fact that the managers felt committed to return the questionnaire due to the personal delivery, we tried to keep the language used in the questionnaire as simple as possible in Arabic but after I have translated it in English. This ensured that also those service managers who do not have a higher theoretical education understood the questionnaire and we can found it predominantly in Algeria.

The questionnaire consists of three main parts which are in accordance with our Research Questions: Internal operations, service product and concept, and finally the relationship to customer and their satisfaction. All in all we formulated many statements, of which ones relate to internal operation issues, and other ones relate to the bank's service product and concept, and finally ones relate to the bank's relation to customers and their satisfaction.

The statement were to be answered on a scale from 1 to 4, whereby 1 indicates absolute agreement; 2 relates to agreement, 3 stands for disagreement and 4 represent absolute disagreement concerning the corresponding statement. The reason behind using this scale was to provide the employee managers in various bank branches with the possibility of giving the answers within a limited range, which is considered to be easier than having a range of, for example, seven possible answers which is suggested in the SERVQUAL model by Parasuraman, Zeithaml & Berry (1995). On the other hand we regard this scale as being sufficient enough to express the respondent's points of view. However, in those cases when we picked-up the questionnaire personally, we supplemented the quantitative questionnaire with a qualitative dialogue with the respondent. The dialogue provided us with background information and additional details concerning various issues relating to the questionnaire. These additional comments we considered when analyzing the questionnaires and contributed therefore to an improvement of the empirical analysis and its comprehensibility.

The analysis of the questionnaire is mainly based upon the statistical finding which in some instances are supplemented by information gathered during dialogue with some of employees. The statistical after-math applied throughout the empirical analysis is attached in Exhibit I and Exhibit II.

#### 7.1.5 Delimitation

This thesis deals with service providing bank. The focus will be solely on private services and not on public ones. It appears for us more attractive to analyze the service provided by private companies because they are profit oriented and are therefore more or less forced to be customer oriented. This is mainly due to alternative customers having to switch their purchase to a competing company. Because the alternative is missing from public service providers, there is no definite force to be customer oriented. The empirical analysis will therefore be conducted in selected private service providers.

In the selection of service providers we have chosen to look solely at services provided on the consumer.

The empirical analysis is based upon 4 selected services bank in different service branches. In our opinion the selected branches are representative for the private service industry, operating on the consumer market. The conclusions of the empirical analysis, however, are first of all true for the selected services bank. But is our viewpoint, due to their representatives, there can be conclusions drawn on service industry as a whole.

### 7.1.6 Reliability and Validity of the Empirical Research

The specific choice of research design has an influence on the validity and reliability of the research. When analyzing the questionnaires answered by the service managers, it is necessary to keep in mind the following drawbacks. The managers were asked to give their assessments concerning different managerial issues. Hereby, it is possible that the answers, in some instances, mirror rather the desired and "ideal" condition than the "real" one. Furthermore, it is important to remember that most of the answers from the services managers are based upon subjective assessments and not on objective, and maybe more reliable, source. The usage of questionnaires as the foundation of the research discloses the opportunity of conducting qualitative dialogues with the respondents, thus there is a potential risk that the respondents interpret the questions differently than originally intended. This risk of misunderstanding depends on the researcher's ability to formulate questions in a concise and unambiguous manner.

The questionnaire provides different options to answer the statements on a scale from very agree to very disagree. When comparing the response from different branches managers there is a potential risk that the evaluation of a specific statement is inconsistent among the respondents. This means, two branches manager's who have the same opinion concerning one-problem might differ in their evaluations of the problem.

Some questions relate to the branches manager's perception concerning the bank's strengths and weaknesses. It should be kept in mind that there exists the risk that some branches managers are more focus on their strength than on weaknesses. The manager's potential lack of self-criticism implies that their answers need to be analyzed with caution.

It has been intended to encompass in our sample an equal number within each service branches. However, as the response rate is below 100 per cent, it reveals that the amount of service branches is not enough but the amount of the time too short to do a long-run study. This circumstance should be kept in mind when review in the statistics in Exhibit I

### 7.1.7 Presentation of the Research Sample

Algeria has in recent years, significant changes have entered the banking business but their own, despite these developments, it is still considered one of the countries that have not yet caught the pace of other countries that are Raidt in the use of means of payment

Therefore we will focus on a sample of the Algerian banking system by doing a field visit of the Algerian National Bank BNA to see modern developments that have taken place on the banking system, especially in the area of means of payment and in particular the most important way to the bank a letter of credit

Before the study, we first provide the Algerian banking system, as well as the headquarters that we had the internship BNA316 then in the latter study; we applied two about the portfolio and foreign trade.

#### 7.1.7.1 The Algerian banking system and payment system

A-The stages through which passageway the Algerian banking system:

The Algerian banking system during the occupation was an extension of the French system, but after independence and since 1962, banks have witnessed sweeping reforms in view of the contradiction which exists between the banking system inherited from France and based on liberalism, and decided to approach the new socialist followers in Algerian politics.

For this was to Algeria you resort to nationalization of banks and this is what actually reflect the years 1966 and remained Algerian banks are going according to the rules of which was the central system planned break them up to economic change, where a law 90/10 dated 14.04.1990 containing the Code of Money and loan, which gave more impetus and dynamism of the Algerian banks and has the Algerian banking system over several phases:

##### A -1 the first phase (1962-1966):

Known Algerian banking system since 1962 in the evolution of the structure and functions, allowing banking institutions to carry out its functions to the fullest, because during this phase was the Algerian banking system consists of the existing branches of foreign banks, especially French.

- Central Bank of Algeria (BCA) was established on 13/12/1962.
- Algerian Fund for Development (CDA) was established on 07.05.1963 and then later turned to the Algerian Development Bank (BAD) as of 30/06/1971.
- National Endowment for the provision and the reserve was established on 10/08/1984.
- Algerian nationalization of the banking system in 1965.
- Instrument of the national currency - the dinar Algerian - in April 1964.

And what distinguishes this stage is that at the beginning of the existence of the Algerian Central Bank and the Council of the loan, the banking system is subject to the requirements of the external market and does not respond to the needs of local development because the existing financial institutions at that time do not contribute effectively, but that its funding is very limited in the area of economic growth, Faced with this reality emerged an urgent need to need to change the banking system, and this is what you will learn about it in the next phase:

#### A-2 - The second phase (1966-1970):

Characterized the banking system during this period, the establishment of the following:

- Algerian National Bank (BNA) at 19/06/1966.
- Algerian Popular Credit (CPA) in 19/03/1966.
- External Bank Algerian (BEA) in 19/10/1967.

This phase is characterized as the birth of national banks, capable of responding to the requirements of the state and based on economic and social development, as marked by the central system schema.

And at this stage was the National Bank take care financing in the agricultural sector while the World Bank interested in the external financing of public institutions of an industrial base, and the Algerian public loan take care financing transport sector, tourism and building institutions.

Then came the stage of economic reform in 1970.

#### A-3 - the third phase (1970-1990):

This stage is the stage of restructuring of the Algerian banking system, and had been characterized by the establishment of:

- a - Bank of Agriculture and Rural Development (BADR) 13/03/1982 in the funding of the total agricultural sector.
- b - Local Development Bank (BDL) 30.04.1985 interested in the financing of local public institutions.

And starting from the year 1986 has assumed the Algerian banking system and a new face as it became consists of the following:

- five commercial banks: BDL / BADR / BEA / BNA / CPA
- Development Bank Algerian BAD
- National Endowment for the provision and reserve CNEP

And tasks were distributed as follows:

- Public Works and industrial activity CPA
- heavy industries BNA / BEA
- amputation and the chemistry of BEA
- the energy sector, BEA
- Agriculture sector BADR
- Transport Sector CPA / BEA
- Local Development BDL

But this distribution did not give positive results and that refer to the structural imbalance from one sector to another.

During 1986, the latest reform at the legislative level on the banks reflected in the issuance of two texts:

- Law 86/12 on the banks and loans.
- Law 90/10 on the cash and loan.

And this stage is the stage of restructuring of the Algerian banking system, giving greater autonomy to the banks in the area of management and helped to raise productivity, and this stage was marked by the establishment of the currency board and the loan, with the knowledge that the law 90/10 dated 04.14.1990 of the loan and Cash had been changed by decision of the President of the Republic starting in 2000, in general, what notes on the Algerian banking system that is characterized by some advantages, including that he organized in the form of (Oligopoly) consists of five commercial banks, savings fund and reserve and Development Bank in addition to banks with a special character as a BARAKA bank.

#### B - The definition of BNA bank:

National Bank is an institution of a commercial nature, in general, specialized in financing investment projects where small with 30 workers, and middle turn of 100 workers in particular, without exception, large institutions, which includes 1000 workers.

#### - Inception:

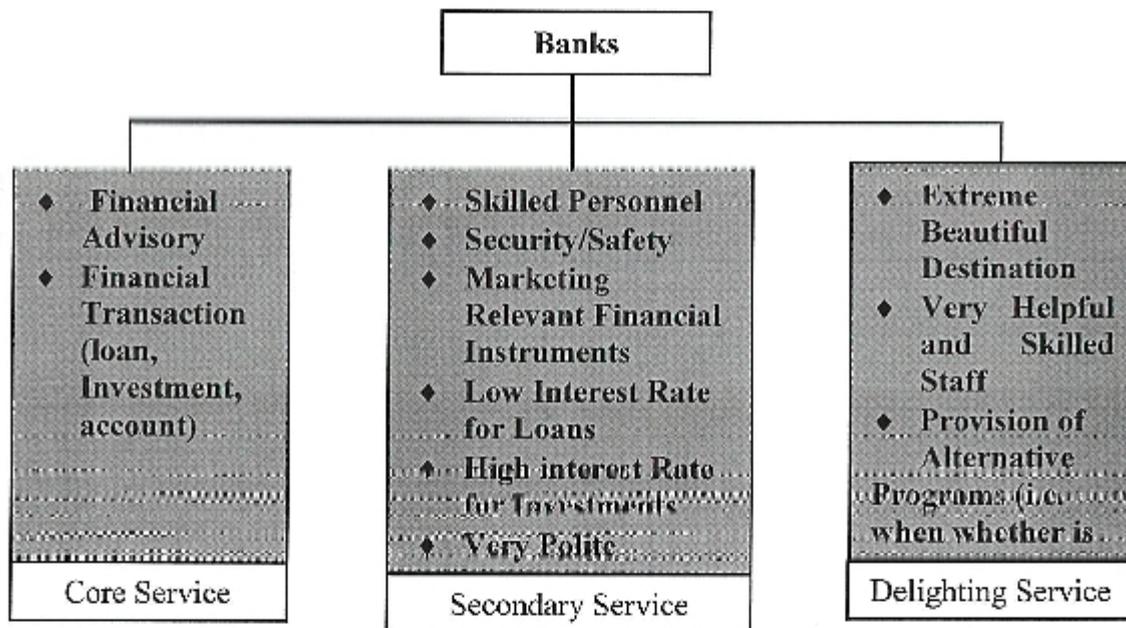
Algerian National Bank was established on 13.06.1966, after the problems raised sharply, and is not the problem of financing social sector, and founded the Bank to be a member to implement the government policy was the beginning specialized in the financing and meet the needs of the industrial sector, trade and agriculture and in 1982 Open Bank of Agriculture and

Rural Development BADR even take the latter in turn finance the agricultural sector has been allocated and the Algerian National Bank in the financing of commercial and industrial sector

Since it is the sole supplier of private institutions and for economic agents, and this is what constitutes a circle savings and investment for the Algerian banking system, the banking and financial circle comes on top Algerian Central Bank (Bank of banks).

In the end, the Algerian banking system remains the property of the state in spite of sharp competition on the privatization of banks and opening capital Algiers and figure below consists core, secondary and delighting services in BNA bank

Figure 7.1.7.1 Core, Secondary and Delighting Services in BNA Bank



Source: BNA BANK

## 7.2: Internal Service

The purpose of this chapter is to investigate specific issues concerning the internal service applied of service branches in BNA bank in our research sample. The main areas of interest are their internal marketing and their preferred management styles. Thereafter, the effects on

motivation and service performance of employees will be investigated. Finally, the SERVICE managers application of control and training measurements will be discussed.

### 7.2.1 Internal Marketing

This section aims to analyze elements of internal marketing applied in the selected service companies. In the theoretical foundation of this thesis it has argued that internal marketing is concerned with regarding employees as internal customers, implying that the role of employees is equally important as the role of external customers. It is therefore interpreted that one prerequisite for internal marketing is a strong interest in the employees showed by the service managers. Keeping in mind that customer satisfaction is one of the central goals of any service company, it appears necessary to satisfy the employees as well. Investigations concerning the degree of employee satisfaction will provide information about the estimated level of internal marketing. It can thereby be assumed that there exist a positive correlation between employee satisfaction and a successful handling of internal marketing.

In our empirical study of internal marketing the first issue of interest is the management's attitude towards their subordinates. Every manager in all of the four branches regards their subordinates as their most important asset. The important role of employees is mostly stressed, but also service branches which have been characterized by being more technical based, for example feel the importance of their human resources. This indicates that in all service branches of our sample the prerequisite for successful internal marketing is fulfilled

The second issue of interest in the context of internal marketing is the level of employee satisfaction. The employee's branches managers were asked to evaluate the level of satisfaction of their subordinates 95 percent of the responding managers are convinced that their subordinates are satisfied with their work.

All in all it can be said with one minor exception, that all service managers of our sample fulfil the prerequisite of successful internal marketing.

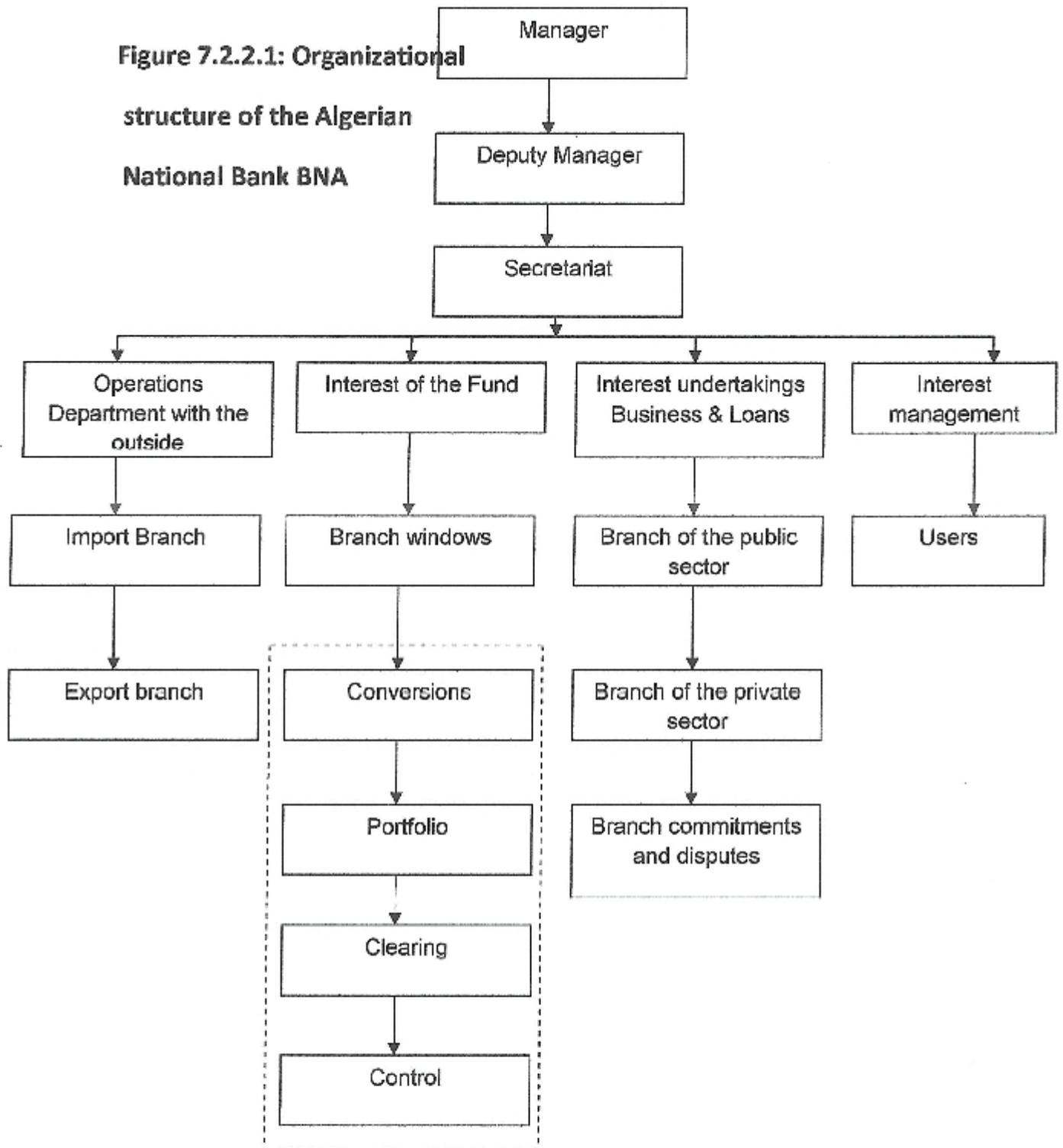
### 7.2.2 Management Styles

Having analyzed the issues of internal marketing in our research sample it is now of interest to investigate the applied management style. In our theoretical foundation a distinction of different decision making processes has been presented: Authority, consultative, and group decision. Authority decision style corresponds to a rather result oriented management style, whereas consultative and group decision styles refer to a more process oriented management style.

The authority decision style is characterized with an extensive vertical distance between management and its subordinates, an insignificant exchange of information between management and its subordinates, which is primarily based on formal communication, and finally a preference for making decisions themselves without encompassing employees' opinion.

Opposed to this, the consultative and group decision style can be identified with a relatively small vertical distance between management and its subordinates. Both styles focus on an intense exchange of information, which is primarily based on personal contacts, and furthermore subordinates' opinions and thoughts are considered. In the consultative decision making style the manager has the final decision, whereas the group decision making style motivates employees to participate actively in the actual decision making. The latter requires a high degree of information exchange among employees in order to function effectively. Here is organizational structure of the Algerian National Bank BNA

**Figure 7.2.2.1: Organizational structure of the Algerian National Bank BNA**



Source: Directorate of bank interest and means of organizational Told of "BNA" form No. 08

Approximately three quarters of all respondents perceive the vertical distance between them and their subordinates as being rather small. In contrast, our sample BNA bank is characterized by having a relatively large organizational size with many hierarchical levels, which in return make a close cooperation difficult and enlarge the vertical distance.

To the question whether the information exchange takes place a more personal basis, 85 per cent of all services managers in our bank agreed. The numbers indicate that the vast majority of the service managers exchange information with their subordinates on a personal basis. On the other hand, it reveals that branches managers which do not exchange information on a personal basis seem to have a rather formal communication pattern primarily based on written material. Finally it is of interest to investigate the degree of exchanged information among employees.

All in all can be said that all four decision making styles can be identified in our research sample. In our bank there is a tendency to pursue a rather authority decision style which corresponds to a more result oriented management style. This is rooted in the high hierarchical distance and formal communication patterns and only a limited exchange of information both between management and subordinates and among employees. Potential problems concerning this management and decision making style are to be seen in a lack of flexibility to adjust to employee's needs and requirements.

### 7.2.3 Motivation and Performance

Having identified different management styles among the services bank of our sample, it is now of interest to analyze the impact of a specific management style on employee's motivation. It has been argued that self management and responsibility have a significant influence on the employee's level of motivation and job satisfaction which in return have an impact on the external value delivered to customers. By asking all branches managers to evaluate whether their employees work hard for satisfying the customers and the level of employee satisfaction conclusions can be drawn upon the effects of a particular management style.

Concerning the level of motivation 87 percent of the responding service managers believe that all employees are doing their best to satisfy the customers. In various branches there is a relatively short distance between management and subordinates which enables them to

monitor the employee's performance themselves. The close contact and interaction seems to motivate employees to conduct their jobs as expected. Also bank managers evaluate their employees to perform adequately in order to satisfy customers. In this case the high hierarchical distance seems to have no negative influence on the motivation of service employees. One possible explanation is the high educational level of bank service branches in our research sample.

All in all it can be said that the very majority of service managers evaluate the level of motivation and performance of employees as being satisfactory. It has been shown that there is a positive correlation between job satisfaction and motivation. Moreover, taking the management style into account the empirical analysis reveals that no significant correlation can be found between management style and the employee's motivation to satisfy the customers. But it is important to keep in mind that the empirical survey is solely based on the branches manager's point of view which is not to be seen as an objective measurement.

#### 7.2.4 Control and Training

Having analyzed the service branches manager's perception concerning employee's level of motivation and satisfaction it is now of interest to investigate whether managers have the ability to control subordinate's performance. Because the role of front line employees is crucial when customers evaluate a service encounter, thus having an impact on the service quality, it is necessary for branches managers to monitor their employee's service delivery performance. Examining whether managers control the performance of employees will enable us to evaluate the validity of branches manager's perceptions concerning employee's motivation levels. Only when control procedures are prevailing managers are able to assess the employee's performance and motivation adequately. Moreover, when it turns out that the service delivery is unsatisfactory the management has the choice to provide training programs to their service employees and thereby enhance the quality of the service delivery.

The empirical survey shows that the majority of service companies (82 per cent) control the performance of their employees. Mostly in service branches managers in BNA bank emphasize their ability to control the service delivery performance of their employees. In this context it is believed that the performance control relates to economic numbers, for example gross margins.

All those service branches in our sample which state that they measure the performance provide training programs to their employees. However, it is interesting to observe that some service branches which do not measure the performance of their employees also provide training programs. And the manager's branches seem to be able to assess the need for service improvements.

### 7.3: Service Product

The purpose of this chapter is to analyze the responders answers concerning the service product they deliver. Firstly it will be investigated how the sample distinguishes between core and secondary services. The further distinction into delighting services has not been considered in the analysis because it has been too difficult to determine the delighting service attributes for the service managers. Thereafter it will be of interest how service providers develop their service offer. Special focus will be on the source of inspiration behind the development. Finally, a potential gap between management's and customer's perception concerning service quality will be analyzed.

#### 7.3.1 Core Services and secondary Services

In chapter five services have been characterized with core service and secondary service. The services branches managers in our sample of different service companies were asked to describe their core service and hereafter their secondary service. This is considered to be of interest because secondary service attributes were identified to create and sustain a competitive advantage. Being aware of ones secondary service attributes can be helpful to determine the competitive position of a service bank. Service companies which concentrate on improving and developing their service attributes have in general more possibilities to increase their service value and structure the service offers.

Only a few branches managers were able to recognize their service core product and secondary attributes. One explanation might be that the bank business is rather complex (from loan to investment advice, financial consulting including tax and insurance issues) which makes it difficult to determine one single core service. Despite this unawareness it is not likely that the competitive position of BNA bank is threatened. The main reason it is seen first of all in the high switching costs due to personal and technical dependency which prevent customers from defection. Secondly, the bank branch is characterized as being rather complex

and knowledge based which represent another entry barrier. The need for identifying the various service levels seems to be a of minor "competitive" importance in the BNA bank branches.

### 7.3.2 Service Development

Having examined the branches managers ability to determine the various service levels, it is now of interest to analyze how the specific service attributes are created and developed. Special focus will be put on the sources of inspiration behind the development. This provides insights on whether the management dictates new attributes or other sources of inspiration are involved, for example employees, customers, or competitors.

It is believed that when customers or employees are involved in the development of new service attributes, it is more likely that the needs and expectations of the customers are encompassed in the service delivery. By taking the opinion of customers and front-line employees into account when developing the service offers, it is possible for the manager to minimize, or eventual close, gap 1 of the Conceptual Model of Service Quality (p.70). Gap 1 refers to the difference between customers expectations and management perception of customer expectations.

The empirical research shows that the very vast majority of the respondents (95 per cent) emphasize that they are constantly developing new service offers or improving the existing ones. It is now of interest to investigate which parties are involved in the product development process. The survey indicates that 25 per cent of all responding branches bank managers, state that they themselves participate actively in the creation of new service offer. 85 percent stressed that front lone employees who stay in direct contact with the customer are involved when developing and enhancing service offers.

### 7.3.3 Customer Orientation:

Having analyzed how the branches bank managers create and develop their service offers, it is now of interest to analyze the manager's own perception of their ability to meet customer's needs and expectations. The managers were asked to determine the difference between their perception of good service and the expectations of customers. The answers will provide insights to the potential gap 1 in the Conceptual Model of Service Quality.

In the previous section it has been shown that the vast majority of the service managers in BNA bank take various parties, employees, customers, and competitions, into account when developing new service offers or when improving the existing services. It is now questionable whether the branches managers and customers regard as good service, seen from the management's point of view. It is worth mentioning that the actual size of the gap requires a comparison between the customer's and management's viewpoints which has not been possible based on the chosen research design.

The empirical survey reveals 95 percent of the responding managers is convinced that their service offer is in coherence with the customer's expectations. All branches managers in BNA bank point out that their perception of good service corresponds with the one of their customers. This indicates that those managers are quite sure that they service satisfy their customers. Furthermore, it appears that the managers in these branches believe to receive sufficient inputs concerning customer needs.

All in all, the impression arise that managers are in general convinced about their ability to meet customer's expectations and thereby satisfying the customers. They assess the size of gap of gap 1 to be minimal, but as stated earlier, the assessments do not reflect the "real" size of the service quality gap.

#### 7.4: Customer Satisfaction

Having examined the service product and the determinants behind its development, as well as an assessment of the overall customer orientation, it appears of interest to evaluate the degree of customer satisfaction from the management's viewpoint. This is done by firstly looking at the general attitude towards customers. Second, potential problems concerning the quality of the delivered services will be estimated by using the various service quality dimensions as outlined in the theoretical foundation.

##### 7.4.1 Attitude towards Customers

In order to satisfy customers it has been argued that service companies need to spend strong efforts to determine customer's needs and expectations. One prerequisite is seen in having the "right" attitude towards customers. This implies that services banks have to put their customer in focus of their service operations, both with respect to service development and service delivery. It can be assumed that satisfied customers can only be achieved when the management regards the process of achieving customer satisfaction as their overall goal. It is

believed that having short-termed financial objective as the overall goal does not contribute to the highest possible degree of customer satisfaction.

The empirical research demonstrates that almost 100 percent of the responding branches managers regard their customers as the most important asset. Moreover, all responding managers stress that their overall goal is to satisfy their customers. The results indicate that there seems to be a tremendous awareness concerning the importance of customers in the service industry.

#### 7.4.2 Measurements of Customer Satisfaction

Having analyzed the attitude of manager concerning their customer the next point of interest is to determine how managers assess the actual level of customer satisfaction concerning their service delivery. Moreover, it is essential to find out whether these assessments are based on objective measures or on the branches manager's own individual opinion.

Almost all managers of our research sample (97 percent) perceive their customers as being satisfied with their service performance. This indicates that nearly all managers seems to succeed in fulfilling their overall goal of satisfying their customers. But as these answers reflect the branches BNA manager's perception it is now necessary to find out whether objective measurements are behind their statements.

All in all 47 percent of the responding service branches use professional research institutions to conduct customer satisfaction survey.

All in all it can be said that only a limited number of service companies can base their perception of customer satisfaction level on objective figures. However, the actual level of customer satisfaction is very difficult to estimate. These difficulties are reinforced both by the various dimensions of service quality and by the fact that service characteristics are difficult to evaluate from a customer perspective. Determining the actual level of customer satisfaction depends heavily on the applied methodology and therefore an overall assessment seems to be out of scope.

#### 7.4.3 Service Quality

It has been outlined that determining the overall level of customer satisfaction is a difficult discipline. The objective of this section is therefor to analyze the quality of services in a more detailed manner. As 97 per cent of the responding service branches managers in BNA bank claim to be aware of their strengths and weaknesses with respect to the quality of service

deliveries it is appropriate to approach the manager's perceived level of service quality. It has been pointed out in the theoretical foundation that the SERVQUAL framework encompasses five distinctive dimensions: Tangibles, Reliability, Responsiveness, Assurance, and Empathy. Asking the service managers to evaluate each of the five dimensions will provide valuable insights concerning the strengths and weaknesses when satisfying their customers. Again, it is worth mentioning that only the management's perception has been encompassed, but in the final end it is only the customer who is able to determine the "real" quality of services.

## 7.5: Service Recovery and Customer Loyalty

Having analyzed the service quality from the branches managers perspective in BNA bank, it is now of interest to investigate the situation where customers are dissatisfied with the delivered service quality. Two issues appear thereby of interest. First, how services bank handle the complaints from dissatisfied customers. Secondly, in cases where the customer does not complain, the objective will be to find out whether the service companies have procedures for registering customer defections. In addition this, as it has been argued in the theoretical foundation that loyal customers are profit generators for service companies it is therefore of interest to investigate the attitude of bank services towards loyal customers. Hereby assessing their awareness concerning the importance of having loyal customer for a long-term profitability is in focus, which will provide the opportunity to identify the preferred marketing strategy of a particular service branch.

### 7.5.1 Complaint Management

In theory it has been argued that effective service recovery procedures can turn a dissatisfied customer into a satisfied one. Hereby the importance of complain management was emphasized. Asking the service managers about their proceedings in handling complaints will provide valuable insight in the effectiveness of service recovery among this bank of our research sample.

The vast majority of the bank service managers (97 per cent) points out that they take customer complaints seriously. They stress that they use complaints in two different ways. First of all a direct reaction to a service failure takes place, and hereby turning one specific dissatisfied customer into a satisfied one. Secondly, manages state that the complaints are seen as sources of inspiration and are used to constantly enhance future service deliveries.

### 7.5.2 Customer Defection Registration

It has been shown in the theoretical part that not every dissatisfied customer chooses to complain. It is therefore of interest to analyze whether service companies have procedures for registering customers defections. Having effective procedures enable the bank services to identify potential customer dissatisfaction, and thereby possibilities for enhancing the quality of their services.

The empirical indicates that 58 per cent of all service managers claim to have procedures to register customer defection. This implies that 42 per cent of the bank services does not possess the opportunity to conduct service recovery, in cases where the customer does not complain. It has been argued that a dissatisfied customer informs other people about his bad service experience, which can have a negative effect on the reputation of the service companies, and thus on potential customers.

In the BNA bank, approximately 80 per cent of the managers claim to have procedures to register customer defection.

### 7.5.3 Customer Loyalty and profitability

In the theoretical part of this thesis it has been outlined that customer satisfaction ends-up in customer retention. Furthermore the outcome of long-term customer relationships has been described as profitability for bank in the long run. The purpose of this section is therefore to examine the service manager's interest in long term relationships to their customers. This is viewed as a prerequisite for satisfying customers. Furthermore it needs to be analyzed whether the loyal customers receive adequate attention by providing them with special treatment. Finally, it is of interest to investigate the service managers readiness to accept short valuable indications in how far the importance of customer loyalty is prevailing among service managers in BNA bank.

The survey reveals that 100 per cent of all service managers in our sample stress their interest in developing long lasting relationships to their customers. This indicates that all branches fulfill one prerequisite for satisfying customers in the long-run. It appears of interest whether the managers are able to live-up to their strongly expressed interest in loyal customers. To the question regarding the share of loyal customers almost 100 percent claim that a large fraction of their customer base consists of loyal customers. It seems therefore that all responding

service managers are able to fulfill their ambiguous objectives concerning a loyal customer base.

It is significant that 100 percent of bank offer special treatment to their customers. The strong efforts to keep customers corresponds to the fact that these branches have been characterized as having an intense customer contact and providing high involvement services. On the other hand, those branches which have been characterized as having low contact interaction with their customers and providing a rather low involvement service products have a clear tendency not to distinguish between new and existing customers. This is mainly due to their inability to identify regular customers, as mentioned before.

# PART IV

## CONCLUSION

## PART IV: CONCLUSION

### Chapter 8: Conclusion

The purpose of this chapter is to outline the elements, which influence, restrict, and enhance customer satisfaction. The elements identified in the theoretical foundation will be reviewed and compared to the findings of the empirical research. First the issues relating to the internal operations will be outlined. These issues contribute to the external performance of service companies. Secondly, the external value for service customers and their satisfaction will be reviewed from a strategic point of view. Finally, the relation to customer loyalty and profitability will be illuminated.

I have identified internal services as the crucial element which influences the external performance of service companies. By internal services we interpret the various operations, processes, and activities which influence the behavior of service employees. The relevance of optimizing the internal services is founded in the service marketing and management proposition. This proposition argues that external success is rooted in a well functioning organization. It has been shown that the following issues are of importance for the optimization of internal services: Internal marketing, management and decision making styles, motivation and rewards systems. The main ideas behind each issue will be revised both from the theoretical and the empirical perspective.

The concept of internal marketing prescribes that the employees regard their colleagues as internal customers. This implies that every employee strives to satisfy their co-workers. One prerequisite is that the management facilitates internal

Customers. This implies that every employee strives to satisfy their co-workers. One prerequisite is that the management facilitates internal marketing by expressing their strong interest in their subordinates. The purpose is to create a working environment, which supports the close cooperation between all members of an organization. It has been argued that a favorable working environment has positive effect on employee's job satisfaction.

Consequently, their satisfaction stimulates employees to perform well in their service task.

In practice it appears that almost every manager in our sample of four service branches in BNA seems to fulfill the prerequisite of successful internal marketing. The manager's interest in their subordinate provide valuable indications concerning their preferences for a favorable environment. As the managers evaluate the level of job satisfaction very high it is concluded that an effective internal marketing is prevailing.

Another issue which affects the internal services were recognized as the applied management style. The following distinctions appeared as useful. First there is the authority decision making style which is characterized by the manager's preference to make decision on his own without consulting other members of the organization. This decision making style which implies that the economic bottom-line is in focus without paying attention to the employees welfare.

Secondly, there is the consultative decision making style which implies that the managers take their subordinates opinion into account when making decisions. This kind of decision making style regards employee's inputs and feedback as a source of inspiration which can be used to enhance the service delivery process, but in the end of the day the manager makes the final decision.

Finally, there is the group decision making style which is characterized by the manager's preference to delegate tasks to subordinates who are actively involved in the actual decision making process. The final decision is made upon a group

consensus. Both the consultative and the group decision making styles correspond to a rather process oriented management style. This style requires that the manager motivate his subordinates to identify themselves an important asset of the organization. This implies that manager empower and integrate their employees by coaching, supporting, and involving them in the delivery of services. Opposed to the result oriented management styles the process oriented style focuses on the softer elements of the organization.

Regarding decision making and management styles in practice, the empirical research shows that all these decision-making styles can be identified among the four selected service

branches. In BNA bank there has been identified a tendency to pursue a rather authority decision making style which corresponds to a more result oriented management style.

The final element which influences internal service is the relation between motivation and employee's performance. In theory it has been argued that managers have to recognize employee's needs and expectations in order to stimulate them the best possible manner. Several different ways to motivate employees have been outlined. Special attention should be paid to respect employees and strengthen their self-esteem. The key of employee motivation is to create an environment, which provide employees with the freedom to develop personal and professional skills. Both have been considered to increase the overall job satisfaction and performance.

This theoretical assumption has been proven in the empirical research. It has been shown that there is a positive correlation between job performance, motivation, and employee satisfaction. However, the empirical survey did not provide any proofs concerning the relation between the degree of employee satisfaction and the applied management approach.

In addition to internal services the external value has been identified as crucial for influencing customer satisfaction. When designing services a distinction between three levels of services has been done. Core services relate to the basic customer benefit from the service transaction. The delivery of core services is supported by secondary and delighting services. As the core service is easy imitate the provision of secondary and delighting services is necessary in order to create and maintain a competitive advantage. When developing those services various sources of inspiration can be considered: Front-line employees, customers, and competitions.

In practice it has been shown that only a minority of managers is able to recognize their core and secondary service attributes, only hotel managers succeeded in making this distinction. The research reveals that all branches make use of all three sources of inspiration. It is believed that the company's ability to meet customer needs and expectations has a direct influence on the overall customer satisfaction.

In the theoretical foundation the Conceptual Model of service Quality has been discussed. This model provides comprehensive insights to potential reasons for customer being

dissatisfied with a service performance. By minimizing the various gaps it is possible to increase the probability of meeting customer expectations and thereby increasing the level of customer satisfaction.

The difference between management's perception of customer needs and customers expectations represents gap 1. The empirical research that the service managers in general are convinced about their ability to meet customer's needs and expectations and thereby satisfying the customers. From the management's point of view it is estimated that the gap 1 is of limited size. This reinforces the overall impression that managers in all service branches are sure about having the appropriate sources to develop high quality service.

Having presented the Conceptual Model of Service Quality which outlines various reasons for potential service failures in an overall manner it is valuable to examine the criteria behind. It has been argued that service quality can be made more operational by introducing five service dimensions: Tangibles, Reliability, responsiveness, Assurance, and Empathy. Based on these dimensions the customers are able to evaluate the service encounter.

The empirical research reveals that managers have different opinions about their strengths and weaknesses concerning each service quality dimension.

In the bank sector all managers see their tangibles, reliability, and empathy as their main strengths. Tangibles in banks relate to a luxurious interior, which creates a trustworthy atmosphere. The strength concerning reliability is seen in their trustworthiness, accuracy, and consistency in the delivery of service. The strength in relation to empathy refers to their friendly and polite front-line employees and to their ability to understand customer needs and expectations. Concerning responsiveness and assurance the weaknesses in the bank sector are seen in restrictive opening hours which is evaluated as a barrier when serving customers. Moreover, some bank branches managers claim that the skills of other employees are a weakness, which is mainly due to the complexity of bank businesses. This complexity makes it difficult for all bank employees to develop a specialized expertise.

Delivering services is a complex process, despite the strive for "zero defection" it is impossible for the service providers to avoid service failures to happen. In the theoretical part

of this thesis is has been outlined that service recovery is a valuable tool to achieve customer satisfaction. Service recovery aims to compensate a service failure and thereby turning dissatisfied customers into satisfied ones.

A prerequisite for effective service recovery is that the service provider gets feedback from the customer about the reason behind his dissatisfaction. In order for the service branches to receive these information it is necessary to possess complaint procedures which motivate the customers to complain. In cases where dissatisfied customers defect without complaining, the companies need to implement mechanisms which monitor customer defection. These mechanisms enables the service companies to detect the reasons behind defection, and thereby provide them with the opportunity to recovery potential service failures.

The empirical survey shows that the vast majority of the service branches managers treat customer complaints seriously. The managers point out that the complaints can be used in two distinctive ways. First of all a direct reaction to a service failure takes place, and hereby turning one specific dissatisfied customer into a satisfied one. Secondary, managers see complaints as sources of information and use them to enhance further service delivers. Moreover, the research reveals that service branches which have a low customer contact and provide a low involvement service.

The general reason behind the companies intense focus on customer satisfaction is that customer satisfaction leads to customer retention. It has been denoted that loyal customers provides the largest revenue to the service companies, as the costs of serving regular customers are lower than the ones of attracting and serving new customers. The long term relationship between the service provider and their customers is considered in the concept of relationship marketing, which focuses on customer keeping instead of customer catching.

The empirical research discloses that BNA bank have a tendency to emphasize building of long term relationships to their customers, hence, it is concluded that service companies in these branches tend to pursue relationship marketing. This conclusion is founded in the overall impression that bank branches managers puts a lot of efforts in stimulating customers to repeat their service purchase, by providing them with special care and attention.

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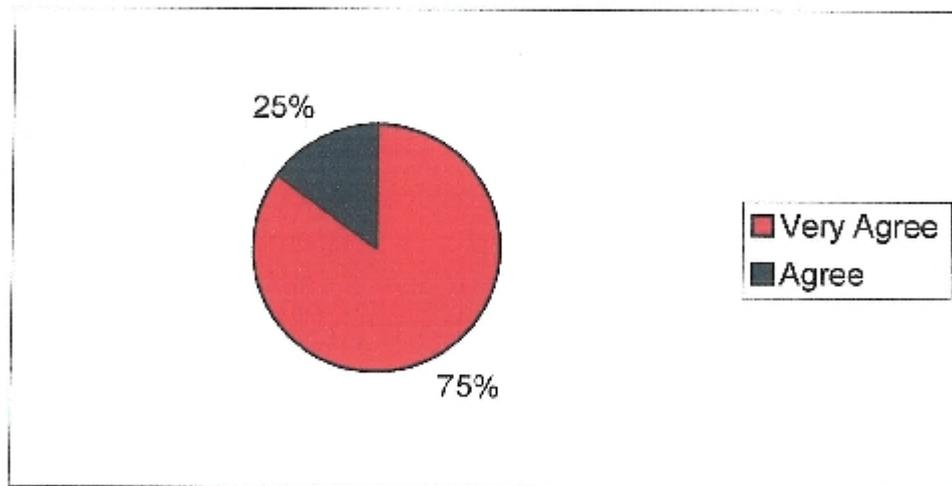
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# Exhibit I

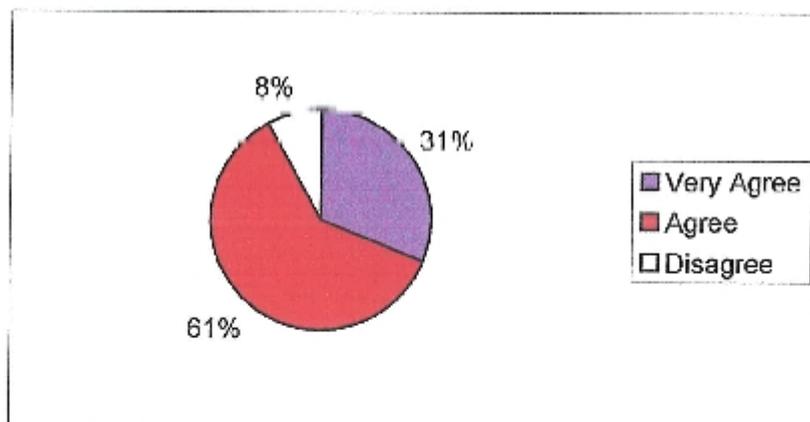
The Result of the Empirical Research

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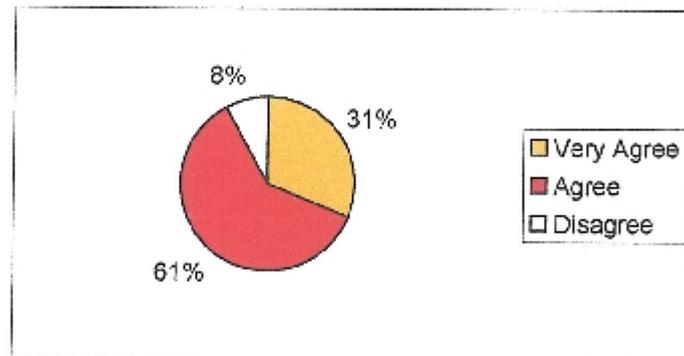
Question 1: We regard our employees as the most important asset.



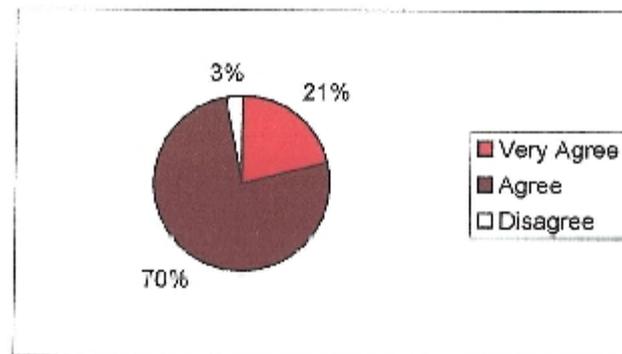
Question 2: Our employees are all familiar with the company's overall mission and goals



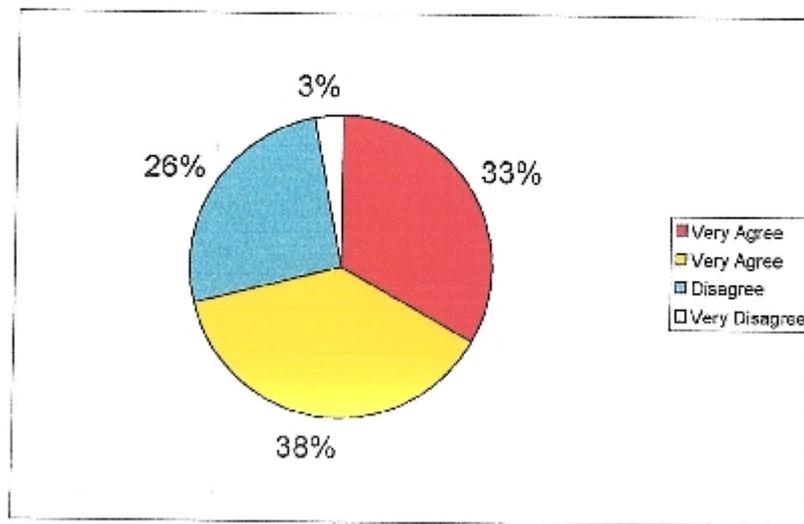
Question: 3: All our employees have a strong feeling of being member of a team.



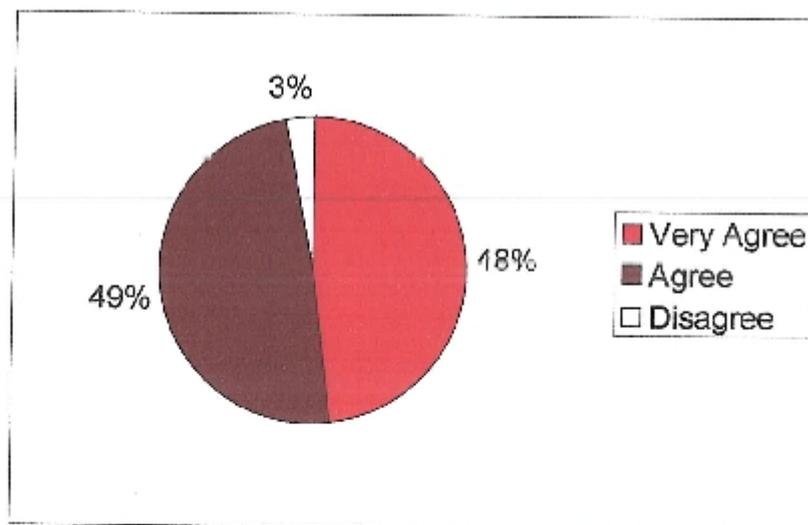
Question 4: We are convinced that our employees are satisfied with their Working environment.



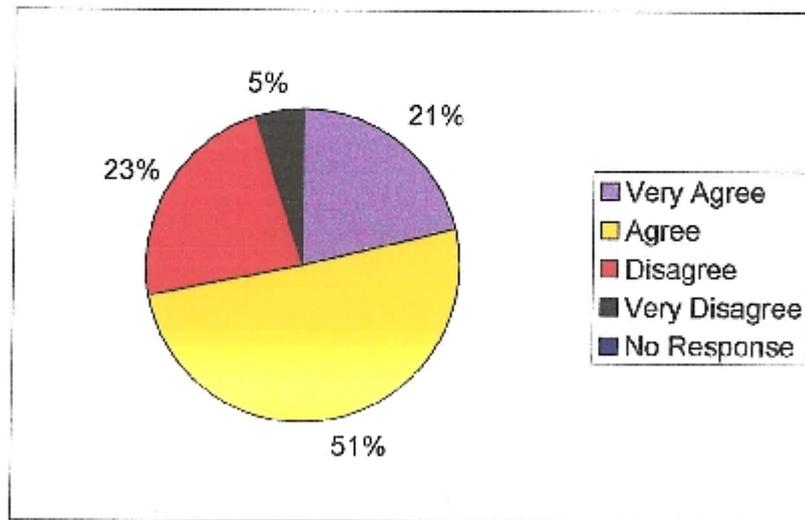
Question 5: The Vertical organizational distance between the management and the employee is small.



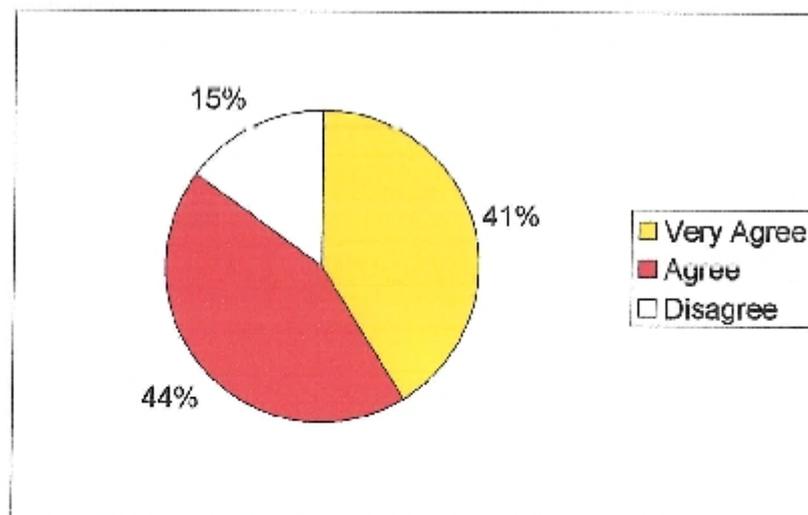
Question 6: There is an intense exchange of information between the management and the employees.



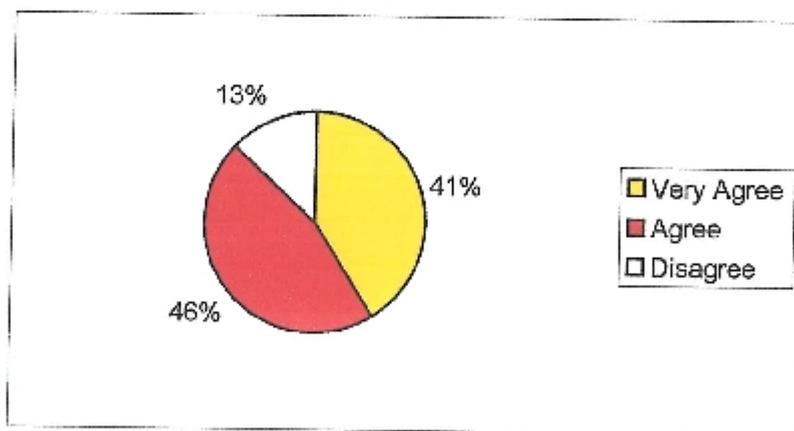
Question 7: There is an intense exchange of information between the employees and the various departments.



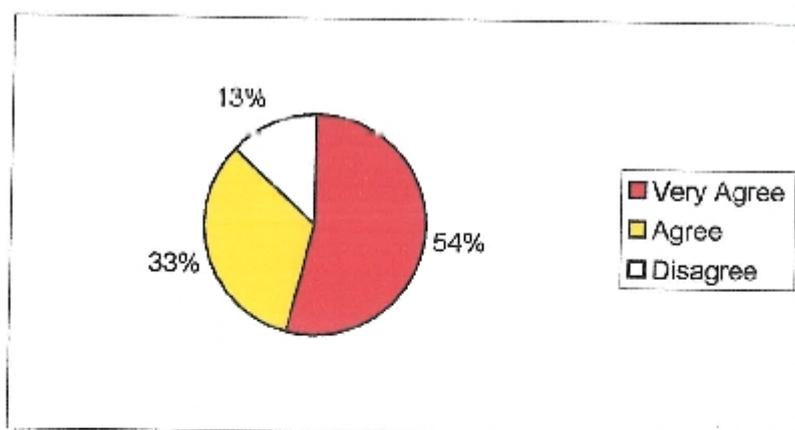
Question 8: The communication between the management and the employees are primarily based on personal contact.



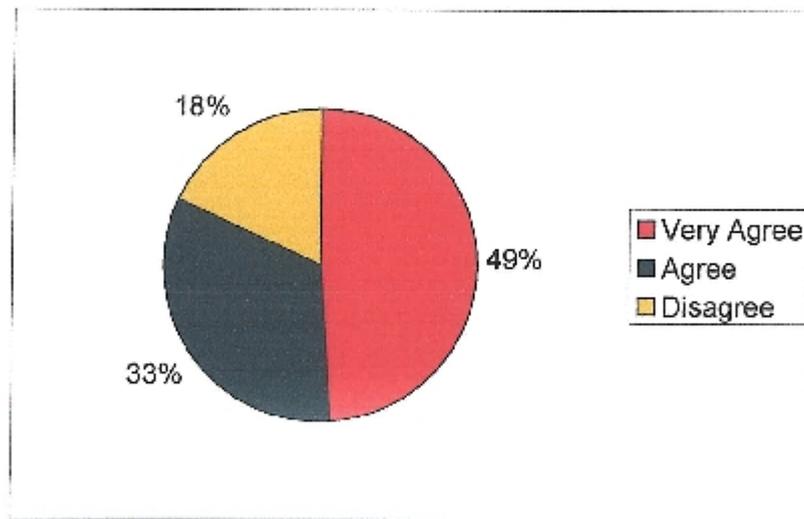
Question 9: The management formulates detailed standards concerning how the customers should be served.



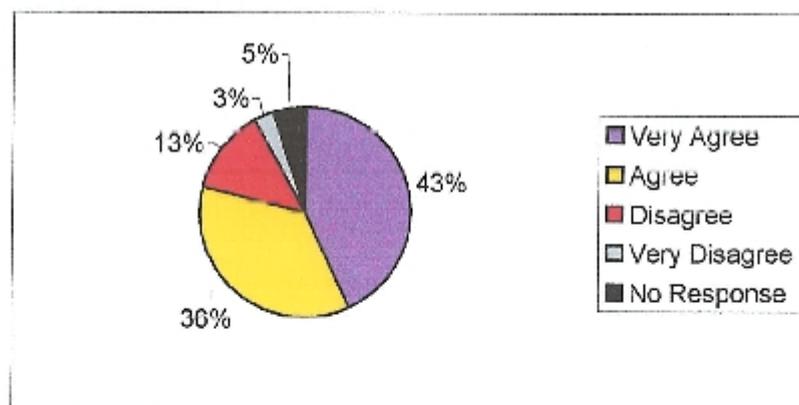
Question 10: The management formulates detailed standards concerning how the customers should be served.



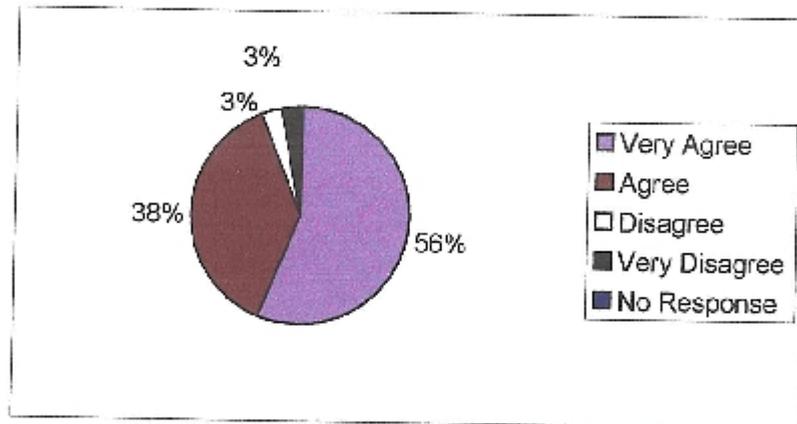
Question 11: The ability of the employees to satisfy the customers is continually controlled.



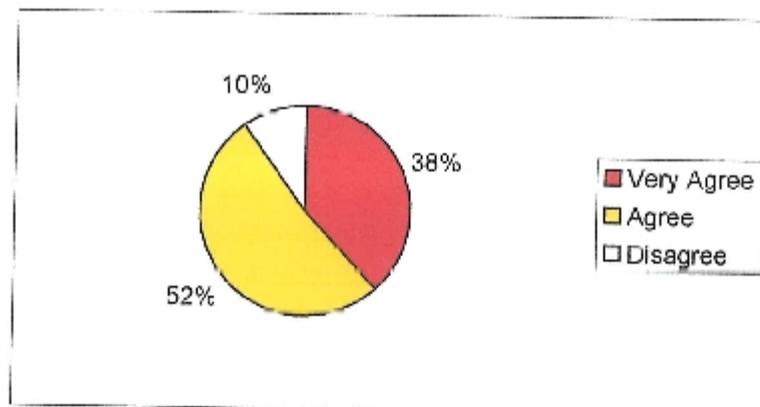
Question 12: We have established internal training programs where the employees are being trained in satisfying the customers.



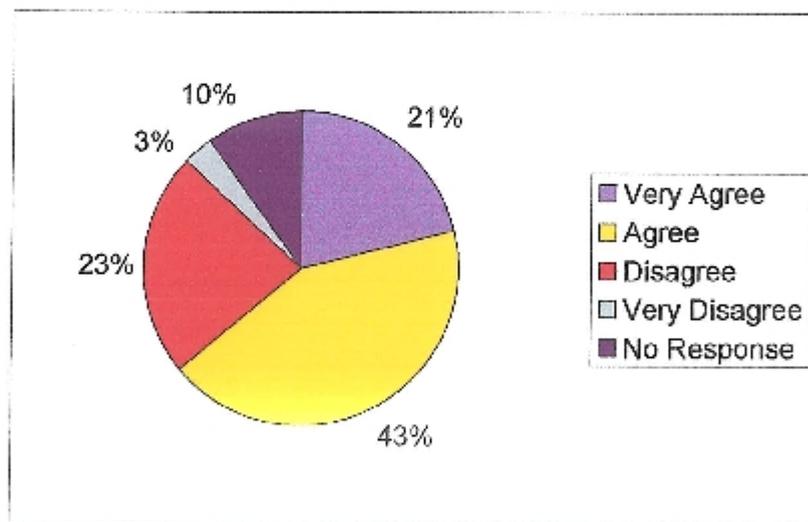
**Question: 13: When recruiting new employees the personality is more important than professional competencies.**



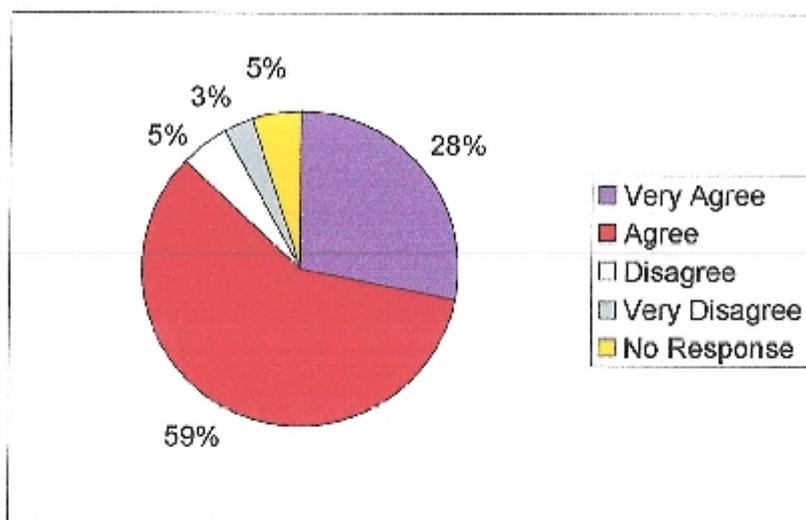
**Question 15: New service offers are created in cooperation with the front line employees.**



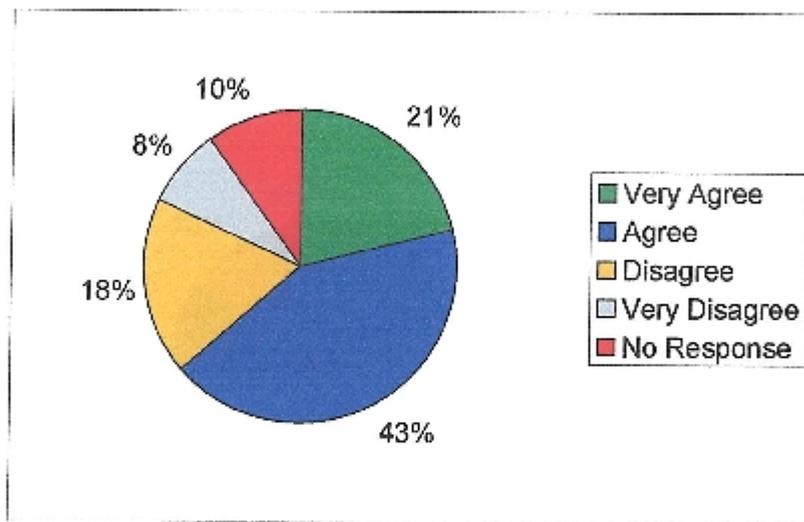
Question 16: Both existing and potential customers are part of the development of the new service offers.



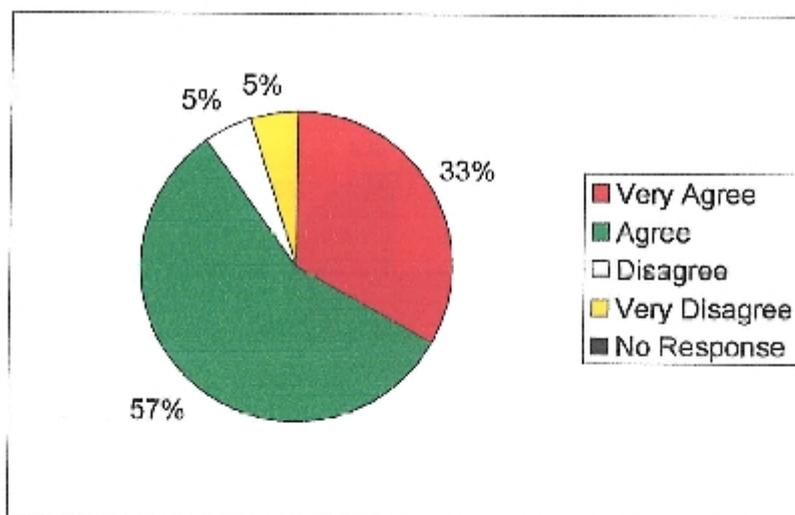
Question 17: When developing new service offers we consider our competitors service package.



Question 18: When enhancing our service package we take “the best practice” into account.



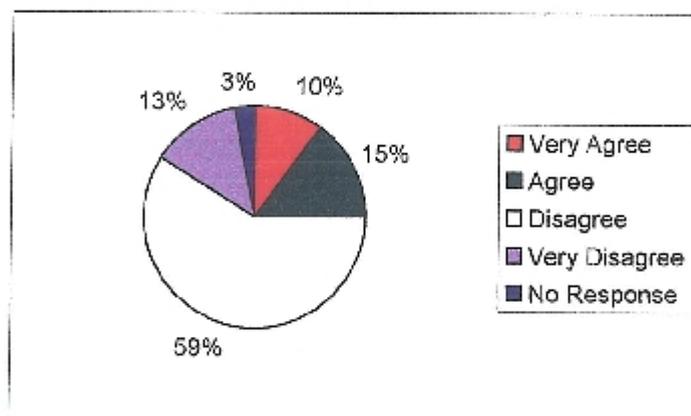
Question 19: We constantly develop new service attributes and improve the existing ones



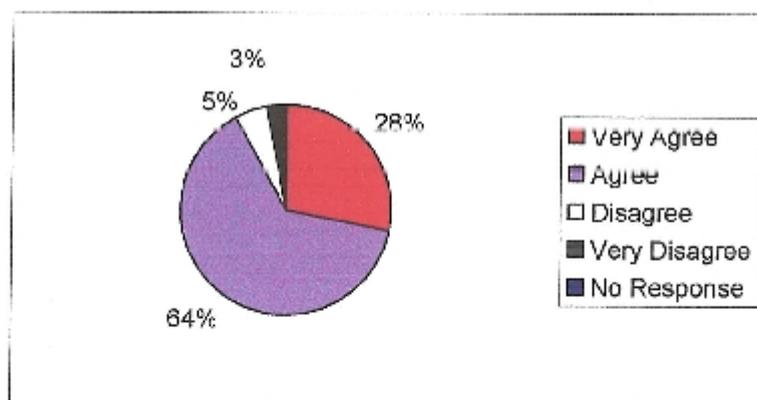
# Exhibit II

The Result of the *Empirical Research*

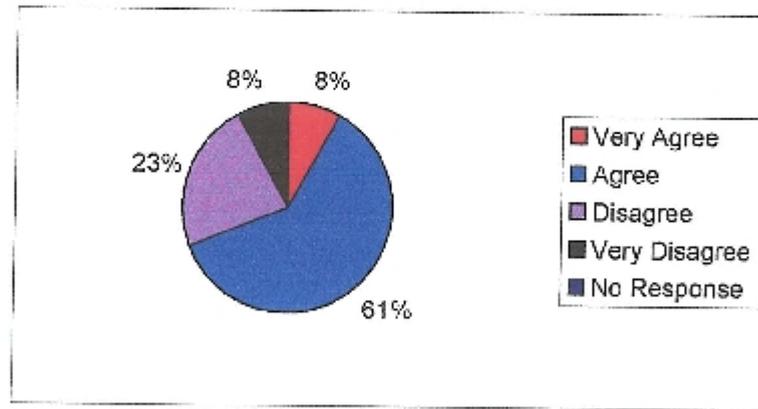
Question 22: The management dictates exclusively all new service offers.



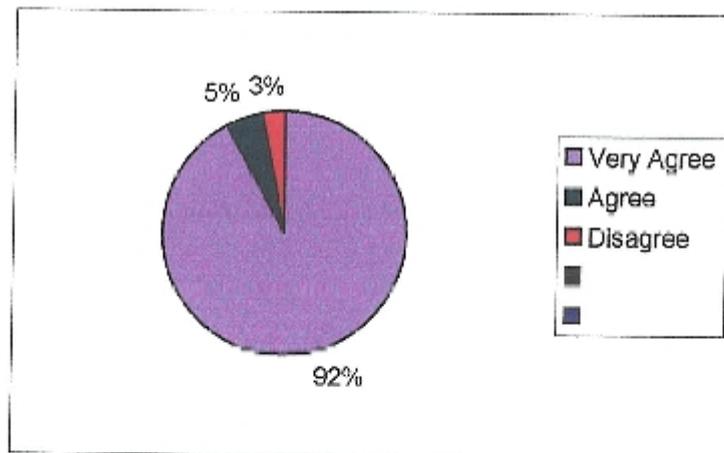
Question 23: There is coherence between the management's and the customers' perception of good service.



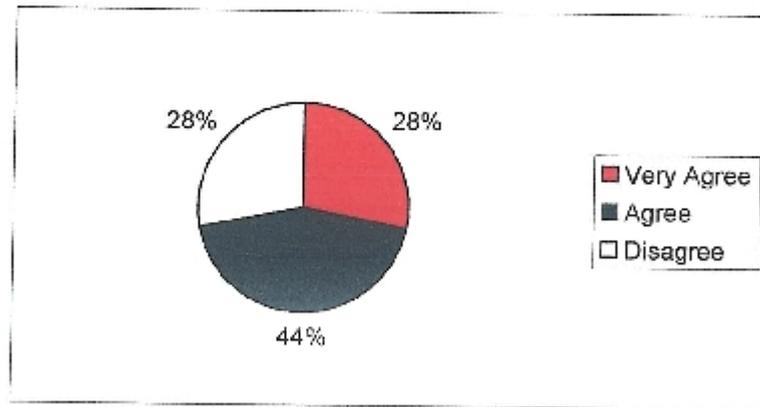
Question 24: Our service offers are much better than our competitors.



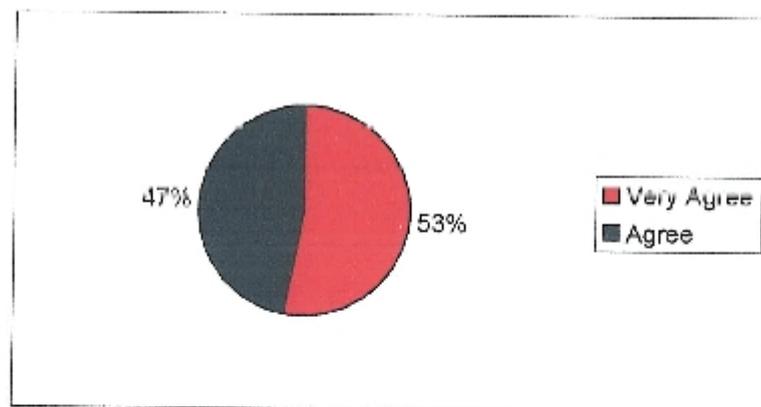
Question 25: We regard our customers as being most important.



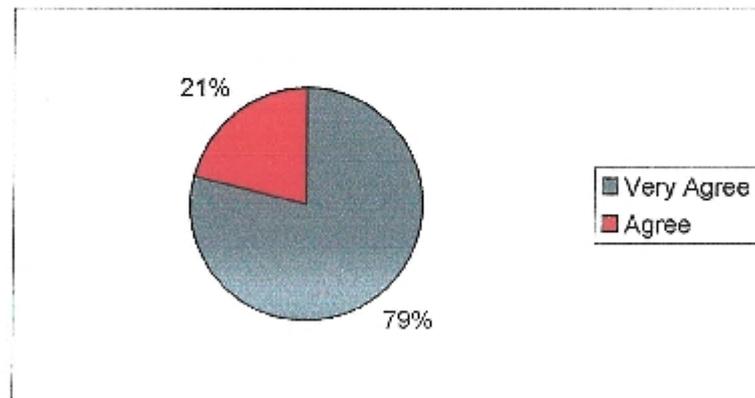
Question 26 We treat our customers equally and individually, independent of their profitability.



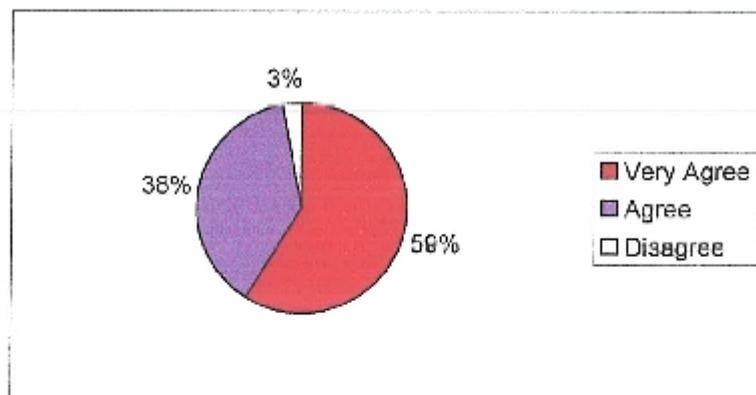
Question 27: We provide our customers with a friendly treatment from the very first contact.



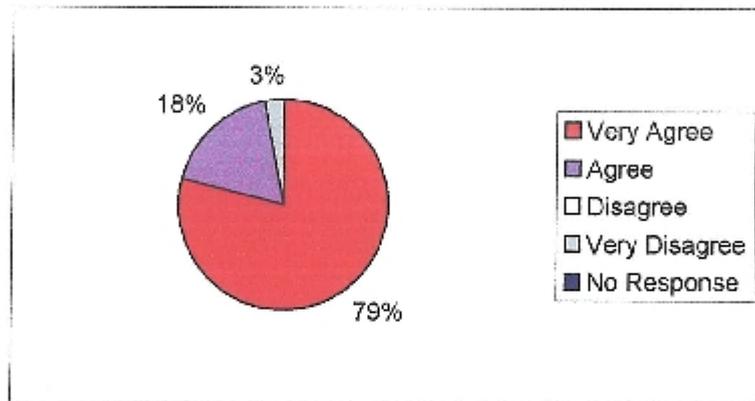
Question 28: We are interested in developing long-lasting relationships.



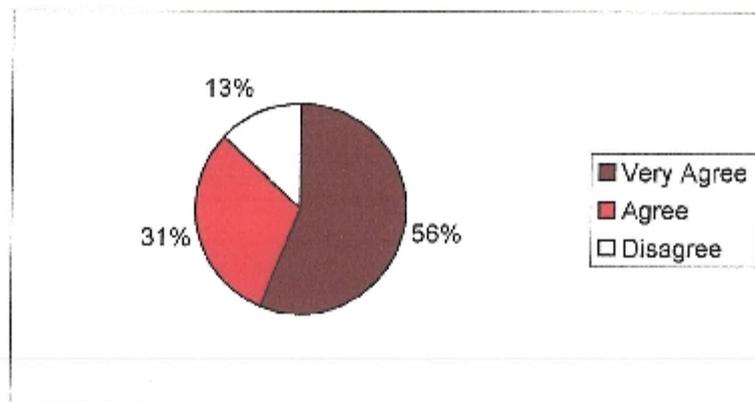
Question 29: A large share of our customer base is loyal.



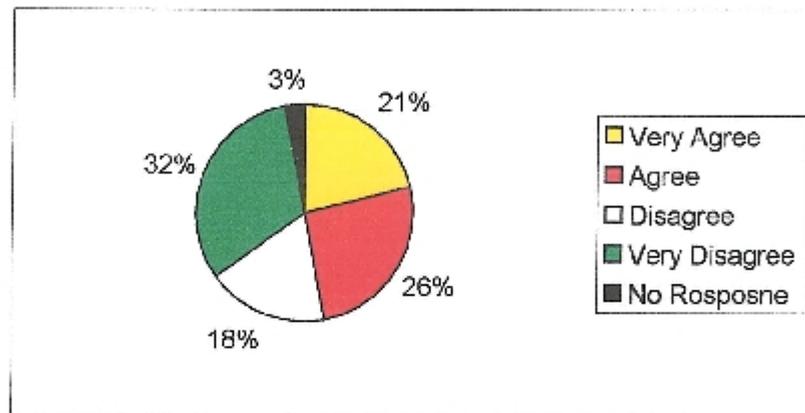
Question: 34: Our overall goal is satisfied customers.



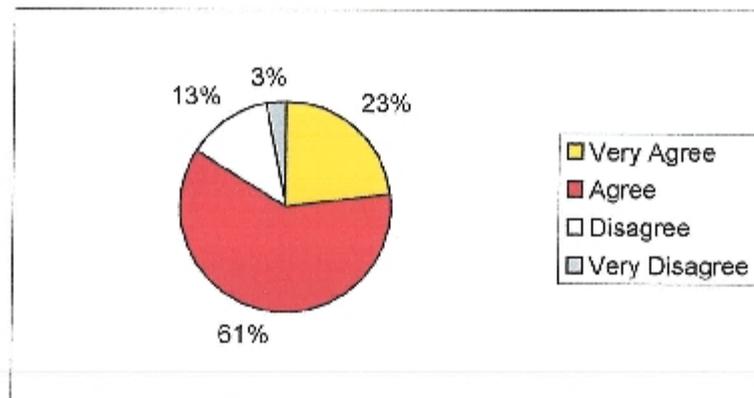
Question: 35: We measure customer satisfaction.



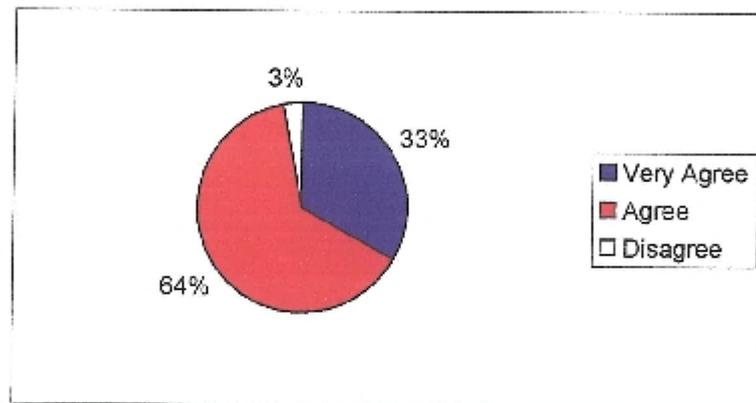
Question 36: Professional agencies conduct our customer satisfaction schemes



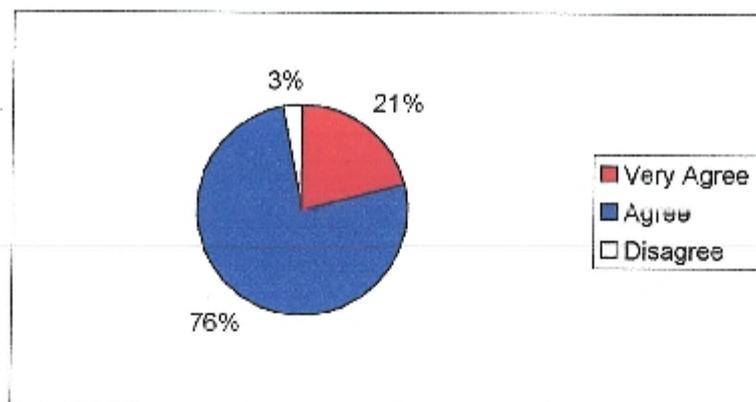
Question 37: We posses all necessary resources to satisfy our customers.



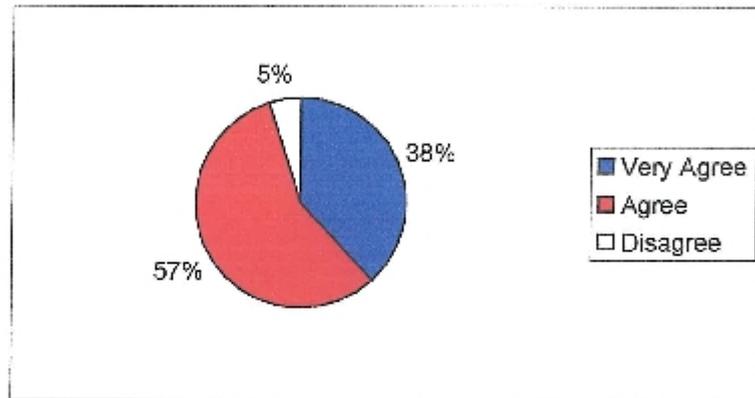
Question 38: We are aware of our strengths and weaknesses in relation to service quality.



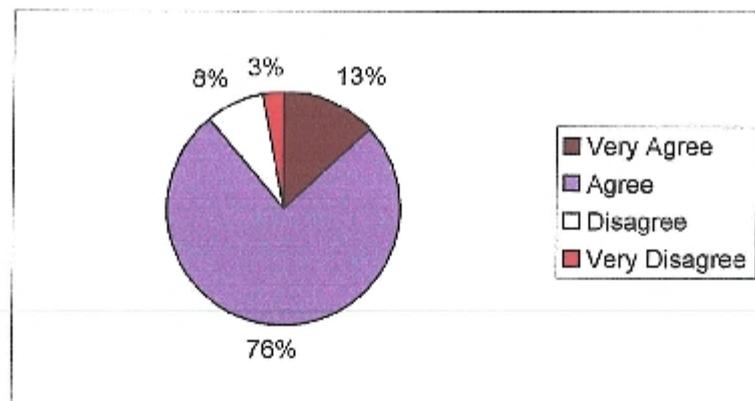
Question 39: We believe that our customers are satisfied with our reliability ("we keep our problems").



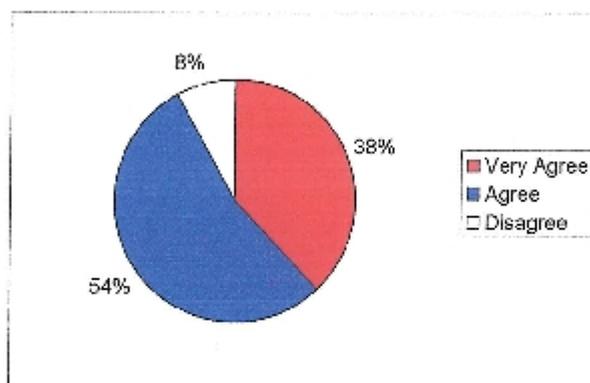
Question 40: We believe that our customers are satisfied with our employees.



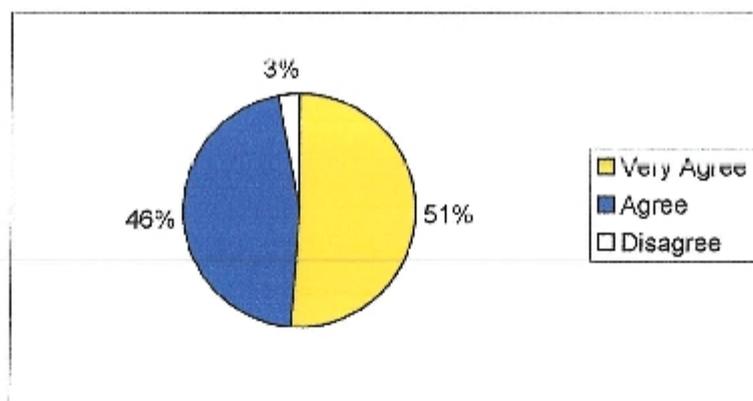
Question 41: Our physical surrounding are in coherence with the wishes of our customers.



Question 42: We constantly try to minimize the waiting time.



Question 43: We take the received complaints into account, and use them as a source of inspiration



Question 44: We have procedures to register the customer defection.

