

**THE DYNAMIC LINKAGE BETWEEN CUSTOMER SATISFACTION, RETENTION AND  
PROFITABILITY: THE NUCLEI DRIVERS OF SUCCESS**

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### **Abstract**

*“Customer Satisfaction” has many dimensions. The purpose of this research is to explore these dimensions briefly (using the Service Value Chain concept) and to determine the fundamental drivers of success in customer satisfaction from the perspective of a service organisation.*



*Employees proved to be the pivotal element influencing the outcome of customer satisfaction, as they influence organisational behaviour, customer experience and business profitability. The outcome of the research also promotes the idea that organisations need to become customer - orientated, which requires organisational cultures to change.*

*Two noteworthy results were obtained from this research, which is viewed by the author as a significant contribution to the Service Value Chain. The two specific findings are the empirical evidence in the results of the relationship between Staff Defection and Customer Satisfaction and the relationship between Customer Satisfaction and Organisation Profitability.*

**Key Words:** *Competitive Advantage, Culture, Customer Defection, Customer Expectations, Customer Satisfaction, Employee Defection, Linking Customer Satisfaction with Service Delivery and Profitability, Loyalty, Profitability, Retention, Reward and Recognition, Service Concept, Service Experience, Service Quality, Service Recovery, Service Value Chain and Staff Defection.*

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## CHAPTER 1: ORIENTATION

### 1.1 INTRODUCTION

Customer satisfaction has been of major significance to the vehicle industry for quite a considerable period. The primary driver for the ongoing focus and measurement of customer satisfaction by the different vehicle brand manufacturers has its foundation in the quest to gain and protect market share and vehicle sales volume through the improvement of their relative Customer Satisfaction Index (CSI) ratings (refer to Appendix 1 for the service CSI survey). The vehicle brand manufacturers/importers (also termed Original Equipment Manufacturers - or OEM's), in general believe that a high, or an improvement in customer satisfaction has a direct correlation with gaining market share and increasing profitability.

Virtually all OEM's have monthly CSI research conducted through telephone surveys to determine the improvement of their Dealer Customer satisfaction levels, which are measured in the satisfaction with the vehicle purchased and the satisfaction with the serving of the vehicle from the respective dealers within their franchise network. Dealer customers are phoned to determine their satisfaction with the dealership from various aspects such as professionalism, quality of service and value for money. The results of the research assist OEM's to identify problem areas in delivering customer satisfaction.

To improve customer satisfaction, the OEM's use instruments such as incentive programmes, focused training, product quality improvement, and dealer process improvement actions.

The majority of the OEM's CSI research is conducted by an independent professional research house, namely Synovate (previously Proactive Insight) who is the leading researcher for the vehicle industry in South Africa.

Synovate also conducts industry comparative customer satisfaction research across most of the vehicle brands, which ensures a statistically valid evaluation between the OEM's. This research is conducted annually to compare competitive OEM positions through a Competitive Customer Satisfaction Index (CCSI) survey. These periodic research results are published annually in various print media as well as on the Internet (refer to the CCSI example in Appendix 2).

This research paper focuses on the dealer franchise service departments of the Ford Motor Company of South Africa (FMCSA) Customer Services Operations (CSO), which has been conducting customer satisfaction research for more than 14 years.

## **1.2 RESEARCH OBJECTIVE**

The key objective of the research is to obtain, evaluate and determine the role and influences the dealer service staff and the dealer internal organisation play in the delivery of the results of customer satisfaction. This will facilitate the development of a change in strategy in organisation behaviour to improve customer satisfaction, through deploying a programme of culture change and organisation renewal.

## **1.3 SCOPE AND FOCUS OF THE STUDY**

The research specifically focuses on the Ford Motor Company dealer service staff and how the change in their behaviour has an impact on customer satisfaction and organisation profitability. Three sets of primary data research (Appendix 3,4 & 5) were utilised. The one

set would focus on dealer service staff behaviour patterns under a controlled reward incentive experiment, while the other two sets focus on specific research on dealer service staff defections and the reasons why they will leave the dealership. These three primary research findings will then be compared to secondary data over the same time period, which includes CSI results and dealer profitability. The objective is to measure the correlation between the data sets to determine whether the theoretical literature is applicable in empirical studies, vis-à-vis testing the linkage between staff behaviour, organisational culture, customer satisfaction and profitability.

#### **1.4 IMPORTANCE OF THE STUDY**

Various benefits are expected from the outcome of the research ranging from a perspective on brand value, perception and attitude towards the brand, better utilisation of funds, behaviour changes within dealerships and understanding the people aspects.

The CCSI results have a potential to impact on the future value of the Brand, as it may influence consumer attitudes and perceptions towards the brand.

The result of the study is expected to guide various significant contributions towards the future approaches to customer satisfaction, improvement in organisational culture and behaviour changes.

Solutions to the problem statements will be useful in determining how to change the perception and attitude towards the FMCSA brands through a positive service experience delivered by motivated and empowered dealer service staff.

Other benefits will take the form of financial considerations such as the huge amount of funds used to uplift the CSI results.

Empirical testing and proving the linkages between the variables of Customer Satisfaction, Customer Retention, Profitability, Employee Retention and Employee behaviour within the automotive service industry will significantly change the approach of dealerships to organisational behaviour and customer satisfaction.

## **1.5 STUDY ENVIRONMENT**

Credible third party CSI research on dealers and dealer financial analysis coupled with particular research and behaviour experiment on the service departments' staff of Ford Motor Company dealerships form the nucleus of the research.

The specific research elements include:

- CSI results by dealer for 2004 (YTD 12 months) and October 2003 to November 2004;
- dealers' profit before tax percentage (PBT%) for 2004 (YTD 12 months);
- results from field experiment regarding behaviour change linked to incentive motivation;
- field research into dealer service staff motivation for leaving;
- field research of dealer staff defection over 12 months (October 2003 to November 2004).

## **1.6 LIMITATIONS OF THIS STUDY**

This study will be limited to the FMCSA Franchised Dealer network of Ford and Mazda brands and will principally focus on after-sales (service).

Key elements of Harvard's Service Profit Chain (refer to the theoretical foundation of the study in section 2.1) will be explored to determine their different dimensions and their impact on and relationship with customer service satisfaction. The core research focus is on the role and influence people play in the delivery of customer service, their impact on customer satisfaction and the linkage to profitability.

Primary data research will focus on dealer service staff profile, staff retention and behaviour change. This data will then be compared to the secondary data, which includes CSI results and dealer profitability. The objective of this research is limited to measuring the correlation between the primary and secondary data sets to determine whether the theoretical literature concerning some key elements of the Service Value Chain is validated in empirical studies.

## **1.7 ASSUMPTIONS**

It is assumed that the basis of the research and the findings from the FMCSA dealer network will be equally applicable to the rest of the vehicle service industry.

On the foundation of the Service Value Chain - with reference to profitability and customer retention through customer satisfaction - it is postulated that the service experience impacts on the entire dealer profitability. This then will lead the researcher to measure dealer profitability relative to customer satisfaction, rather than service department profitability to customer satisfaction.

## **1.8 OUTLINE OF THE RESEARCH REPORT AND CHAPTER PLAN**

Chapter 2 focuses on the theoretical foundation of the study. Included in this chapter are various models of the different dimensions of customer satisfaction specifically relevant to the service delivery environment. The chapter identifies various theoretical concepts, which

will be paralleled with the discussions in Chapter 6 regarding the empirical findings of the research.

Different dimensions of customer satisfaction are discussed in Chapter 3 with references to various literature including articles, journals and research done on the specific focus of this study. The key concepts identified and briefly discussed are:

- The link between culture, employees, customers and profit;
- customer expectations, satisfaction, loyalty, retention, defection and behaviour;
- customer satisfaction performance evaluation and reward for employees;
- employee-defection;
- service quality;
- service value and the profit chain;
- organisational culture;
- service concepts.

The literature review, Chapter 4 defines and measures/delineates the problem statement, which is followed by the various hypotheses, which will be tested during the research phase.

The management dilemmas, which have motivated this research, are explored and the research proposition for the research project is scoped.

Chapter 5 covers the research design, and the sample methodology and data analyses are explained and the research instruments used during the research process are listed.

Chapter 6 explores the nature and content of the research and field experiment results.

A discussion of the research findings and field experiment follows in Chapter 7 with a conclusion and proposed recommendations regarding the outcome of the research findings.

Chapter 8 concludes with an informal article covering the entire research project.

## CHAPTER 2: THEORETICAL FOUNDATION OF THE STUDY

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The broad dimensions of this research pertain to the link between staff behaviour, customer satisfaction and profitability, which requires the need to evaluate the various elements of the Harvard Business School's (Lovelock and Wright: 2001; 37) extensive publications of theoretical literature on the Service Profit Chain.

### 2.1 KEYSTONE TO SERVICE BUSINESS SUCCESS – THE SERVICE PROFIT CHAIN

It is appropriate to approach the theoretical foundation for the research using the adapted Service Profit Chain as depicted in Figure 1, proposed by Harvard Business School.

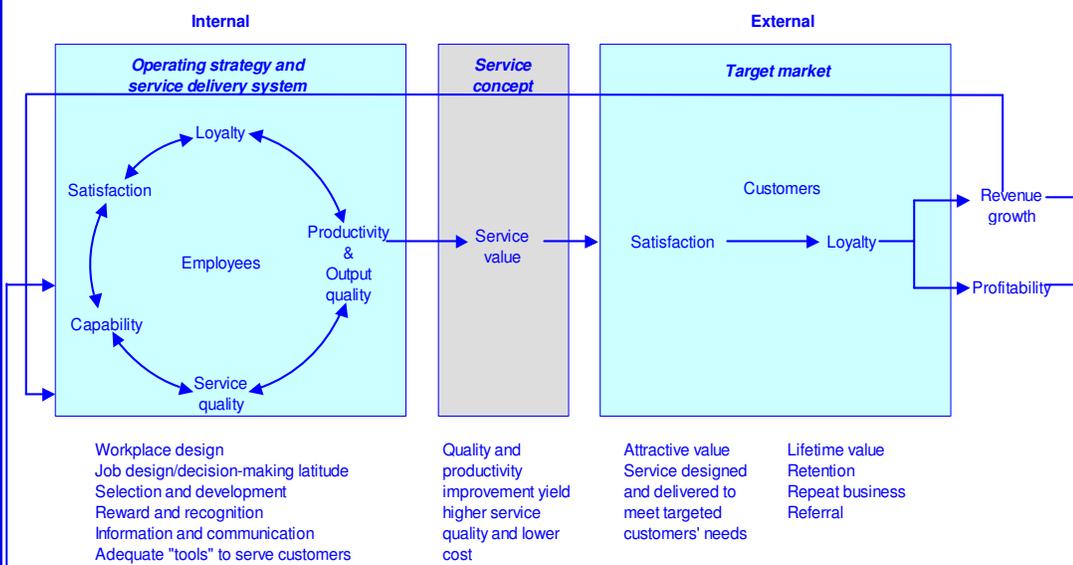


Figure 1: The Service Value Chain

Source: Lovelock and Wright: 2001; 371

The Service Profit Chain proposes a dynamic linkage between all the variables of employee performance, service quality, customer satisfaction, customer loyalty and profitability. The Service Profit Chain concept illustrates the importance of the inter-dependence between the

employee variables and the business processes within the organisation to ensure customer satisfaction and business success.

It is notable that the model views the service delivery as a perpetually closed system including only the relationship between the customer and the experience with the organisation through the employees' activity. The model does not provide an adequate evaluation of the disruptive influences from the environment, which may impact on the business-customer relationship. This model ignores influences such as customer experiences, perceptions and attitudes relative to the organisation's brand as well as factors including economical, social influences, and also disregards competitors' marketing efforts to lure customers away.

The model also assumes or indicates an implicit truth that customer satisfaction leads to customer loyalty resulting in repeat business, which is associated with increased profitability through this recurring business.

All relevant elements - of this research - of the Service Profit Chain are discussed below and are linked to the applicable theoretical orientation under the following subheadings:- the Internal Operational Environment (specifically regarding the employees and organisational behaviour); the Service Concept (this forms part of the value creation of service - of which the core drivers are the employees); and the Customer Target Market (specifically to customer perceptions of service,) with the emphasis on the influences employees have in driving the service delivery experience.

## 2.2 INTERNAL OPERATIONAL ENVIRONMENT

Flowing from the Service Value Chain is the proposition that the internal environment, the service strategy and the organisational culture form the basis and are the fundamental drivers of a successful service delivery which will eventually lead to customer retention and subsequent repurchase which ultimately leads to increased profitability.

It is appropriate to evaluate the theoretical review of the internal organisation's impact on customer experience by focusing on specific elements, which include the productive and output quality of the service process, linking organisational culture to the service experience, employee variable influences and the organisation's strategic focus.

### 2.2.1 Productivity & output quality

Service quality is measured through customer satisfaction. Hoffman & Bateson: 2001; 313 suggests that customers - as depicted in Figure 2 - have at least three different types of service expectations namely:

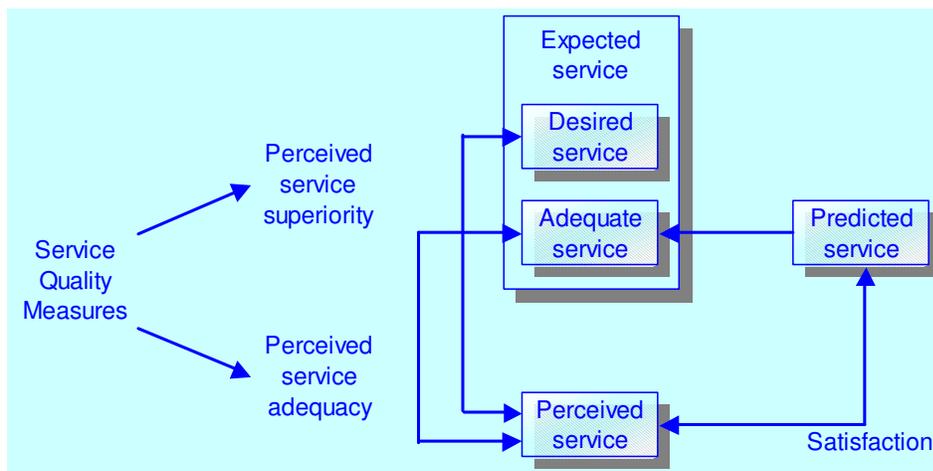
- predicted service, which is a probability expectation - customers reflection on what they will most likely experience in the service context;
- desired service reflects the ultimate and ideal expectation - customers desired service experience;
- adequate service, which meets the minimum tolerable expectation – customer's indication of what service outputs will be tolerable.

Two important takeouts from this model are set out below.

1. Service quality (that is service capability of the organisations resources) forms the basis for the perception of the customer about the service experience.

- Customer satisfaction is based on predicted service and the experience is determined by perceived service.

What the model does not explain or highlight is that the service experience is not entirely dependant on the service quality but also has to do with the service environment and factors including other customer touch points. Customers at a restaurant may have experienced a



**Figure 2:** Comparison between Customers Evaluation of Service Quality and Customer Satisfaction

**Source:** Zeithaml, Berry, and Parasuraman: 1993

level of service that far exceeded their predicted expectation of service. Upon leaving the restaurant, the customers need to drive through a security boom gate (the restaurant provides secure parking for its customers), which is manned by a security guard. If the security guard appears scruffy and lethargic, then one customer may link this to the entire dining experience and drop his/her rating in terms of the overall experience and customer satisfaction. The other customer may entirely fail to connect the experience with the security guard with the experience in the restaurant thus will still rate customer satisfaction high. This implies that different people will perceive the same experience differently and they will also rate that experience differently.

### 2.2.2 Linking culture

Culture is defined by Hoffman & Bateson: 2001; 428 as the reflection of the shared values and beliefs that drive an organisation. The suggestion is that organisational culture culminates from three interlinking organisational components: people, systems and structure.

Yukl (2001; 108) promotes the idea that a culture with strong values for flexibility, learning and participation will support employee empowerment, which improves business performance. The Culture Framework Model (Figure 3) suggests that it is the cohesive forces and interaction of people, systems and processes that determine an organisation culture. Thus to change culture, one needs to intervene with one or more of the three elements that determines organisational culture.

To transform an organisation requires that leadership influence organisational culture. Yukl (2001; 279) reflects on the view of Schein (1992) that organisational success in achieving

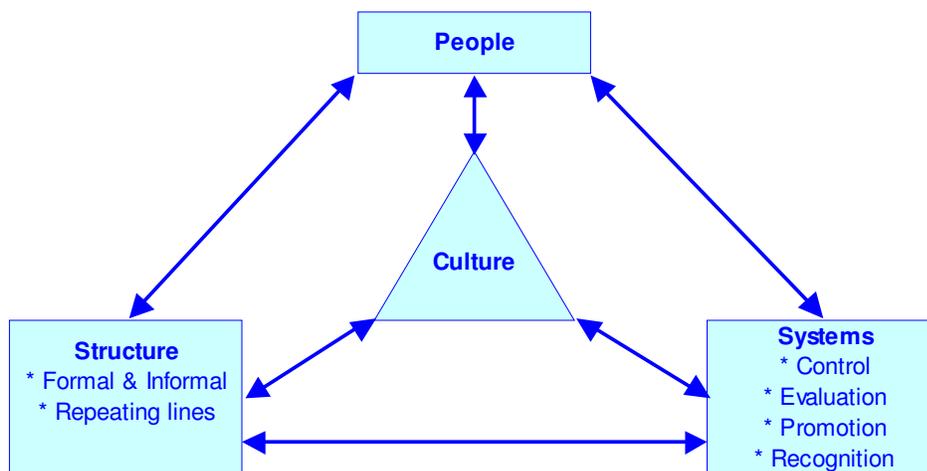


Figure 3: The Culture Framework Model

Source: Bateson: 1995

objectives and strategies cannot be achieved without some form of cooperative effort and reasonable stability of membership in the organisation. Two distinct fundamentals can be derived from this view.

- One is that organisational success is largely dependent on the unified effort and adoptive culture of the employees, systems and processes.
- The second is that the organisation employment needs to be reasonably stable with little staff turnover.

To change organisational behaviour requires leadership to change culture, which will have a direct impact on the way a firm interacts with its environment that will impact on the customer service experience. According to Yukl (2002; 280), - based on the work of Schein (1992) - there exist five primary ways to influence culture, which is largely focused on the human behaviour change in relation to the people aspect:

1. the level and focus of leadership attention through their interaction with employees;
2. values and assumptions pertaining to the messages that are communicated by leaders when they respond and how they react to crisis situations;
3. the extent to which the leadership can function as role models;
4. reward allocation, signalling what the values of the organisation are;
5. recruitment and dismissal policy signalling leadership values which directly impact on culture.

It can be argued that it is difficult to change people's behaviour and thus culture, especially if ingrained in the legacy of the organisation.

Schein (1992) also suggests five secondary ways to influence culture, which focus mainly on the aspects of structure and systems:

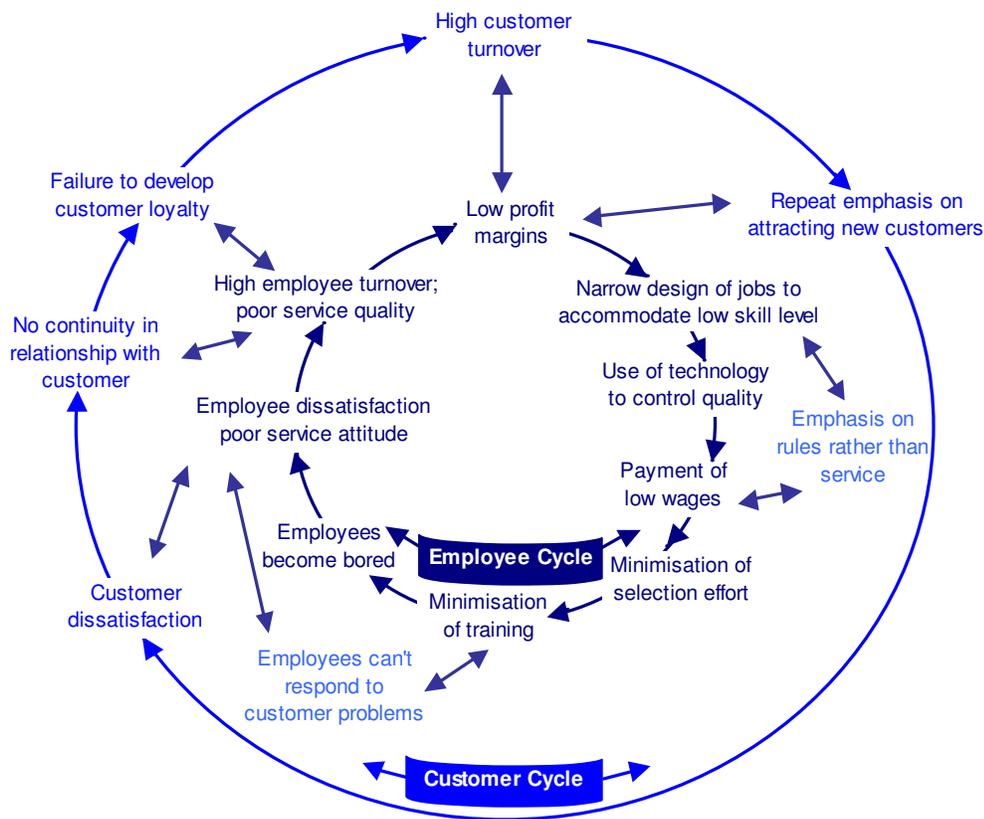
1. activity emphasis through system and procedure design;
2. the design of the organisation structure influences internal relationships;
3. facility design reflects leadership values;
4. stories, legends and myths that convey values;
5. value statement formally publicised by leadership.

From the above it can be argued that it is in essence easier to change process and systems than to change people's behaviour and ultimately the organisation's culture. The reasoning is that people who cannot adjust to the new way of doing business will eventually leave and that newly appointed people will be more appropriate to the changed organisation.

### **2.2.3 Employee Satisfaction (Capability, Loyalty, Empowerment, Reward and Recognition and Retention)**

From a theoretical orientation, Lovelock & Wright (2001; 333) emphasise that employee's relationship with their employers is very similar to that of the relationship between a customer and a supplier in that a mutual satisfying relationship needs to be built, whereby both parties gain value.

The Cycle of Failure Model (Figure 4 "Breaking the Cycle of Failure in Services" Lovelock & Wright: 2001; 336) advocates the relationship between employees well-being and customer satisfaction. This model specifically focuses on how a bad working environment impacts negatively on the customer service delivery experience. The model highlights the mirror



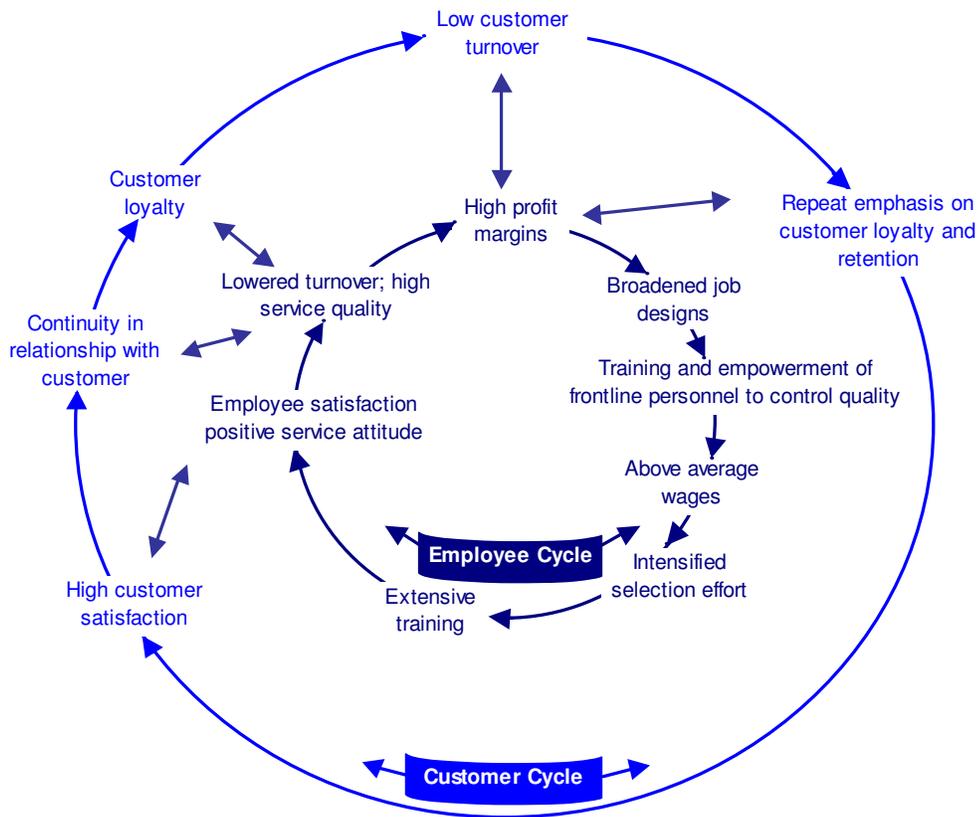
**Figure 4:** The Cycle of Failure

**Source:** Schlesinger and Heskett: 1991

relationship between employee satisfaction, behaviour and retention and that of customer satisfaction and retention and how the internal organisation's policy impacts on the customer interaction and subsequent customer behaviour and response to poor service.

The Cycle of Success Model (Figure 5 "Breaking the Cycle of Failure in Services" (Lovelock & Wright: 2001; 338) proposes that organisations take a long-term view of financial performance and invest in their people to create success. Customers are provided with a consistently superior service when organisations invest in their employees who are well rewarded, are empowered to serve the customers through their own quality control and who

are well trained. Profit margins tend to be higher due to staff and customer retention, which allows the organisation to focus more on the marketing effort of reinforcing customer loyalty. Input cost also tends to be lower due to less staff turnover and less customer turnover.



**Figure 5:** The Cycle of Success

**Source:** Schlesinger and Heskett: 1991

A shortcoming of the model is the failure to explain scarce skills resources and what the impact is of competing organisations who lure away skilled employees, offering higher rewards with the end result that resource costs spiral out of control. This either impacts on profit margins or is transferred to customers and this will eventually influence satisfaction regarding perceived value. One argument in favour of this model is that it attempts to create

and explain the link between customers' behaviour and the employees' environment. Another argument in favour of the model is that is effectively applicable to any industry. Hoffman and Bateson (2001; 113) promote the thinking that the reward system should be outcome based. Schneider and Bowen (1995) propose seven tests to ensure reward effectiveness.

- Rewards must be available and substantial to encourage positive or preferred behaviour.
- Rewards must be flexible to accommodate different requirements.
- Reversibility of rewards implying that it is not life-long.
- Desired performance must be maintained.
- There must be visibility to ensure awareness.
- Rewards should be time-lined and awarded at the appropriate occasion.
- The motivational affect of the reward should be durable or long lasting.

#### **2.2.4 Organisation focus**

While the Service Value Chain does not specifically emphasise the organisational focus, the internal elements of the organisation, combined with the organisational strategy, determine the operational focus of the organisation as depicted in Figure 6. It may be argued that organisational focus is an outcome of the inherent culture of the organisation, as its core foundation is in its people, systems and structures.

McDonalds' (2001; 73) general model of organisational focus as depicted in Figure 6 promotes the understanding that organisational culture is developed largely dependant on

the organisational focus. McDonald further comments that it is only customer-focused objectives, strategies and organisations that hold the prospects of corporate success in the longer term. The model emphasises that organisations should not focus on their service offering to the customer, which effectively is inwardly focused, but the focus should rather be on the particular needs of the customer that they service and how they can fulfil those needs.

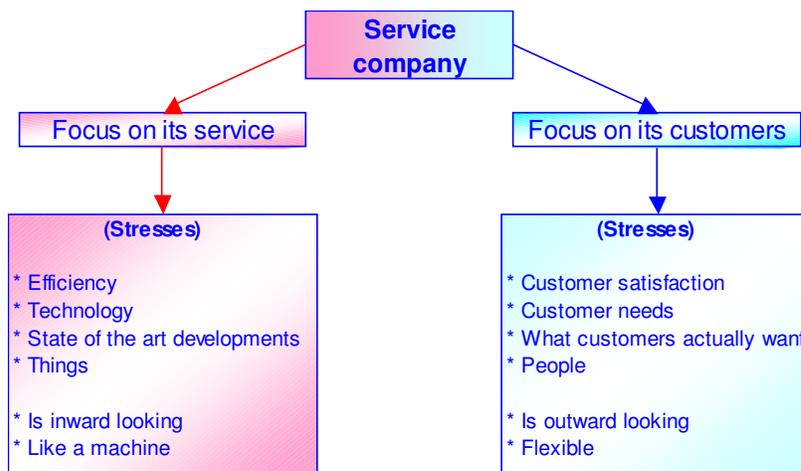


Figure 6: Different types of organisational focus

Source: McDonald and Payne: 2001; 72

The strength of the focus model is that it emphasises the evolution of customer expectations and what organisations specifically should focus on to deliver satisfied customers.

Therefore, changing the focus of the organisation towards a customer orientation may have a positive impact on customer satisfaction and ultimately, long-term success.

### 2.3 THE SERVICE CONCEPT

The second segment of the service profit chain explores the theoretical models pertaining to the service concepts. The service concept in essence relates to the service value and the benefits that customers obtain from interacting with the organisation. This is also termed

moments of truth (Lovelock & Wright: 2001; 55), which will ultimately shape consumers' perception of the quality they encountered through the service experience and which will ultimately guide their decisions regarding future interaction with the service organisation. For the organisation the service concept means that quality and productivity improvements yield higher service quality and lower cost in delivering service value.

Elements of the service concept that are discussed include the service triangle, which emphasises the quality of the service delivery flowing from the service strategy, the service system and the people. After the service triangle is a discussion on the service as a system pertaining to operations, delivery and marketing. This discussion is followed by the theoretical review regarding the strategic forces impacting on the organisation which influence service delivery. Marketing concepts regarding service positioning, service 7P's and the service life cycle, are then considered. The section concludes with a review of the service recovery and internal and external loyalty dimensions.

### **2.3.1 The service triangle**

While the service triangle (Figure 7) is a simplistic model (Hoffman: 2001; 21) its power is in placing the customer in the core of the service operation's activity focus, that is the service organisation through its system design, strategy and employees should all be focused on the customer. This approach suggests that services should be marketing driven rather than production driven. The orientation is that the needs of the consumer should drive the business activity rather than the product or service offering. The model depicts six critical relationships to ensure harmony between the organisation and the customer regarding service expectation. The system design must, for example, be aligned with the service strategy to ensure that the service strategy can be enacted. The service strategy again must

be within the reach of the employee and system capability. Both the service strategy and system design must have a customer-centric focus to be successful and similarly it must be communicated to the customer to ensure the customer knows what to expect from the service interaction. The people link in the triangle is seen as the most important element, as this is the point of interaction, which is also termed the moments of truth (Hoffman: 2001; 21). It is at this critical incident (customer touch points) where customers will most likely rate the service experience.

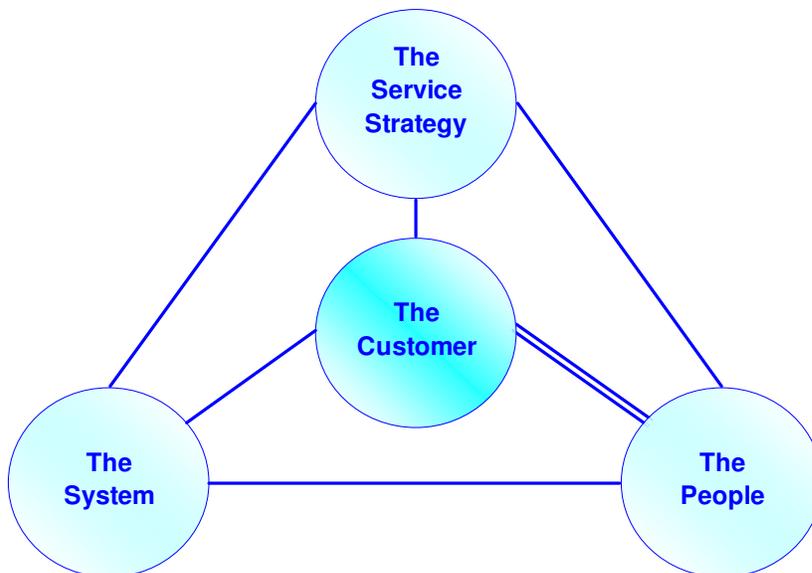


Figure 7: The Service Triangle

Source: Adapted from Hoffman and Bateson: 2001; 21

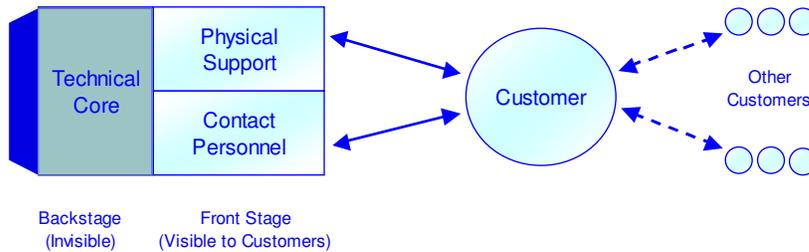
It is interesting to see how closely the Service Triangle model correlates with the Culture Framework model as discussed earlier. In both models the effective elements include systems, processes and people. One can justifiably deduce the importance of the impact of organisation culture on customer service through the organisational processes, systems, strategy and people.

The model does not, however, sufficiently emphasise the people's (employees) important role as catalyst for successful customer service. The people aspect is after all the resource, which will ensure the strategy is enacted and who will utilise the systems at their disposal to deliver customer service.

### 2.3.2 Service business as a system

The interaction between customer and the service organisation is termed the critical incident (Lovelock & Wright: 2001; 55) and it defines the outcome of the service encounter between the consumer and the service provider in terms of whether or not the experience was satisfactory for one or both parties. This forms the primary basis for a customer upon which he/she will evaluate his/her perceived experience.

This service encounter is influenced by the total service system (Figure 8). Part of the service system is not visible to the customer. This is termed the backstage or technical core where most of the fundamental processing of the service occurs. The customer interaction is mainly through contact personnel and the tangible environment, which is termed the front



**Figure 8:** The Service Business as a System

**Source:** Lovelock and Wright: 2001; 60

stage. In most cases the customers are oblivious of the backstage of the service system.

Three elements (Lovelock & Wright: 2001; 60) form part of the service system and consist of service operations system, the service delivery system and the service marketing system.

The service operations system is defined as the entity where inputs are processed and the elements of the service products are created. The perceived service outcome is largely dependant on what the customer experiences when physically interacting with the service personnel and tangibles such as the facility, and equipment.

The service delivery system is concerned with the delivery of the service product to the customer and embraces the visible elements of the service operating system and potential exposure to other customers.

The customer's overall view of the service business is also influenced by the service marketing system, which includes elements such as advertising, customer communication (all forms), word of mouth and customer encounters with service staff, which will be discussed under the service 7P's heading. These elements all form part of what creates an overall impression in the customer's mind about the service organisation.

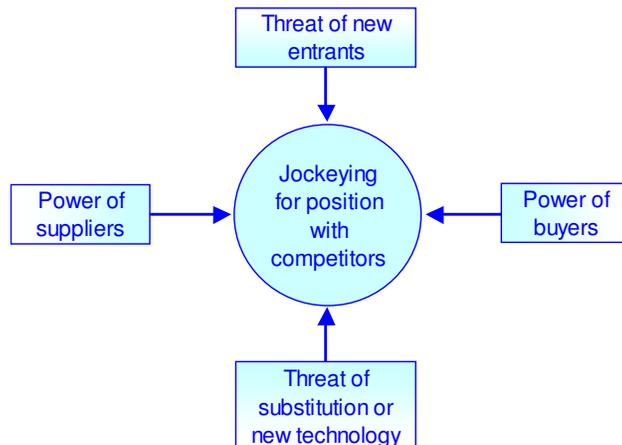
Lovelock and Wright (2001; 68) comments that due to the lack of physical evidence it is difficult to evaluate service delivery and service performance. Customers will often search for tangible clues upon which they will evaluate and rate service performance. The risk for the service provider is that every customer contact point may become the tangible aspect upon which, a customer will perceive his or her experience.

### **2.3.3 Strategic forces**

McDonald (2001; 91) promotes the idea - based on Porter's Five Forces (Figure 9) - that a detailed audit of the environmental forces will assist service organisations to help understand their future profitability prospects. Understanding the market forces will assist service operations in the choice of business direction. Yet more important and applicable to this

research is the ability for service organisations to look beyond current customer needs through pre-empting future trends and customer needs not yet known or articulated.

With reference to Porter's Five Forces model, the service value chain fails to recognise what



**Figure 9:** Strategic Forces Impacting on Service Organisations

**Source:** McDonald and Payne: 2001; 91

influences the environment has on the customer / organisation relationship and the potential affect it has on profitability.

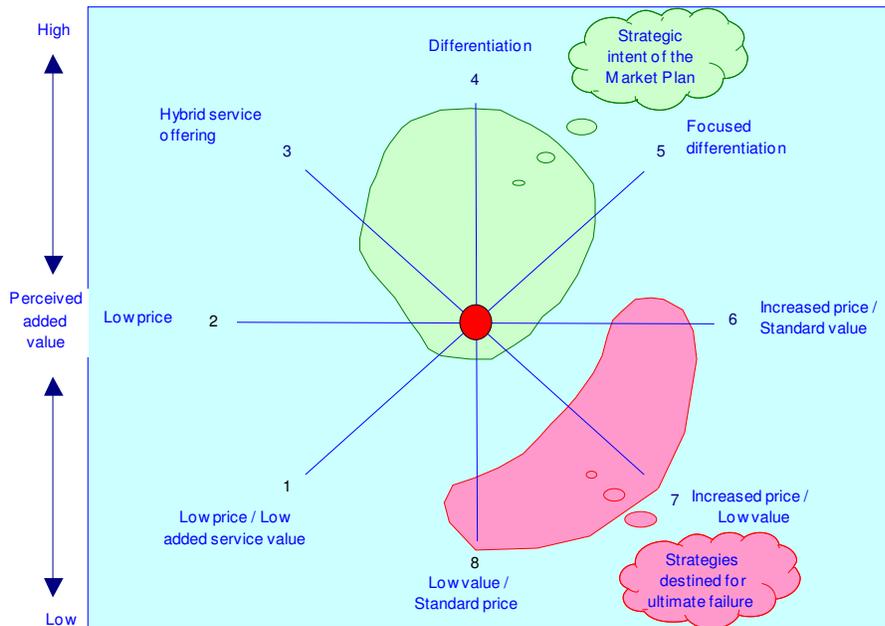
A key source of competitive advantage in the service industry is non-tangible employee skills, which are probably the most difficult aspect to imitate. Using the Porter's Five Forces model does not enable service operations to plan strategic moves relative to market environment pertaining to "service intellectual capital".

### 2.3.4 Service positioning

The challenges posed by the market forces as depicted above, expands the challenge for service firms to position their service offering to gain a competitive advantage. McDonald and Payne (2001; 96) states that it is the customer's perception that determines whether or

not a company is successful, irrespective of what an organisation puts into its service product.

The challenge for service firms is to determine what attributes are mostly valued by



**Figure 10:** The Service Business as a System

Source: Lovelock and Wright: 2001: 60

customers recognising that customers' needs differs. Lovelock and Wright (2001; 219)

define service positioning as a concept that establishes a distinctive place of the organisation's service product in the customers' minds relative to competitor service products. Hoffman and Bateson (2001; 192) remarks that effective positioning (Figure 10) is particularly critical for service organisations because the intangibility of service make it difficult for customers to distinguish between service offerings from competing service firms.

Service positioning according to McDonald and Payne (2001; 99) is a five step process which is set out below.

1. Determine the level of positioning consistent with the service strategy of the organisation.
2. Consider the decision-making attributes in the specific market segments.
3. Identify and dimension the attributes that reflect key customer preferences on the positioning map.
4. Evaluate the three broad positioning options.
  - a. Strengthen current position relative to the competitors.
  - b. Identify un-serviced gaps in the market place as reflected in the positioning map.
  - c. Reposition the competition to improve on own service face value.
5. Implement the positioning through focused communication.

McDonald and Payne (2001; 102) also advocate the guidelines for successful service positioning.

1. The positioning should be meaningful for the target market.
2. The positioning must be believable and trustworthy.
3. Organisations must position their offering where they can consistently perform better than their competitors due to their uniqueness.

From the above discussion it can be argued that positioning is hugely dependant on the internal organisational capability.

### 2.3.5 Service 7P's

An organisation's ability to deliver on customer expectations is dependant on their ability to muster the marketing mix or marketing P's (Figure 11) for service. In short it requires the service organisation to deliver the right service product, targeted and communicated to the right customer segment at the right time.

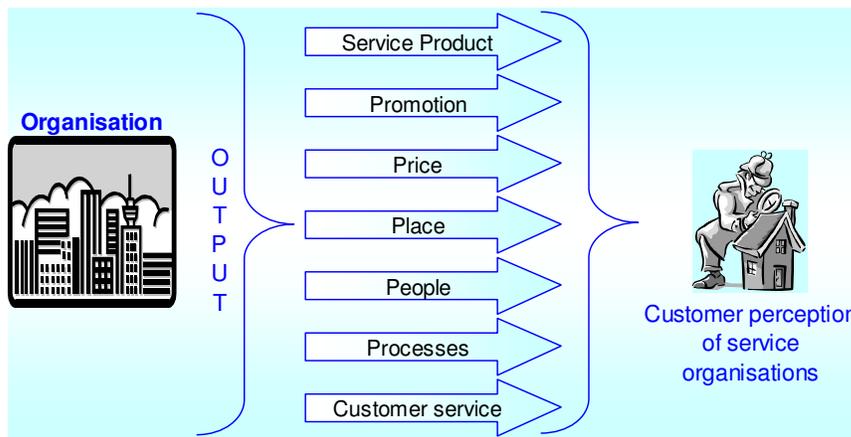


Figure 11: Strategic Forces Impacting on Service Organisations

Source: Adapted from McDonald and Payne: 2001; 145

McDonald and Payne (2001; 144) warn about the risk of viewing the marketing mix in its original narrow focus of the marketing mix 4Ps. They argue that this risk of a too narrow view contributes to a sterile environment, which may impact on the capability of the organisation to deliver on customer expectations. The authors claim that organisations that successfully manage the marketing mix components provide a 'window' for the customer to view the service organisation in an integrated manner.

It can be argued that the same marketing mix can be viewed (through the 'window') differently by different customers, which leads to the discussion about perceptions of the

service delivery vs. customer expectations that will be discussed under the heading of the Customers and the Target Market.

### 2.3.6 The service life cycle

Of interest in this research is how the service product offering is adjusted to customer needs

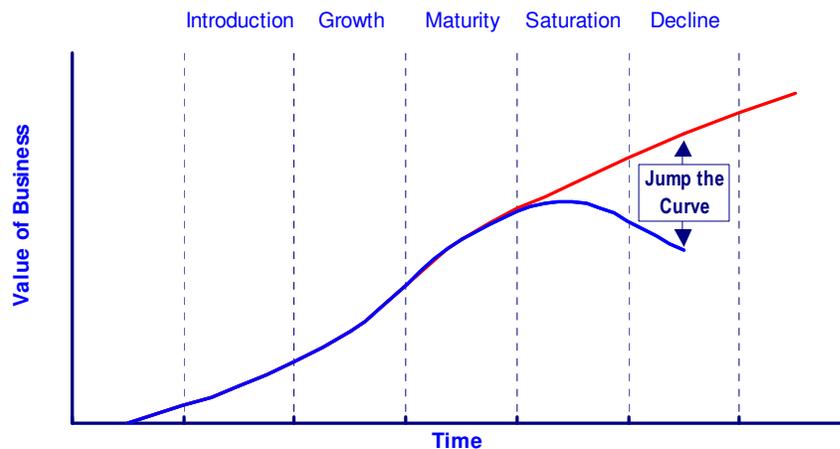


Figure 12: Jumping the Curve

Source: Adapted from Pellissier: 2001; 36

over the span of the customer's service relationship with the organisation, and what is the driving force behind the customer's decision to remain with or defect from the service organisation. Another important element is how does perception and experience influence the theoretical service life cycle (S-curve) depicted in Figure 12. For the purpose of this research the focus is on the theoretical model of the life cycle and how it correlates with the research topic.

A theoretical interpretation of the Life Cycle model portrays the value of business through time and what constitutes the relevant relationship stages of service offering. The model

indicates that business value increases over time until a point of saturation is achieved after which the business value starts declining. The logic of this thinking is that a new service concept takes time to be accepted into the market. With time and through the service marketing mix effort, the business grows to a point where competitors start emulating the service offering. At the saturation point organisations need to make decisions whether or not it is worth it for the business to compete, which usually adds cost, such as aggressive market communication, or to focus elsewhere.

Pellissier (2001; 32) promotes the idea that the chaos theory forces organisations to navigate their direction through adaptation to the changing environment. Intelligent strategic orientated organisations pre-empt the saturation point and implement strategic moves during early maturity to “Jump the Curve”. This implies that they attempt to diversify or change their product or service offering so that they can gain a competitive advantage over the competition, thus moving their life cycle curve upwards and gaining more business value over the longer term.

The Life Cycle Model does not adequately explain how augmented service offerings change consumer behaviour. Specifically added value offerings such as warranties may show a converse life cycle, where early maturity may be possible with a very rapid decline to zero business value as customers defect after the warranty period. Another argument against the model is the impact of consumer perception about the service offering, and what their behaviour would be, and how it is reflected in the Life Cycle Model. A final argument is the question of the internal organisational capability and internal dynamics and how it may affect the capability of the organisation to deliver against the Life Cycle.

### 2.3.7 Service recovery and internal- and external loyalty

Lovelock and Wright (2001; 127) advocate that it pays to invest in service recovery efforts (Figure 13) to protect long-term profits. They define service recovery as the systematic effort by an organisation – after a service failure – to correct a problem in that it endeavours to retain a customer’s goodwill.

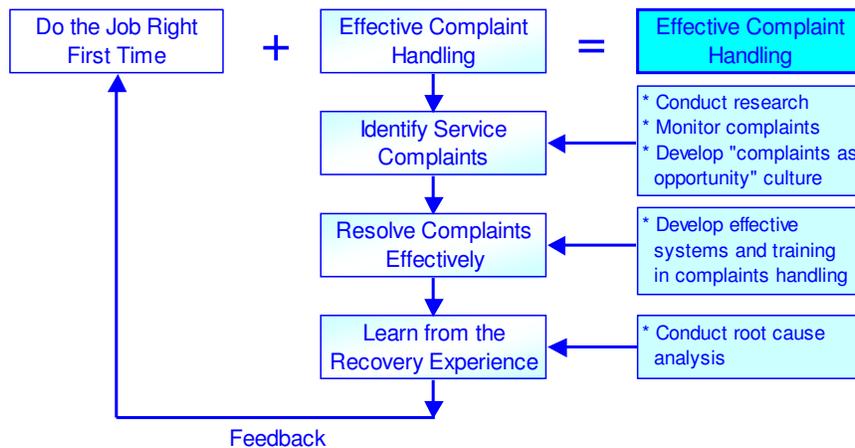


Figure 13: Components of an Effective Service Recovery System

Source: Lovelock and Wright: 2001; 127

The argument is that a customer who defects is not only the loss of the next potential transaction with that customer, but also the effect of the profit stream that can be lost from other potential customers due to negative comments from the defecting customer. Customer defection is an external or Target Market concept. The recovery process falls within the realm of the Service Concept. The theory of the value of customer retention is discussed in the following section, which covers customer satisfaction, loyalty, defection, retention and profit.

The Service Profit Chain reflects the idea that loyal customers progressively contribute to profitability of the service organisation. Researchers, according to Lovelock and Wright (2001; 104), believe that there exists an explicit link and relationship between customer satisfaction with the service and employees' satisfaction with their jobs. The extent of the service workers capability, their job satisfaction and their perception of being well treated by their employer, will motivate them to remain loyal to their organisation for an extended period of time, rather than switching jobs from time to time. Competent employees in a stable work environment tend to be more productive than newly hired people, and have a better knowledge of the customers, and will be able to deliver a higher quality service. This will result in a higher level of customer satisfaction that will contribute to customer loyalty.

Customer defection does not only result from unsatisfied customers. The recovery model ignores competitor activities, economical and social environment and other environmental influences, which also contribute to the defection of even loyal customers. In this case a short-term recovery strategy would be costly and probably worthless.

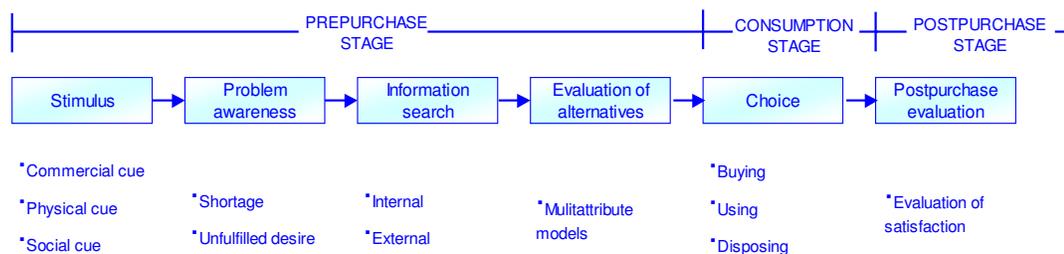
#### **2.4 THE CUSTOMER AND THE TARGET MARKET**

This third section of the Service Value Chain evaluates the theory of the elements of the external environment and more particularly from the perspective of the consumers and their behaviour.

One can reason that this section is the most challenging one for the consumer of service goods due to its intangibility. Lovelock and Wright (2001; 30) define this intangibility as "*a distinctive characteristic of services that makes it impossible to touch or hold on to them in the same manner as physical goods*". Inherent to the intangibility of service is:

1. the potential of risk: the realm of the unknown, lead by cues and perception;
2. cost in relation to obtained value: the lack of estimating and comparable value;
3. the elements of trust in the service provider: the lack of evidence;

It is at this external stage where the “Moments of Truth” are realised. This is the point where consumers experience the service, which will influence their behaviour relative to their



**Figure 14:** Consumer Decision Process

**Source:** Adapted from Hoffman and Bateson: 2001; 84

expectations and where it may alter their perceptions about the servicing organisation.

Attitude and perceptions about the service organisation are confirmed at the point of service consumption, which will influence their future relationship with the service provider such as loyalty and retention – again the key deliverable has its foundation in the employees.

The approach to evaluating the particular theory relevant to external environment of the research follows the Consumer Decision Process Model (Hoffman & Bateson: 2001; 84) as depicted in Figure 14, which explains the thought processes - in three distinctive stages - used by a consumer during the decision-making process of the consumption of goods or services. Each of the three distinct stages (pre-purchase-, consumption- and post-purchase-stage) of decision-making has its own subset of variables, which will be discussed separately.

During the pre-purchase stage the consumer defines and evaluates his or her service needs. At this point the consumer searches for cues that will assist in the service decision-making. Specific theoretical elements regarding the pre-purchase stage that will be discussed are the Stimulus-Organism-Response Model (SOR) and the Environmental Matching Model.

The consumption stage reflects the process when a consumer transacts with the service provider. It is at this stage when expectation meets with reality, which will be discussed under the heading of customer expectation. This is followed by a brief discussion of the Customer Attribute and Attitude Map.

The post-purchase stage forms the foundation which will determine the consumer's future interaction with the service organisation. This section explores the theory surrounding the customer's satisfaction, loyalty, retention and defection and profits. The theory concludes with a brief overview on the concept of Apostles and Terrorists, which conceptualises the relationship between loyalty and satisfaction.

The objective of the model is ultimately to help guide business decisions regarding consumer behaviour. Hoffman and Bateson agree that this model is used as a guide only, as it cannot truly be used to reflect the thought processes of individuals.

Using the model for service business, according to Hoffman and Bateson (2001; 91) differs from goods in the sense that consumers are faced with elements of consequential risk, which cannot be anticipated with certainty at the point of decision-making.

While the model recognises the process of decision-making, it does not recognise the impact of the recovery attempts of organisations and the potential influence these may have on the consumers' decision process. Another shortcoming of the model is that it does not reflect the

complexity of the employee influence, which is only realised at point of the service transaction.

#### 2.4.1 Stimulus-Organism-Response (SOR) model

The Stimulus-Organism-Response framework (Figure 15) was developed to help understand the effects of the service environment on consumer behaviour (Hoffman & Bateson: 2001; 229). The authors reflect that perceptions and behaviours of the consumer about the service organisation are created through physical cues. This implies that any potential physical evidence (as discussed earlier) surrounding a service organisation will contribute to how a potential consumer will perceive and view the organisation as a whole. The SOR Model - pertaining to the customer - consists of three components which are listed below.

1. A set of **stimuli**: This is part of the organisation's physical evidence such as facility, clothing, staff presentation, lighting and smell.
2. An **organism** component: This describes the recipient of the stimuli and includes the customer and employees. Their response to the environmental stimuli will reflect one of three emotional states, these being pleasure / displeasure (which reflects the degree of satisfaction with the service experience), arousal / non-arousal (which reflects the degree of excitement and stimulation for the consumer and the employee) and dominance / submissive (which reflects feelings of control and the ability to act freely within the service environment).
3. A set of **responses** or outcomes: This reflects the response to the environment stimuli by the consumer or employee.

This model is significant in that it recognises that the service experience is well beyond just the actual utilisation of the service. It promotes the idea that any customer contact point can influence the customer's perception of the service experience. One can derive from this that the "Moments of Truth" are in every single "Customer Touch Points".

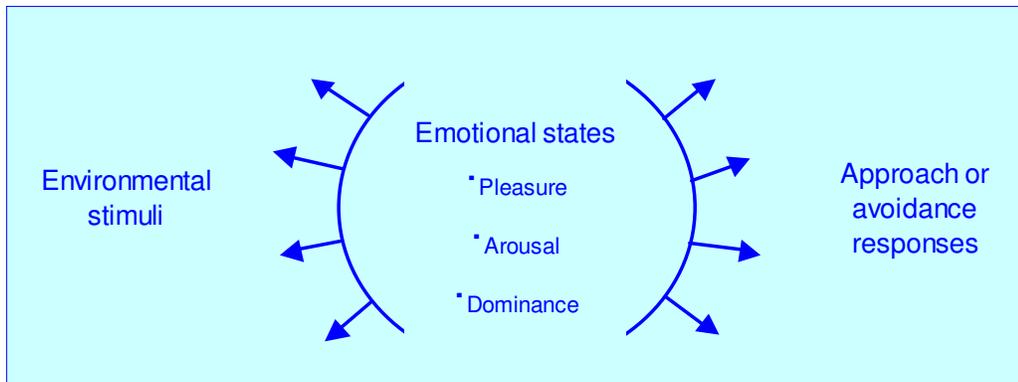


Figure 15: The SOR Model

Source: Adapted from Hoffman and Bateson: 2001; 229

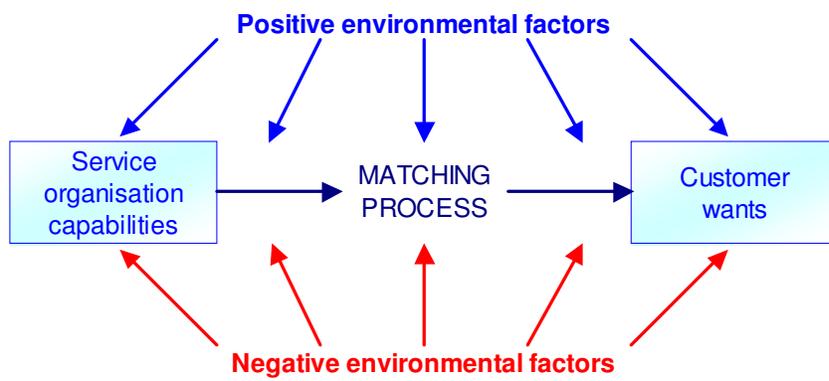
This leads to the discussion regarding the gap between the capability of the service organisation (on delivering a satisfactory service) and the customer's expectations, and which of the environmental factors have an influence.

#### 2.4.2 Factors influencing expected service

The gap between desired service and adequate service reflects the inability of the organisation to fulfil to customer needs satisfactorily. McDonald and Payne (2001; 5) describe the gap (Figure 16) between Customers wants and Service organisation capabilities a function of marketing as a matching process. Positive and negative environmental forces impact on the ability of the organisation to deliver to the exact needs of their customers.

The matching process prescribes a best-fit solution between the organisational capability and the best-fit consumer segment under the various conditions of environmental influences.

Customer variability of needs also impacts on the organisation's ability to deliver expected services. Two customers receiving the same service may perceive the service delivery differently and thus value the service differently with different levels of satisfaction. This implies that different customers may differ in their view (it may be subconsciously) of what constitutes positive and negative environmental factors. It is thus not inconceivable to recognise that certain negative or positive environmental factors will be entirely oblivious to



**Figure 16:** The Marketing Concept: A Matching Process

Source: Adapted from McDonald and Payne: 2001; 5

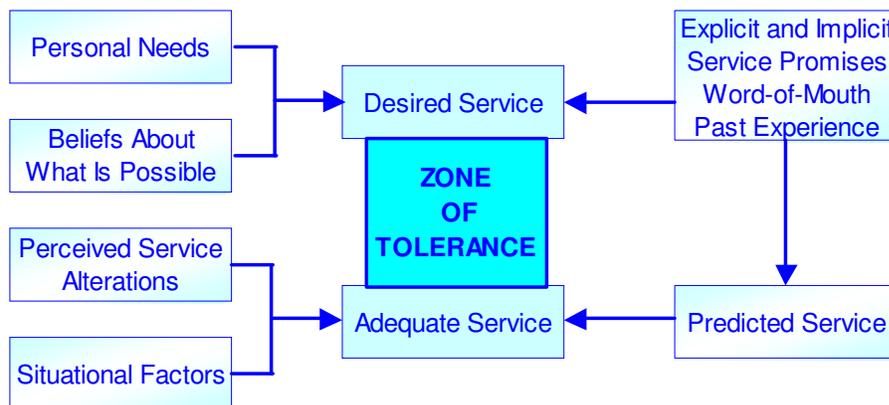
some customers.

This research specifically focuses on the service organisation's capabilities and how these are reflected in the service delivery in fulfilling customers' expectations.

### 2.4.3 Customer expectations

After a customer has determined all the environmental factors at the pre-purchase stage he or she moves into the consumption stage. This stage consists of the actual choice of buying, using and consumption of the goods or services. It is from the pre-purchase stage that consumers develop their expectations about the desired service. Various factors influence

customer expectations of service (Lovelock & Wright: 2001; 82), which are depicted in Figure 17. This is the point where the consumer enters the consumption stage with reference to their expectations. The model identifies the Zone of Tolerance as the grey area between what customers expect as the desired service and what they view as adequate relative to the service organisation's capability and environment factors.



**Figure 17:** Factors that Influence Customer Expectations of Service

**Source:** Lovelock and Wright: 2001; 82

Customers' expectation of service, according to Lovelock (2001; 81) consist of several elements, which include desired service, adequate service, predicted service and the zone of tolerance. By implication the model indicates that customers expect not to get the desired (potential) service and that the consumer will be satisfied with adequate service or something in between as shown in Figure 17. This is described as the zone of tolerance.

From an industry perspective it will with certainty be safe to assume that the gap or size of the Zone of Tolerance will vary between different industries. The model would, for obvious reasons, not be reconcilable in industries such as medical services where there cannot in many cases be a grey area of performance in service delivery.

The complexity for the service organisation is to (at best) to determine what the consumer service expectation is, and to bear in mind that it will differ from consumer to consumer.

This gap in the Zone of Tolerance between desired service and adequate service would also vary from customer to customer depending on their attitude towards the service experience and the servicing organisation.

#### 2.4.4 Customer attitude attribute map

The customer attitude mapping (Figure 18) process (McGrath & MacMillan: 2000; 24) assists in determining how well one's product or service appeals to the customer's needs. The model implies that the obvious ideal is to fall in the Positive – Energiser segment at which point one's product or service becomes highly marketable. A further implication of the attribute map is that it indicates where customers may defect due to negative attitudes towards one's service or product offerings.

CUSTOMER ATTITUDE	Attribute of Product or Service , Relative to Competing Offerings		
	BASIC	DISCRIMINATOR	ENERGISER
<b>POSITIVE</b>	<b>Nonnegotiable</b> Performs as least as well as competition	<b>Differentiator</b> Performs better than competition where it counts	<b>Exciter</b> Performs better than competitors
<b>NEGATIVE</b>	<b>Tolerable</b> Performs no worse than competitors	<b>Dissatisfier</b> Performs below the level of competitors	<b>Enrager</b> Must be corrected at any cost (to capitalise on competitors' negatives)
<b>NEUTRAL</b>	<b>So What?</b> Does not affect the purchasing decision in a meaningful way	<b>Parallel</b> Influences segment attitudes but is not directly related to product or service performance	

Figure 18: The Attribute Map

Source: McGrath and MacMillan: 2000: 25

The model ignores, however, the influence of warranties and guarantees (the peace of mind). That in turn questions the map validity where customers still may have a negative attitude but will remain with the product or service, even though their satisfaction is declining.

#### **2.4.5 Customer satisfaction, loyalty, retention, defection and profit**

Loyalty is defined (Lovelock & Wright: 2001; 104) as the voluntary decision by a customer to continue patronizing a specific firm over an extended period of time. This loyalty however is earned through consistently delivering expected service quality. Since the delivery of quality is dependant on the organisation's resources and process, there also exists a belief that there is an explicit link between customer satisfaction with the organisation and employee satisfaction with their jobs. Employees who enjoy their jobs and who perceive that they are well treated will be loyal to their firm over an extended period. This will result in lower staff turnover and higher productivity than among new appointees, as they know their customers well and are able to deliver higher quality service. This series of links between the internal organisational resources and processes with the customers is also termed the "service value chain" – as discussed earlier.

Allen (2002; 11) argues that customer repurchases or switching behaviour is founded in the manifestations of loyalty. Behaviour is not loyalty but it may be the outcome of loyalty.

Customers will transact beyond loyalty or satisfaction due to cognitive (evaluation of relationship such as price and proximity) loyalty or affective (emotional reasoning) loyalty.

Retaining customers is reasoned as the outcome of service loyalty due to consistently high delivery to the service expectation. This is, however, only possible if the consumer perceives that he/she receives better value than switching to another service provider in a non-monopolistic environment.

Customer retention is argued to be less costly than acquiring new customers (Hoffman & Bateson: 2001; 385). The cost of luring new customers is in:

- marketing and advertising;
- cost associated with discounting through lost profit;
- loss of focus on quality with subsequent increase in repeat service cost.

Retaining customers on the other hand requires less costly relationship management to ensure repeat business and referrals where the customer becomes a marketer for the business.

McDonald (2001; 23) states, *"It follows, therefore, that when a company lowers its customer defection rate, average customer relationships last longer and profits climb. Viewed in this way, the cost of providing enhanced customer service could be seen as an investment in customer retention"*.

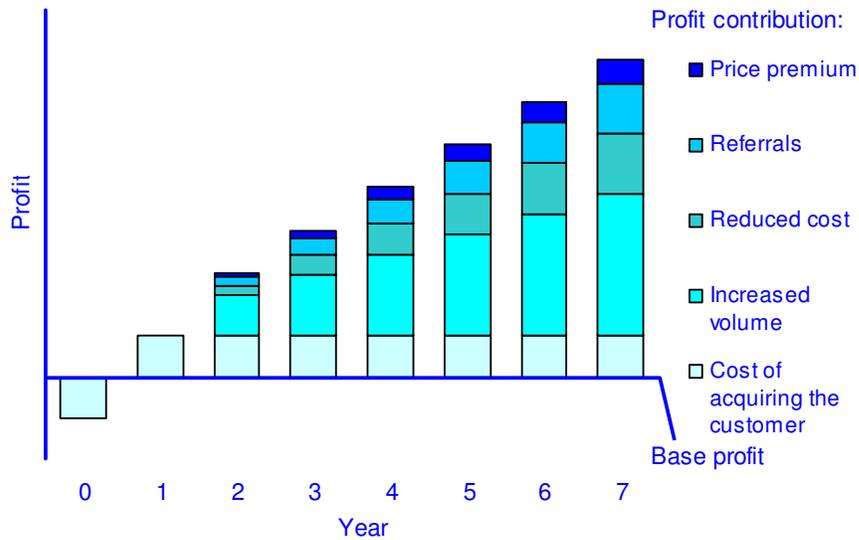
Hoffman and Bateson (2001; 392) state through research that it costs three to five times less to keep a customer than to get a new customer. A profound effect on profits can be obtained by increasing the rates of customer retention. Studies show that a 5% increase in customer retention rate can translate into 85% higher profits for a bank branch, 50% higher for insurance brokers and 30% higher profits for an auto-service chain.

Defection is said to be the transferring of brand loyalty from one supplier to another.

Lovelock and Wright (2001; 105) explain that customer defection signals several important business indicators which includes the features listed below.

- There is potential that something is wrong with the product or service quality.
- The competitors are actively luring customers through better offerings or promotions.

- The net effect and risk from defection is the loss of revenues.



**Figure 19:** Customer Profit Over Time

**Source:** Adapted from Hoffman and Bateson: 2001; 391

Four factors according to Lovelock and Wright (2001; 106) emerge from retaining loyal customers (refer Figure 19).

- Profits increase from loyal customers as their purchasing grows.
- Flowing from the relationship experience with the firm, customers make fewer demands which leads to profits from reduced operating costs.
- Satisfied customers become marketers for the organisation (“word of mouth”), which turns referrals into profits.
- Longer-term customers do not need luring or special prices, which make them more profitable.

Various reasons (Hoffman & Bateson: 2001; 408) exist why customers defect. These include:

- defection due to pricing and price competition;
- product defection due to competitors offering new and better products;
- service defection due to poor customer service;
- market defectors where customers exit from the specific market;
- technology defectors where customers switch to advanced technologies;
- organisational defectors, which relates to association, relationship or political reasoning.

Some arguments against the concept of the link between customer loyalty and profitability are that it is extremely difficult to prove due to the myriad of environment variables impacting and influencing consumer behaviour. Customer perceptions are also based on environmental influences and views vary between customers regarding their service experiences with an organisation. Other factors impacting on a customer's decision are manipulated by organisations such as warranty promises and guaranteed time period buyback.

An area, which cannot be ignored, is the impact of monopolistic organisations on consumer behaviour. The relationship of retention, defection and loyalty is not well enough defined as retention and or defection is not necessarily a result of loyalty. Where supplier switching is not possible or expensive then defection will not occur, even though customers are dissatisfied and not loyal to an organisation, which in this case can be termed a de facto loyalist.

#### **2.4.6 Putting it all together – Customer satisfaction: Apostles and Terrorists**

Organisations measure customer satisfaction to determine customer loyalty and to estimate how many customers are at risk of defecting (Lovelock & Wright: 2001: 273). This customer rating is in general in the following Likert scale format ranging from:

- 1 = Very dissatisfied
- 2 = Somewhat dissatisfied
- 3 = Neutral
- 4 = Somewhat satisfied
- 5 = Very satisfied

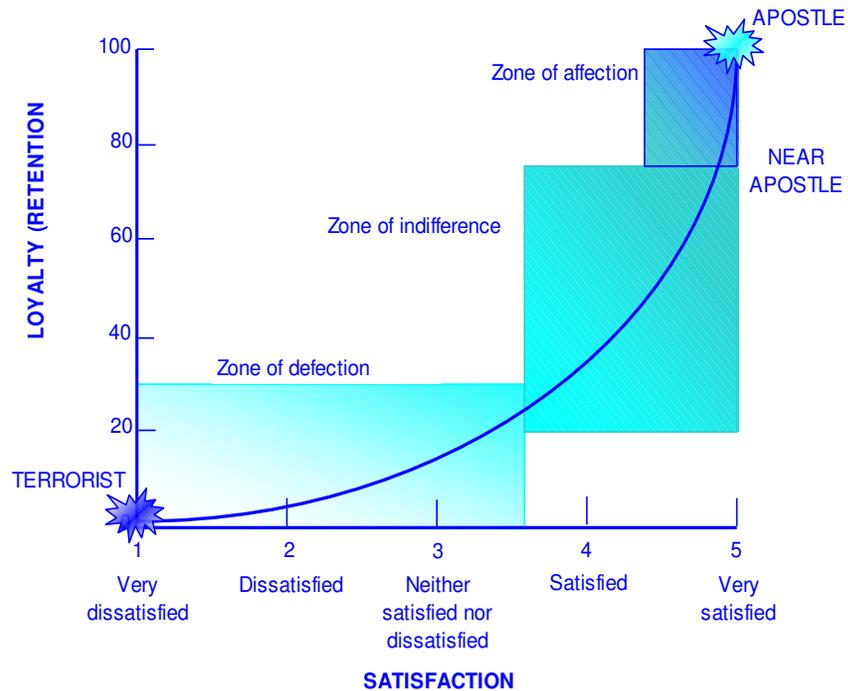
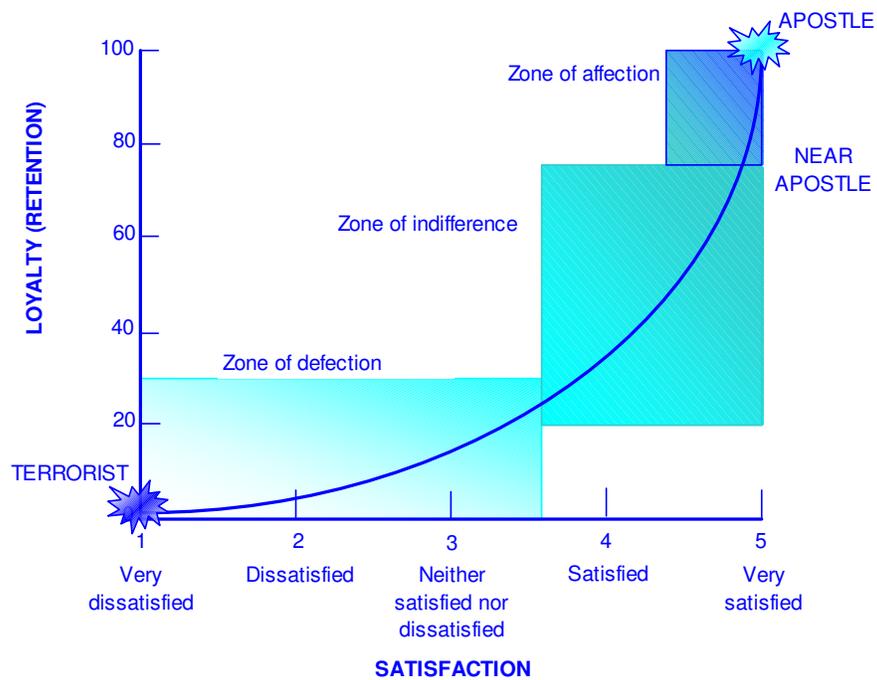


Figure 20 indicates that customers ranging from rating scale 1 to 3 are the most likely to defect, while customers at rating 4 (somewhat satisfied) can be lured away by the competition. Only customers at rating scale 5 are loyal and likely to stay with the organisation. The authors claim that the extreme ends of the scales have two very distinct customer characteristics. The very dissatisfied customers rating organisation at level 1 (terrorists) will most probably be actively criticising the organisation while on the other end of the scale at level 5 (the apostles) the customers will sing praise and promote the organisation.

The aim for the organisation would then be to create as many apostles as possible which confirm the earlier discussions of customer retention, satisfaction, loyalty and eventually profitability.



**Figure 20:** "Apostles" and "Terrorists" on the Satisfaction-Loyalty Curve

**Source:** Lovelock and Wright: 2001; 273

### **3CHAPTER 3: LITERATURE REVIEW AND DATA SOURCES**

As with the theoretical review, the literature review discussion will include the key elements and flow of the Service Value Chain model. Articles and journals have been selected based on the dimensions discussed in the theoretical review.

References to various topical literature include:

- performance and reward;
- employee retention and defection;
- organisational behaviour and culture;
- staff output quality and customer satisfaction;
- change management;
- topics on consumer behaviour, retention, defection and loyalty;
- profits relative to customer loyalty.

#### **3.1 LITERATURE REVIEW: THE INTERNAL OPERATIONAL ENVIRONMENT**

Topical elements including research and published work relating to the internal environment are explored and evaluated in this section. Specific fundamentals of the internal service operation environment are evaluated to obtain evidence and views of previous work. These form the foundation of this research focus.

Included in this section are work conducted on factors impacting on employees relative to customer service, which is followed by research work of reward and recognition aspects of employees. Concepts and research regarding employee retention and defection with

appropriate reasoning follow. The section concludes with research on organisation culture and its ability to deliver on customer expectations.

### **3.1.1 Employee performance, reward and recognition**

Observations made by Hartline and Ferrell (1993; 62) and widely supported by other research work indicate that frontline (service) employees (FLEs') are typically underpaid, over worked, under trained and highly stressed. In research conducted by Sing (2000; 15) the researcher found that frontline service employees operating under increasing burnout levels maintain their productivity while their quality deteriorates. Also pertinent to the research was that burnout was due to the "Three Cornered Fight" (Bateson;1985) in which customers on one boundary demand attention and service quality, the organisation on the other boundary demands efficiency and productivity and the FLE is caught between these two boundaries. These stresses are claimed to cause constant FLE burnout and high staff turnover. Eddleston, Kidder and Litzky (2002; 86) explain how customer contact employees manage the expectations and relationships of management and customers through processes of psychological contracts. They advocate the importance of this triangular relationship between employees, management and customers to the long-term organisation success.

For the purpose of this research the focus will primarily be on the service employee performance, quality output and staff turnover.

Sing (2000; 17) proposed the hypothesis that there exists a positive correlation between performance productivity and quality. The researcher found that there exists a depletion of performance as burnout develops. One would then surmise that burnout leads to lower performance and productivity, which directly impacts, on the service quality. Sing (2000; 21)

developed two different scales for the research performance productivity (PERFP) and performance quality (PERFQ). The goal of the research was to test the correlation between PERFP and PERFQ.

- The Performance Productivity (PERFP) scale, zones in on quantifiable measurables relative to issues such as customer contact, completion of paper-work and adherence to company policy and procedures.
- The Performance Quality (PERFQ) scale, measures the interactional performance in FLE/Customer exchanges, which relates to building relationships, trust, giving attention to customer needs and going the extra mile.

The conclusive of the research was that productivity, unlike quality, remains insulated from increasing burnout tendency. Singh (2000; 27) reflects that the reasoning can be found according to Hockey (1993; 1997) in that FLEs' need to maintain the visible productivity indicators as these may affect the reward structure. Burnout will by implication be evident in service quality. The researcher remarks that quality and productivity are two distinct constructs that are regulated by different mechanisms.

The researcher agrees with this statement made by Sing (2000; 27) that promotes the idea that FLEs' citizenship behaviour deserves further research, but questions the influence of behaviour altering mechanisms on the outcome of the research founding, particularly in how service quality can be improved through incentive recognition even with elements of burnout present.

The research conducted touched on the influences of management that cause burnout, but it does not adequately reflect how the organisational culture and business processes contribute to burnout. Another area that is not recognised in this research is the impact that

shortages of skilled workers can have on the behaviour of FLEs' and how this can impact on performance and quality.

Bowen and Waldman (1999; 178) observed that research is needed to combine different data sources on the influential factors affecting employee service performance and customer perceived experience, which is reflected in the work of Liao and Chuang (2004; 41). The purpose of their study was to develop and test a multilevel framework in which employee service performance was examined as a joint function of the service environment characteristics and employee characteristics. Some of this research work of Liao and Chuang (2004) falls outside of the scope of this research, but there are some aspects of their hypothesis testing that are relevant. The importance of their work is in the joint impact of individual (employee types) - employee types however fall outside the scope of this research, as this research work is focused on employee behaviour and corporate culture - and situational (organisational interventions) factors impacting on customer service outcomes. The important aspects emerging from the research of Liao and Chuang (2004; 45) is the relationship between the (internal) organisation service climate and human resource practices linked with the (external) customer service outcomes. Schneider, White and Paul (1998) commented that customer perceptions of service quality, customer satisfaction, and customer loyalty are crucial indicators of the effectiveness of a service organisation because of their close relationship with sales and profits. Thus, superior individual service employee performance would contribute to desirable customer outcomes. The appropriate sections of the work of Liao and Chuang (2004; 45), which are important for this research include:

- employee service performance;
- store-level antecedents pertaining to organisational service climate;

- customer response on three dependant variables viz. customer evaluation of service quality, customer satisfaction and customer loyalty.

The research indicated significant correlation between service performance with customer satisfaction and customer loyalty, but insignificantly related to service quality. Liao and Chuang (2004; 53) conclude that a possible explanation for the insignificant correlation result for service quality originates in various factors such as physical cues. These are out of the control of the service employee.

In the research of both Singh (2000; 20) and Liao and Chuang (2004; 42) it is evident (even though the researchers approached their research differently) that there exists a mismatch between service employee performance and customers' perception of service quality. In both cases the researchers did not take into account the environmental factors - though admitted by Liao and Chuang (2004; 53) – impacting on the service delivery process relevant to the customer and the service employee alike.

In the work of Brown, Mowen, Donovan and Licata (2002; 100-119) the researchers demonstrated that individual behaviour in delivering customer service is influenced by personality traits (goals and motives) as well as the service environment (nature of the job and work situations). While physical cues may impact on customer perceptions of the service received, another factor influencing service is the job fit of the service employee.

In other work conducted by Donovan, Brown and Mowen (2004; 128-146) the researchers explored the relationships between customer orientation, employee commitment, organisational citizenship behaviour and job satisfaction. The view shared with Deshpandé, Farley and Webster (1993) is that organisations that focus on customers' needs are better positioned to achieve long-term success than companies that are not. This view was

demonstrated by means of empirical research (Narver and Slater: 1990) that market orientation had several positive outcomes in the form of enhanced profitability, employee commitment and group pride. They found that, as organisations increase their market orientation, their business performance increased comparatively.

Research findings from Donovan, Brown and Mowen (2004; 128-146) revealed that employees with higher level of customer orientation thrive in settings where high level of customer contact time is prevalent. They surmise that companies that employ high customer-orientated-staff, do not necessarily produce the most satisfied and committed employees, as the job environment must be taken into account.

*“Getting and keeping the right people has everything to do with getting and keeping the right customers. Employees who are loyal are likely to build an inventory of customers who are also loyal”,* (O’Conner and Fiol: 2003; 12). In this article O’Conner and Fiol advocate the importance of investing in human resources as the foundation for business success. They promote the concept that the organisational environment (security, self management teams, extensive training, communication and high compensation linked to performance) is what attracts talented people.

Organisational Citizenship Behaviours (OCB) are defined by Williams, Pitre and Zainuba (2002; 33) as work related activities performed by employees beyond the scope of job descriptions, contractual sanctions and incentives, which improve organisational efficiencies. OCB are both beneficial and desirable for organisations but cannot be contractually enforced or rewarded because they are rooted in the nature and behaviour of individuals and are largely voluntary. In Williams, Pitre and Zainuba (2002; 41) the researchers revealed that OCB increased when employees’ perception of fair treatment was positive, while perceptions

of fair reward and recognition were not a predictor of OCB intentions. Employees according to Williams, Pitre and Zainuba (2002; 34) are concerned about the fairness of distributive justice, which relates to the reward system and procedural justice, which refers to the way they are treated. Both these outcomes will determine to what extent employees will perform OCB to enhance the organisation.

As far back as 1965 (Adams: 1965; 177 - 198) the researcher advocated that employees' job performance would either increase or decrease depending on the perception of fairness of the reward system. Procedural unfairness, according to Organ (1990), will change an employee's relationship with the organisation from a social exchange to economic exchange and that it will affect the likelihood of an employee to perform OCB. From the discussion it is fair to deduce that employee behaviour change can be obtained by influencing the variables of reward and recognition and treatment of employees. This implies that organisations can improve on their customer service experience through a positive influence on the reward and treatment as perceived by the employees. The research does not however take into account that an increase in reward must be relative to positive customer responses (as an outcome), rather than observed performance, as discussed earlier regarding service performance and service quality.

### **3.1.2 Employee retention and defection**

Flowing from employee behaviour it can be argued that the decisive outcome measurement of the satisfaction determinants of an employee is in their retention or defection. This by implication argues that a satisfied (procedural and distributive justice as discussed earlier) employee is more likely to be retained by an organisation. What impact does employee

retention or defection have on the ability of an organisation to achieve high service delivery consistently that will match customers' expectations?

Surprisingly, very little quantitative research work is available on the impact of staff defection on customer satisfaction. Some of the reasons for the lack of quantitative studies can be founded in the following factors.

- The first is staff defection and the resulting impact on customer satisfaction require a long-term research project. This research would require the measuring of staff defection over interval periods, and correlate the information with customer satisfaction over the same interval periods. This would involve time consuming and costly research.
- Secondly there is the lack of availability of customer satisfaction research data over a time period for many similar industry organisations. Very few industries measure customer satisfaction at periodic intervals, and if they do it, does not allow for comparative research as research techniques and survey questions may differ.

Most of the research done on the effect of staff defection on customer satisfaction is constructed through deductive reasoning. Researchers such as O'Connor and Fiol (2004) and Baumann (2003) argues that a customer facing service employee who defects from the business who was capable, productive and who had good customer relationship skills will have a direct and adverse impact on customer service satisfaction. Their argument has its foundation on the cost and effort required to train new employees to instil corporate culture and the time it takes to build new customer relationships. Resulting from this is the logical assumption and reasoning that staff defection leads to a drop-off in customer satisfaction.

O'Connor and Fiol (2004; 40) advocates that loyal employees (in the medical industry) result in a supply of loyal customers due to relationship building. Retaining good employees helps to retain high profit performance, to retain customer satisfaction, to reduce hiring cost, to reduce training cost, and increase efficiencies and productivity. The authors promote the following retention strategies.

- Create and support personal development.
- Make use of incentives.
- Provide for recognition of achievements.
- Collect and communicate information.
- Remove performance barriers.
- Provide lifestyle support.
- Create new venture opportunities.

These actions listed above are also supported by Baumann (2003; 20) in an article regarding staff retention where the author comments on the opportunities to retain staff in the timeshare industry, which is notorious for high staff turnover.

In an article relating to reward and retention Menefee and Murphy (2004; 14) reflect on research by Watson Wyatt Worldwide (2003) which states the reasons (as they cease to be loyal to the organisation) why staff defect (Table 1).

Reasons Cited for Considering leaving Current Employment	
Reasoning	Percentage
Dissatisfaction with pay	58%
Dissatisfaction with management	48%
Inadequate promotional opportunities	48%
Inadequate opportunity for career-related skill development	44%
Dissatisfaction with benefits	37%
Uncomfortable work environment	24%
Conflict with manager/co-workers	23%

**Table 1:** Reasons Cited for Considering leaving Current Employment

**Source:** Lowenstein: August 2003

Staff turnover according to Lowenstein (2003) is on the increase. The author quotes research conducted on staff loyalty which reveals low commitment from staff to their organisations. The research indicates the following detail.

- Only 24% of employees considered themselves loyal to their organisations.
- 33% of employees indicated that they did not plan to stay on and were not committed to the organisation.
- 39% of employees indicated that they were captive but were not committed to the organisation.

The concern raised is that as many as 72% of employees are not committed or loyal to their organisation, which translates into a failure to align with the organisations' business and customers.

The customer loyalty concept has been one dimensional in many research topics focusing on loyalty to the organisation. Kandampully (1998; 432) proposes the concept that customers seek to force organisations to be loyal to them as customers. This loyalty is founded on the assurance of a consistent and superior quality of service to the customer. Berry (1987) also proposed the idea that loyalty offered to customers will gain the loyalty of those customers.

To achieve organisational loyalty to customers would for obvious reasons require a capable and stable workforce as discussed earlier. This leads the discussion on to the subject of the behaviour of an organisation and more specifically, organisational culture.

### **3.1.3 Organisational behaviour and culture**

A great deal of research has been done on organisational culture of which most has focused on the Total Quality Management (TQM) model (which will be discussed under the heading of the service delivery concept). This is understandable as the quality of the internal processes and the ability of the organisation to satisfy consumers' needs are the elements that will determine the level of customer satisfaction. Kanji (1997) stated that culture varies between industries, but that there exist certain essential principals which can be implemented to secure greater market share, increased profits and reduced costs.

Kanji and Wallace (2000; 980) define organisational culture - which develops over time - as the totality of the beliefs, norms and values that control the behaviour of individuals and groups within a given organisation which construes as an organisation quality culture. The

authors propose that the gap between the old and required new culture can be narrowed by exploring the quality improvement processes to achieve business excellence and customer satisfaction. The authors suggest that - to achieve customer satisfaction - an organisation continually needs to improve all aspects of its operations to achieve business excellence, through leadership making objective decisions and by involving all employees in the quality improvement activities.

From this view it is fair to deduce that the authors suggest that culture change is a top-down approach. They further advise that employees must be attuned to behaviour change before an organisation can embark on a successful move to business excellence or TQM. Atkinson (1990) proposed that it is important to create an environment where employees are involved through encouraging them to suggest processes how product and/or service improvement can be obtained. Kanji and Wallace (2000; 980) maintain that business excellence and success is dependant on creating and maintaining a quality culture to the benefit of customers, employees and the organisation.

Very few studies are available where an organisation's culture values have been correlated with actual business outcomes. Deshpandé, Farley and Webster (1993; 23-37) have probably produced one of the more important articles on the linkage between corporate culture and business performance. The authors found in their research on Japanese firms that high business performance outcomes is closely related to market culture (which relates to competitive aggressiveness and outcome orientation), and to being purposeful (which relates to adaptability and innovation). This view proposes that the external environment - besides the internal organisation – contributes towards the architecture of the organisations culture. Frost, Moore, Louis and Martin (1991) propose that different organisations have

different cultures and subcultures. They also comment that different groups in the same organisation may have different culture orientation, which can hamper teamwork and a united approach towards business excellence and customer satisfaction.

In their article regarding corporate culture, Waldman, Smith and Hood (2003; 9) reflect on Broders' (2001, B2) view that a prerequisite for culture change is the need for leadership to create an environment whereby people are comfortable with change and that they know that they can positively contribute. In a review pamphlet Baker (1999) correlated high work performance with business outcomes and commented that organisational and leadership changes aimed at building skilled resources, allowing people to contribute and rewarding them for positive results, pave the way for stronger business performance and create the opportunities for greater competitive advantage.

Successes factors that are required to ensure customer-orientated behaviour requires teamwork, leadership from the top, formalised business control measures, processes and structure, and empowerment of service employees (Hartline, Maxham & McKee: 2000; 46). The authors also warn about the possibility that formulised business control measures and processes could impede service employee empowerment, as concluded in studies such as that of Guterman and Bargal (1996) that there exists a relationship between poor job performance and the lack of empowerment.

### **3.2 LITERATURE REVIEW: SERVICE DELIVERY CONCEPT**

The mechanism for delivering service to the external customer is discussed under this section. Of importance in this section are the concepts of service quality. Therefore the research evaluates literature regarding various views and aspects of service quality concept.

This is followed by a discussion on internal and external marketing and how these are interconnected. The section is concluded with a brief literature discussion of the importance of customer segmentation.

### **3.2.1 Service quality as a system**

Parasuraman (1994; 204) provides the most descriptive definition for service quality in relation to this research paper – "...*Service Quality is the degree of discrepancy between customers' expectations and their perceptions of service performance*". Business output quality (product or service) is probably the most researched topic (Kuei: 1999; 783) in the business world. Kueis' research proposes that the internal service quality process is fundamental in delivering service of products to satisfy the consumer.

As with product quality it is recognised that service quality also needs to be measured to enable it to be managed.

Sureshchandar, Rajendran and Anantharaman (2002; 69) advised that quality is consistently being considered as one of management's highest priorities for a competitive advantage and is a pre-requisite for business sustenance and growth.

Many variations of quality models have been proposed which include quality strategy models such as:

- Total Quality Management (TQM);
- Total Quality Service (TQS);
- Service Quality (SERVQUAL).

SERVQUAL is one of the most popular instruments for measuring the service quality.

Parasuraman, Zeithaml and Berry (1988) identified five service quality dimensions that

SERVQUAL aims to measure:

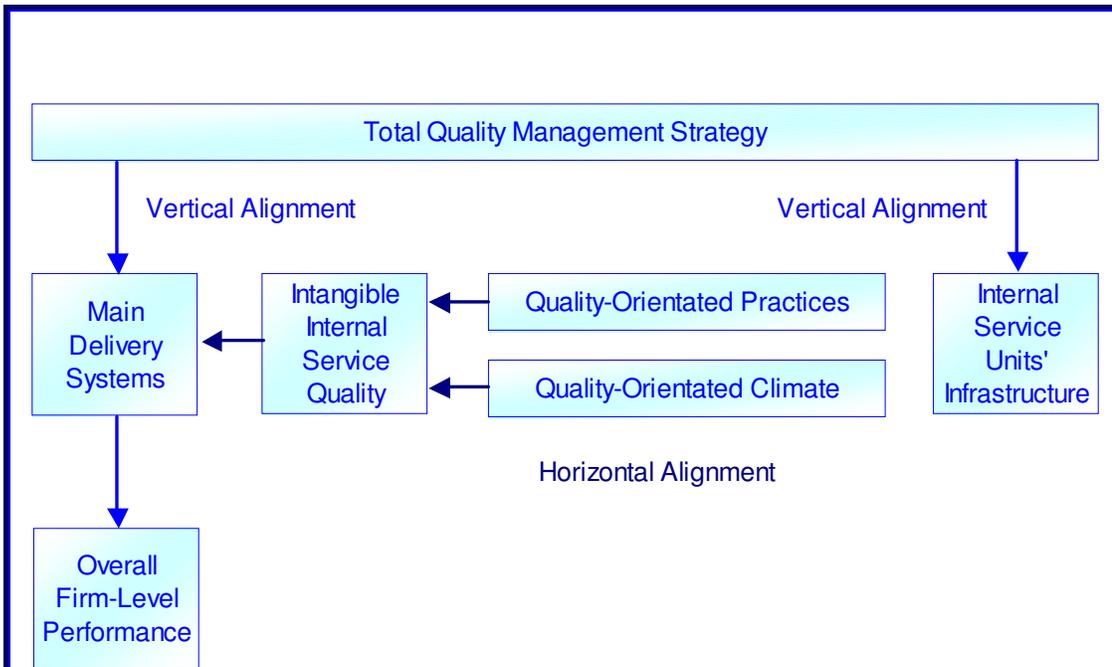
1. Tangibles
2. Reliability
3. Responsiveness
4. Accuracy
5. Empathy.

It is important to note these dimensions discussed are part of the holistic content of this paper and that it is not the objective of this research to discuss the SERVQUAL model.

Kuei (1999) applied the concepts of TQM and SERVQUAL to evaluate the relationship between the internal service climate with customer satisfaction. The approach used was to test the vertical alignment between the strategy of the organisation and the service delivery system, while a horizontal alignment was used to test the perceived quality-orientated climate of the internal service units with their quality-orientated practices and how it may impact on the perceived internal service quality (refer to Figure 21).

Kuei (1999; 790) concluded his research by advising that organisations should focus on the internal service quality as it has an impact on long-term service delivery goals.

In a US Government Accounting Office Study (GAO: 1991) it was found that a strong relationship exists between the company's practice of TQM (training, empowerment, strong focus on customers, leadership, systematic processes) and organisational performance (employee relations, quality, productivity, customer satisfaction and profitability).



**Figure 21:** TQM Horizontal and Vertical Interaction

Source: Kuei: 1999; 783 – 791

One of the more comprehensive studies to measure the relationship between service quality as perceived by the customer and the internal organisations' TQM dimensions was conducted by Sureshchandar, Rajendran and Anantharaman (2002). The researchers assumed a positive relationship between the twelve dimensions of TQM as an independent variable:

1. top management commitment and visionary leadership;
2. human resource management;
3. technical system;
4. information and analysis system;
5. benchmarking;

6. continuous improvement;
7. customer focus;
8. employee satisfaction;
9. union intervention;
10. social responsibility;
11. Servicescapes;
12. service culture.

The five factors of service quality (TQS) - as the dependant variable - (Sureshchandar, Rajendran & Kamalanabhan, T. J.: 2001) are:

1. core service or service product;
2. human elements of service delivery;
3. systematisation of service delivery; non-human element;
4. tangible of service - Servicescapes;
5. social responsibility.

The research finding indicates a significant correlation between the factors of service quality and the TQM dimension in all the people-orientated issues such as:

1. top management commitment and visionary leadership;
2. human resource management;
3. service culture;
4. social responsibility;

5. customer focus;
6. employee satisfaction.

The value of the research finding is that it highlights the importance of the people aspect or soft issues as the underlying important driver of customer satisfaction. This view (that people are the core nuclei drivers) is also promulgated in this research.

### **3.2.2 Marketing internally and externally**

Fram and McCarthy (2003; 26) researched brand loyalty of employees to their own organisations and discovered that approximately 30% of employees had only modest or no brand loyalty. The researchers claim this phenomenon is due to a lack of internal marketing.

In addition, the research was to observe whether brand loyal employees are more likely to be brand champions for the organisation. Findings from the researchers indicated that brand loyal employees (up to 70%) are much more likely to be brand champions. This research concludes that organisations need to dedicate far more resources to internal marketing to yield dividends by the efforts of enthusiastic employees.

The key to external marketing success is internal marketing (Greene, Walls & Schrest: 1994; 5). It is claimed that an important ingredient of strategic planning is an organisations' core competency, and when this is carefully managed can lead to a competitive advantage with subsequent increase in market share and profits. The authors subscribe to the notion that one such core competency is its capable employees, who can deliver superior service to customers, which will gain the organisation a competitive advantage. Organisational culture - as previously discussed – can thus be identified as a fundamental driver that will determine the success of internal marketing and subsequently the quality of service delivery.

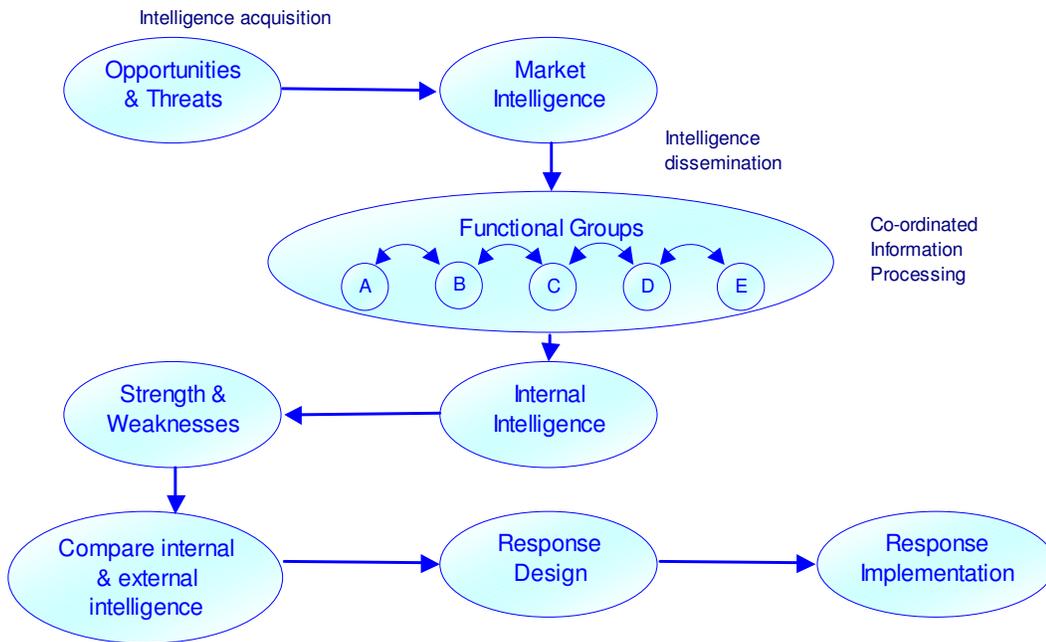
Varey (1995; 40) states that competitive advantage in the service industry is achieved through the mobilisation of the accumulated know-how (which is difficult to imitate) of the service employees while creating value for customers. This accumulated know-how requires a cohesive approach (internal marketing), which is reflected in the Service Value Chain Model (discussed earlier under the theoretical review), whereby a linkage between internal service quality, employee satisfaction, employee productivity and external customer satisfaction and profitability are proposed

While a competitive advantage can be gained through mobilising internal resources, Rafiq and Ahmed (2000; 449) comment on a great deal of confusion regarding the “how-to” of internal marketing. This creates a difficulty for organisations in promoting the internal marketing concept. To remove the confusion the authors advised that five key elements are obtained from empirical literature that help synthesise and define internal marketing processes. These are:

1. employee motivation and satisfaction;
2. customer orientation and customer satisfaction;
3. inter-functional co-ordination and integration;
4. marketing-like approach to the above;
5. implementation of specific corporate or functional strategies.

The structured approach of Rafiq & Ahmed (2000; 449) adds value in deploying internal marketing concept but it is Ling's (1999; 252) view that a more holistic orientation is needed to link internal employee orientation with the external market orientation (Figure 22). In this approach, Ling (1999; 252) recognises organisational capabilities (Strengths and

Weaknesses) relevant to market situation (Opportunities and Threats). Through this balanced approach it is possible to align organisational capabilities with market needs and to determine the capability gap.



**Figure 22:** Balancing Internal and External Market Orientations

**Source:** Ling: 1999; 239 – 263

In their research articles on internal marketing and organisation culture Hogg, Carter and Dune (1998; 892), the researcher found that internal marketing is dependant on organisational culture and the refusal of people to change behaviour. One solution offered to change people's behaviour is through communication of the key success factors.

It is the researchers' view that organisational behaviour change or culture change is best managed through changing of processes, systems and the organisational environment - thus behaviour change is enforced through the need for people to adjust to the new circumstances.

### **3.2.3 Customer segmentation**

While customer segmentation does not form part of the scope of this research it is important to note briefly some aspects of customer segmentation. Customer expectations differ between the same and differentiated service offering. Furthermore, different customers may reveal different perceptions of the same service delivery, which is underpinned in their assessment of service value (Cronin, Brady, Brand, Hightower & Shemwell: 1997; 377 & 386).

The important learning of customer perceptions of service value is that they will experience and rate the service performance differently. It is in the premise of the perceived service experience, which will become a determinant of consumer loyalty, which will ultimately directly influence customer behaviour.

## **3.3 LITERATURE REVIEW: THE EXTERNAL CONSUMER ENVIRONMENT**

### **3.3.1 Customer expectation, satisfaction, loyalty and behaviour**

In research conducted with bank customers (Jones: 2003; 74) the result indicated that satisfaction is no guarantee for customers not to switch (loyalty) to another bank. The research indicated that mere satisfaction alone is insufficient. It is only when customers are completely satisfied that they are less likely to defect or switch to competitors.

Reichheld (1993; 66) in an article on Loyalty-Based Management advocates that demographics and previous purchase history give some indication of a customer's inherent loyalty. The article further promotes the idea that organisations need to be very selective in choosing their customers to ensure their loyalty stating, *"Finding loyal customers means taking a hard look at whom a company can deliver superior service to"*.

In research conducted between products versus service loyalty (Edvardsson: 2000; 917) the results indicated that product firms could lower their prices to retain loyalty (leveraged loyalty) while service firms must earn their loyalty through service performance. The article further emphasises the value of customer retention by indicating that customer cost tends to be "front-loaded" which occurs early in the firms' relationship with customers, while profits tend to be "back-loaded" after a customer has been loyal for some time.

Consumer expectation is on the increase according to an article by Smith (2003; 52).

According to Smith, consumers do not only prefer more, they expect more. This phenomenon is termed by the author as "*The Mainstream of Affluence*" and is dubbed the democratisation of luxury. Consumers expect the best at the best price and every product must look, feel and perform at the highest level. The author proposed reasons for this phenomenon:

- rise in design excellence;
- the declining cost of technology together with improvement in speed and performance of manufacturing and the shift to low labour markets;
- information flow.

It may be difficult to superimpose the above pointers onto the service industry in its current format due to the required learning curve that is needed in understanding service expectations and perception.

### **3.3.2 Customer retention and defection and recovery strategy, relationships management and experience marketing**

Research (Reichheld: 1993; 71) indicates that between 65% and 85% of customers who defect say they were satisfied with their former supplier. The author states that increasing customer satisfaction will increase retention and profits as proposed by many researchers. Also, the term theoretical principles is a misnomer, as proven in the motor industry, where customer retention rates are only 40%, even though customer satisfaction scores are averaging between 85% to 95%. The author advises that the current satisfaction measurement systems are not adequately suited to providing insight to customer loyalty.

### **3.3.3 Putting it all together: The link between employees, customers and profit**

Bloemer (1999; 1082) proposed through empirical studies that service loyalty could be identified in four different dimensions. These loyalty dimensions include purchasing intentions, word-of mouth communication, price sensitivity and complaining behaviour. The research also found that there appears to be an intricate pattern between service quality and service loyalty relationship in the individual dimensions with notable differences across industries.

In an article by Pugh, Dietz, Wiley and Brooks (2002; 73) the authors proposed that the organisation conducts "Linkage research" for organisations to determine the links between the work environment (with the employees as the drivers) to important organisational outcomes such as customer satisfaction and financial performance. The linkage research model is based on a conceptual chain connecting employees to customers and profits based on the Harvard Service Profit Chain.

The outcome of the linking research suggests that loyalty is a better predictor of profitability than common market share measurement. Further results from the research helps to identify which internal management practices have an impact on customer satisfaction to help guide business focus.

### **3.4 PRIMARY DATA SOURCES**

Three specific primary data collection methods were deployed. The first research explore dealer service staff profile, the second data collection constituted a specific research through a field experiment to determine human behaviour change -“Program to Culture”, and the third research involved staff defection.

The research surveys and field experiment are detailed in the Appendices 3,4 and 5.

### **3.5 SECONDARY DATA SOURCES**

Internal shelf data specific to years 2003 and 2004 that will be used includes:

- CSI results;
- dealer financials.

## **4CHAPTER 4: PROBLEM STATEMENT RESEARCH PROPOSITIONS AND HYPOTHESES**

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### **4.1 PROBLEM STATEMENT**

Huge sums of money are annually poured into improving CSI in the form of research, improvement programs, training, dealer upgrades and dealer incentives. Customer satisfaction ratings however have become range-bound (refer to Appendix 2) for most OEM's despite all the intervention attempts.

The net result in the attempt to improve customer satisfaction ratings has led to customer satisfaction to become a "Programme" rather than a "Culture"- a way of doing (serving). CSI results also indicate that dealers are seeing CSI as a programme, which becomes evident in incentive programmes, which showed CSI improvement the moment money was spent on them and then dropped back when incentives dried up.

Key questions to be answered are listed below.

- How does one become best in customer satisfaction in the vehicle service industry?
- Are there links between customer satisfaction, customer retention and profitability?
- How does one change the internal culture of the dealership to deliver a blueprint service that culminates into a positive customer experience?
- CSI research costs a substantial amount and what is the guarantee that the ad-hoc research findings on specific standalone issues justify the spend?
- What role does staff play in customer satisfaction, customer retention and profitability?

## 4.2 MANAGEMENT DILEMMA

The focus of the research identified eight key management dilemmas which are listed below.

1. Competitive placement – what is best in industry as a moving target?
2. What role does perception of and attitude towards the brands play in CSI results?
3. Approach to customer satisfaction is seen as a "Programme" mentality rather than a "Culture" mentality – how does one change this mindset?
4. Plato and central tendency of the CSI results.
5. Has the objective become chasing the index position rather than focusing on customer satisfaction?
6. The length of the phone survey is on average 12 minutes and the survey may lead to customer irritation.
7. What is the credibility of the research processes of other brands when it comes to CCSI?
8. What is the validity of CCSI comparison taking into account regional differences in mix and volume of dealers across the different brands?

## 4.3 RESEARCH PROPOSITIONS

It is believed that staff behaviour and staff retention have a fundamental influence and impact on CSI results and ultimately dealer profitability. This belief has, however, never been tested through research specifically pertinent to the local vehicle industry. It is also not known to what extent staff influence customer satisfaction.

The research focuses on dealer service staff as the core and influential driver to customer service satisfaction and whether there exists a correlation between staff reward, behaviour, retention, customer satisfaction and dealer profitability.

The research questionnaire focuses on dealer staff retention and the potential reasons for defecting, recognition structures and the period of employment of service staff in the dealer network. This data collected will be compared with two sets of secondary data, customer satisfaction ratings and dealer profitability.

### **HYPOTHESES**

The automotive industry has achieved improvement in customer satisfaction primarily through incentive programmes targeted at dealerships and individuals. This has led the industry to orientate their staff that customer service is a programme rather than a culture – a way of doing business.

***Hypothesis 1: Reward and recognition have a direct impact on performance in customer satisfaction.***

There exists a shortage of well-qualified technical skills in the automotive industry, together with the lack of interest from young people in considering technical or mechanical careers. The demand for well skilled automotive artisans exceeds the supply.

***Hypothesis 2: Technically skilled and qualified people are more likely to change jobs than non-technically skilled people.***

Dealerships need to pay high premiums to retain good service staff. Staff with high levels of customer service performance ensure satisfied customers. When experienced staff leave the dealerships it becomes increasingly difficult to deliver consistently high service levels.

***Hypothesis 3: High staff turnover has a significant negative effect on customer satisfaction outcomes.***

High customer defection due to low customer satisfaction requires organisations to incur higher costs to obtain new customers. Unhappy defecting customers will also be more likely to denounce the organisation.

***Hypothesis 4: Low customer satisfaction leads to low profitability.***

Defections by staff and the lack of appropriate service-orientated culture leads to lower customer service satisfaction, which leads to customer defection that eventually results in lower profitability.

***Hypothesis 5: Flowing from hypothesis 1 to 4 there exists a direct correlation between organisation culture, staff satisfaction, customer satisfaction and profitability.***

## 5 CHAPTER 5: RESEARCH: METHODOLOGY, DESIGN, INSTRUMENTS AND TESTING

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### 5.1 RESEARCH METHODOLOGY AND DESIGN

#### 5.1.1 RESEARCH METHODOLOGY

##### 5.1.1.1 Data Collation – Primary Data

Two approaches were used to collect primary data:

1. The first primary data collection was a field experiment, which targeted dealer service staff who were involved with post service customer follow-up (refer to Appendix 3).

The specific CSI question - ***“After the service, did you receive a follow-up contact from the dealership to determine your satisfaction?”*** - (refer to Appendix 1) was used to see whether incentives would change staff behaviour to improve post-service follow-up as responded by the customers in the CSI reports. The experiment consisted of a monthly incentive of R500 for the period June 2004 to August 2004 and October 2004 to December 2004 for those staff who achieved 85% customer follow-up as rated by the Customer Satisfaction Index results. Rewards were paid out based on actual customer response to the specific question.

2. The second primary data collection consisted of two field research surveys on dealer service staff demographics.
  - a. The one survey consisted of a wide-ranging research on dealer service staff demographics and perceptions. Note that only the portions pertaining to reasons for staff defection by job title were used for this research. All the other research content was used for other studies (refer to Appendix 5).

- b. The second survey was specifically about determining actual staff defection over the period November 2003 to October 2004 (refer to Appendix 4).

#### **5.1.1.2 Data Collation – Secondary Data**

Secondary data collection also included two data sources (which are combined in Appendix 6):

1. The first is CSI results by dealer for the period 2003 to August 2005. This data set is shelf data, which was obtained through monthly research by the research house Synovate.
2. The second was dealer financial results specifically profit before tax percentage (PBT%) for the 2003/2004-book year. This financial data was obtained from Sewells eSOS who does monthly industry business benchmarking and dealer financial performance reporting on behalf of the Ford Motor Company.

### **5.1.2 RESEARCH DESIGN**

#### **5.1.2.1 Sample Size**

The sample size was limited to participation in the primary research listed below.

1. Staff participation on incentive experiment –Target of 60%.
2. Participation on demographic research – Target of 25%.

The secondary data samples were restricted to validity of the financial data listed below.

1. CSI data – Target of 60%.
2. Dealer financial data –Target of 60%.

### **5.1.2.2 Measuring instrument**

Simple correlation techniques were applied between the data sets. The data period were not be less than a 12 month scope to ensure consistency is evaluated.

### **5.1.2.3 Data analysis:**

Elementary statistical correlation techniques were applied.

## **5.2 METHODOLOGY - QUALITATIVE AND QUANTITATIVE**

Hypotheses 1 to 4 made use of quantitative measures while hypothesis 5 used qualitative measures through deductive reasoning.

## **5.3 DATA COLLECTION REASONING**

The results of the primary data sets of the experiment and the demographics surveys were then to be compared with secondary data sets to determine if there exists a positive correlation between staff behaviour, staff retention, customer satisfaction and dealer profitability.

The following analysis were conducted to test the various hypotheses:

- Hypothesis 1: The primary data collection were conducted through a field experiment by offering incentives, which were used to correlate the CSI results from the secondary data set to measure if such incentives indeed impact on the outcome of CSI results. This helped to determine whether reward and recognition change human behaviour and culture. Customer satisfaction for the measurement of post-service follow-up was in the mid 60% range on a three month rolling average (used for sample improvement). The question of service follow-up is significant with a weighted

average score of 4.1% (refer to Appendix 1) of overall satisfaction. Improving the performance of service staff to do customer post-service follow-up would impact on the overall CSI score. The objective of the field experiment was to test whether reward and recognition change behaviour and to subsequently determine if it impacts on customer satisfaction.

- Hypothesis 2: Profiling service staff through primary data collection would give an indication of the reasons why staff defect and whether industries with skilled shortage have higher staff defection ratios. Note that this portion of research is limited and has the potential to be a standalone research topic. The research constitutes a field survey (refer to Appendix 5) targeted at service staff.
- Hypothesis 3: A study of staff defection by month from primary research superimposed on CSI from secondary data over that same period would enable a correlation test. The research objective is to determine whether staff defection has indeed had an impact on customer satisfaction. Primary data collection took the form of a survey targeted at service managers who were asked to provide numbers of staff defection by month between the periods November 2003 to October 2004 (refer to Appendix 4). This data was then correlated with Customer Satisfaction data over the same time period. Dealers were then categorised into two groups, those who had service staff resignation and those dealers who did not have staff leaving over the same time period. The average customer satisfaction was then calculated for the two dealer groups and compared on a monthly basis to observe if staff defection impacted on customer satisfaction. A further measurement would be taken if proven that staff defection impacts on customer satisfaction to observe whether there existed a positive

correlation between staff defection and the gap in customer satisfaction between the two dealer groups.

- Hypothesis 4: Testing this hypothesis, both secondary data sets would be used to determine if customer satisfaction has a correlation with dealer profitability referenced to the Harvard Service Value Chain. The objective with this correlation was to determine whether profitability correlates positively with customer satisfaction. Dealer profit before tax for a 12-month period for 2004 would be correlated with dealer satisfaction over the same period (appendix 6). The sample size was limited to those dealers who are submitting valid financial input on a monthly basis. Correlation would be tested on a XY-chart through comparing the average CSI % to PBT% binned in 1% PBT% intervals.
- Hypothesis 5: This fundamentally makes the assumption through deductive reasoning that if  $A=B$  and  $B=C$  then  $A=C$ . This is that if all above hypotheses are tested true, then staff is the nucleus driver of customer satisfaction and business success.

#### **5.4 RESEARCH INSTRUMENTS**

Current CSI reports, dealer financial results, a field experiment and surveys were utilised as research instruments.

#### **5.5 TESTING THE PROPOSITIONS AND/OR HYPOTHESES**

The results from the primary research would be correlated with secondary data sets to determine the following facts.

- The effect of incentive rewards and the predicted behaviour change on the outcome of customer satisfaction.
- Reasons for staff defecting.
- The effect of staff turnover on customer satisfaction.
- Relationship between profitability and customer satisfaction performance.
- The dynamic linkage between staff behaviour (culture), staff retention, profitability, customer satisfaction.

## CHAPTER 6: NATURE OF THE RESEARCH RESULTS

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FMCSA changed the CSI research questionnaire in January and February 2004 but reverted to the original questionnaire in March 2004. To ensure statistical validity the researcher excluded January 2004 and February 2004 CSI results in this research.

**Result testing: Hypothesis 1: Reward and recognition has a direct impact on performance in customer satisfaction.**

Results from the field experiment to test service staff behaviour change through incentive rewards have proved resoundingly positive (refer to Figure 23). The monthly incentive

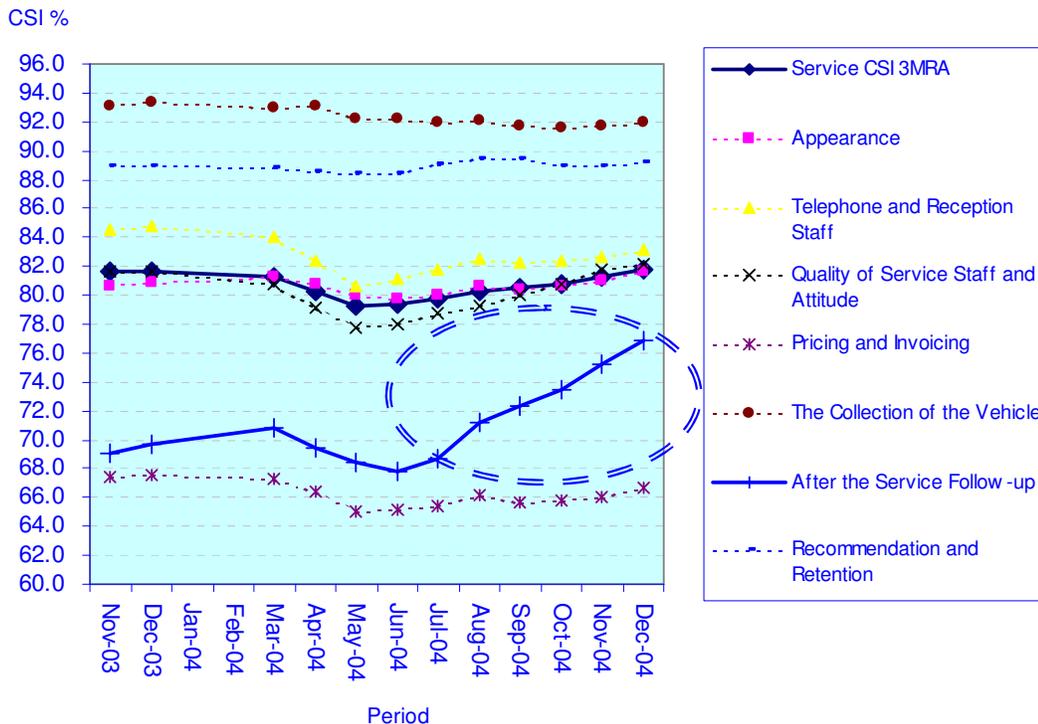
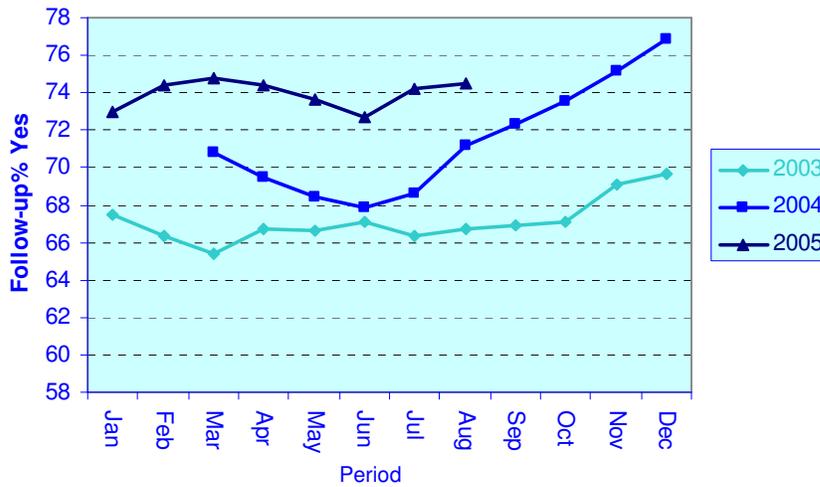


Figure 23: Reward Change Behaviour

offered resulted in a consistent improvement in the three-month-rolling-average customer follow-up from June 2004 to December 2004. The customer satisfaction measure for

customer post-service follow-up increased from May 2004 at 68.4% three-month-rolling-



**Figure 24:** "Program to Culture" - Impact of reward changes behaviour

average to 76.9% in December 2004. It was also evident that a consistent improvement for the same period was observed for overall customer satisfaction. Customer follow-up also demonstrated a significant increase over the field experiment period versus the other customer satisfaction questions. With this result and evidence from the field experiment it is clear that service staff behaviour changed through reward and recognition, which had a direct impact on customer service satisfaction.

Figure 24 provides a timeline comparison (January 2003 up to August 2005) of the CSI result for post service customer follow-up. Of significance is the time period June 2004 to December 2004 - when the field experiment of the incentive programme was conducted - where a considerable increase in customer rating is noted. What is also of major significance is the period January 2005 to August 2005 where no incentives were offered and the average customer rating for customer follow-up settled around 74%, which is

considerably higher than the same time period the previous years. It is reasonable to deduct that service staff behaviour patterns - the function of doing customer follow-up - has changed positively. This emphasises the notion of using reward (changing the environment through changing process and systems) to change human behaviour. The researcher also dubbed this approach "Program to Culture" that is changing behaviour through using programmes (changing the environment) to change culture behaviour, instilling new ways of doing things.

**Result testing: Hypothesis 2: Technically skilled and qualified peoples are more likely to change jobs than non-technically skilled people.**

The field survey result founded that non-qualified people are more likely to defect than

	Respondents	Better Money	Finish Studies	Promote	Something Better	Other	Total that will leave	Won't Leave	Sample Size
Service Manager	54	27.8%	0.0%	16.7%	16.7%	3.7%	64.8%	35.2%	44%
Advisor	97	34.0%	1.0%	21.6%	6.2%	6.2%	69.1%	30.9%	44%
Foreman	30	46.7%	0.0%	13.3%	6.7%	6.7%	73.3%	26.7%	24%
Technician	154	39.6%	0.6%	11.7%	9.1%	10.4%	71.4%	28.6%	37%
Receptionist	36	61.1%	0.0%	16.7%	8.3%	2.8%	88.9%	11.1%	29%
Test Total	371	39.1%	0.5%	15.6%	9.2%	7.3%	71.7%	28.3%	37%

**Table 2:** Reasons for Defecting

qualified staff. 88.9% of service receptionists (who are usually not well qualified) indicated that they would most likely leave of whom 61.1% specify that it would be for more money (refer to Table 2). While the converse of the hypothesis was proved, it is still significant that from the 37% sample 71.7% of all service staff are likely to defect from the organisation, which correlates with other research work as discussed in the literature review.

Money is the most important reason for staff defection. Technically qualified staff - Foremen and Technicians - respectively shows a 73.3% and 71.4% likeliness of defection. Hypothesis 2 can be qualified as partially true (leave for more money) if Foremen and Technicians are compared with Service Advisors and Service Managers. Staff defection deserves further

study as the reasons why some staff will not leave need research by job category and demographics, which can be the subject of other research.

**Result testing: Hypothesis 3: High staff turnover has a significant negative effect on customer satisfaction outcomes.**

Customer satisfaction for those dealers who had staff turnover is significantly lower than those dealers who did not have staff defection over the same period (refer to Table 3).

Dealers who did not have staff defection had on average a customer satisfaction of 2% higher than dealers who had staff defection. Figure 25 portrays this significant correlation

	Nov-03	Dec-03	Mar-04	Apr-04	May-04	Jun-04	Jul-04	Aug-04	Sep-04	Oct-04	Avr
Number of Staff Defected	11	9	17	16	13	31	15	25	24	17	17.8
Defection CSI	81.3	81.3	80.6	80.1	79.3	79.2	79.4	79.3	79.8	80.0	80.0
No Defection CSI	82.3	82.6	82.8	82.3	81.6	80.9	81.0	81.7	82.4	82.7	82.0
CSI GAP	1.01	1.29	2.18	2.16	2.26	1.62	1.65	2.44	2.53	2.72	2.0

**Table 3:** Staff Defection over the period November 2003 to October 2004 and the importance of staff retention in maintaining customer satisfaction.

Another aim of this research was to determine if there exists a relationship between the number of staff defected and the CSI gap (the difference between dealers CSI with staff defection and the CSI for dealers who had no staff defection).

From Figure 26 the linear lines of the CSI gap and the number of staff show a positive correlation. The actual staff turnover for the year was 20% of total service staff employed. It also appears that the space between the two lines increases as staff defection increases, which imply that the risk of customer dissatisfaction increases more quickly as staff defection increases.

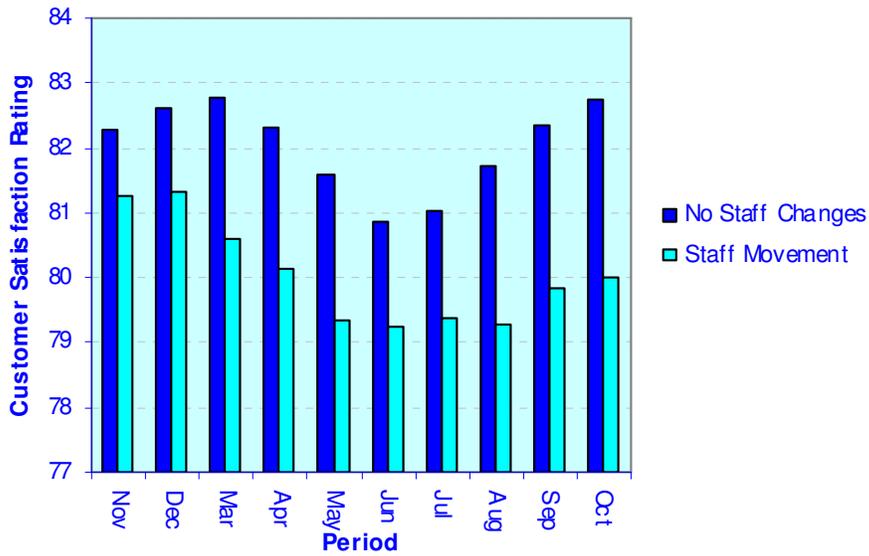


Figure 25: The Gap between dealers with staff defection vs. dealers without staff defection

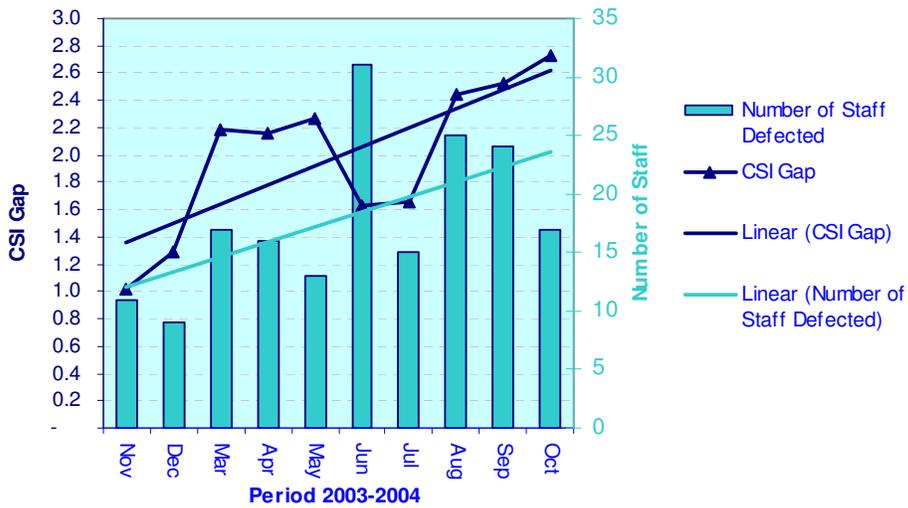


Figure 26: Positive correlation with CSI gap and staff defection

This research finding is of major significance due to the lack of other available empirical research evidence on the correlation between staff defection and the impact on customer satisfaction.

**Result testing: Hypothesis 4: Low customer satisfaction leads to low profitability.**

The numbers in Table 4 indicate normal distribution (bell curve) between the PBT% values of -1.6% and 6.9%. 22.6% of the dealers were below 1% PBT% and 15.1% of the dealers were above 4% PBT%, with the bulk of the dealers (62.4%) between 1% and 4% PBT%. Information obtained from the research (Appendix 6) and plotted (refer to Figure 27) proof

PBT% Bin Ranges	PBT	CSI	Dealer Count
<0	-1.6%	82.9%	6
>=0<1	0.7%	83.5%	15
>=1<2	1.5%	84.0%	22
>=2<3	2.4%	84.5%	26
>=3<4	3.5%	87.5%	10
>=4<5	4.3%	84.4%	4
>=5	6.9%	82.8%	10
Count Average	2.5%	84.2%	93

Table 4: PBT% vs. CSI%

that there exists a strong positive correlation between profitability and customer satisfaction.

The sample test size was 75.6% and constituted 93 out of 123 dealers.

This correlation, however, reaches an influx point where CSI peaks at approximately 87.5% and from that point diminishes as profit increases. This phenomenon at the influx point can be argued as dealers profiteering, which enrages or dissatisfies the customers.

It is expected that dealers who profiteer will eventually disillusion customers and they will defect. Dealers' costs will increase (to gain new customers) and the curve will turn on itself as profit diminishes.

The linear line in Figure 27 indicates a positive correlation between profits and customer satisfaction.

This research finding strongly supports the hypothesis of the direct correlation between profit and customer satisfaction, until a point where profiteering becomes evident, upon which customer satisfaction deteriorates.

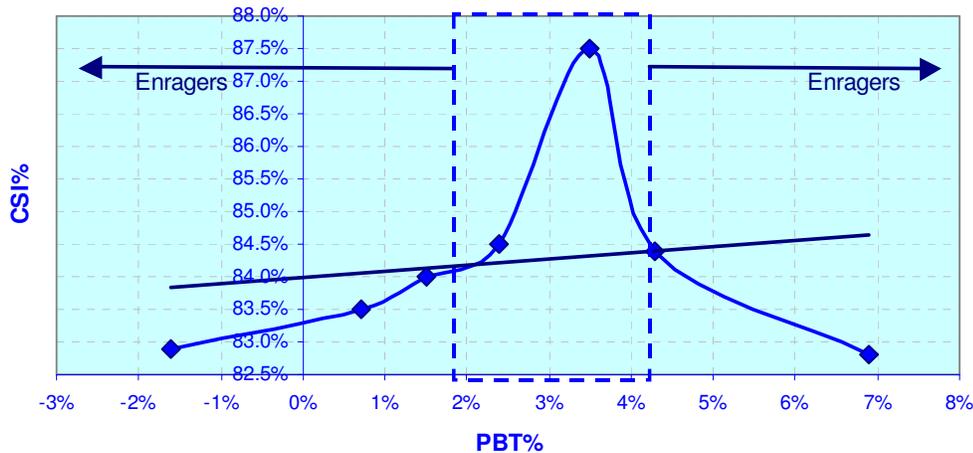


Figure 27: Correlation between PBT% and CSI%

**Result testing: Hypothesis 5: Flowing from hypothesis 1 to 4 there exists a direct correlation between organisation culture (through reward), staff satisfaction (through defection), customer satisfaction and profitability.**

Hypotheses 1, 3, and 4 tested positive and hypothesis 2 proved partially correct. It is then through reasonable deduction that:

- staff reward and recognition influence organisational behaviour and culture;
- staff defection has a high impact on customer satisfaction;
- customer satisfaction is directly correlated with organisation profitability.

This surmises hypothesis 5 and proves the Service Value Chain concept, noting that the environmental influences are discounted.

## **CHAPTER 7: DISCUSSION, RECOMMENDATION AND CONCLUSION**

The fundamentals of the Service Value Chain have been empirically tested in this research. The remainder of this study focuses briefly on the managerial implications of this research.

### **7.1 DISCUSSION AND RECOMMENDATIONS**

Organisational success in service industries is highly dependent on the employee deliverable processes. From the research results, it is evident that much of service organisation success depends on how service staff are managed.

From this research it is evident that employees and their behaviour are the key to customer satisfaction outcomes. Successful transition to a customer-centric focused organisation requires certain processes or actions.

- Leadership must be from the top to enact strategy and to direct change.
- Structure and process re-engineering (change the environment - process and structure) is the foundation to change the employees orientation to customer service.
- Have a process for every customer touch-point.
- Make customer service a way of doing business – create a culture.
- Focus on single elements for improvement.
- Consistently measure.
- Constantly review performance.
- Recognise that people are the core drivers.
- Make the entire organisation customer-centric.

- Remember that tangible evidence is what will remain in the customer's mind as the experience with the organisation.
- Manage the “servicing” organisation as a singular business entity and do not operate as a dealership.
- Empower employees to enact in the interest of the organisations’ long-term success.
- Training and accreditation should focus on long-term outcome objectives and must be factually measured – this is, behaviour change as a training outcome must be evident in business results.
- Reward and recognise performance outcomes on a broad spectrum based on the results of the input drivers (according to above points).

Current reward and recognition models are generally one-dimensional as they measure outcomes regardless of the input drivers. This implies that the performance outcomes may occur randomly with little or no real input activity to obtain the results. It is also fair to deduce that one-dimensional performance measurements have the potential to be manipulated. It forces people to operate in chimneys to achieve singular rather than organisational goals (breakdown team work) and may be unfair in the distribution of compensation. These issues may lead to employee dissatisfaction and eventually defection.

The researcher proposes an alternative methodology (which is subject to further research) of reward and recognition, which facilitates and recognises the input drivers, the output results and the value of employees in a multi-dimensional variable format. This reward system values the employee in a broad spectrum of inputs and outputs and in a simplistic way (schematically) measures the size of the area (value contribution) for employees A through D

as depicted in Figure 28. Note that the four legs depicted in the figure is for illustrative purpose only and may consist of any other variables, which may be important to the organisation and does not necessarily have to consist of four legs.

The value of the multi-dimensional approach proposal is in the capability of determining the true value of employees across various organisational departments. Once this is achieved

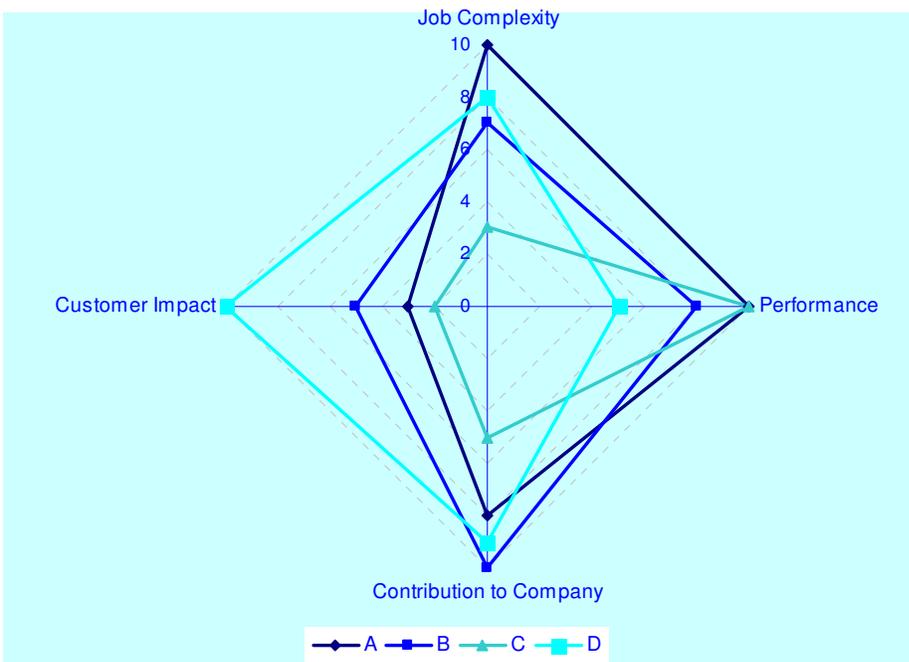


Figure 28: Employee value: A proposed multi-dimensional approach to a reward and recognition system

the reward and recognition can be applied appropriately, which may ensure staff retention, improvement in customer satisfaction and enhanced profitability.

## 7.2 CONCLUSION

The service value chain is an interlinking process with all its elements interdependent. The core success however revolves around the employees' deliverables (refer to Figure 29).

Much is yet to be learned from the service delivery and customer expectations. Most organisations have not yet made the fundamental shift towards becoming a truly customer orientated organisation.

Change is most likely to succeed through people adapting to new ways of doing business. For a customer servicing organisation, this adaptation is most successful through changing the internal operating environment to a customer-centric focus structure. The challenge for service organisations is to convert Programmes to Cultures - a way of doing business.

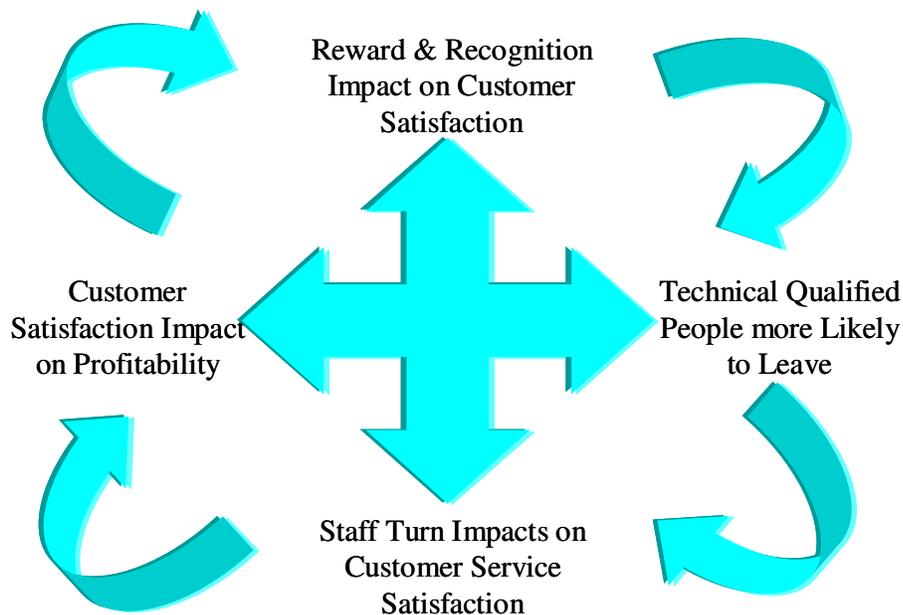


Figure 29: The implicit link between employee satisfaction, customer satisfaction and organisation profit

One area that is worthwhile exploring to change dealer organisation behaviour is for dealerships to discard the old concept of "Dealership" with its various independent functions of vehicles sales, service, parts, and used cars, and replace this with the concept of a business as a single entity serving customers for long-term viability. This encourages the idea to convert the organisation structure away from a "dealership mentality" towards a

"business mentality" with a singular view and a customer-centric approach to service delivery.

It is then concluded that service employees - above systems and process - are the nuclei driver of service organisations business success.

## 8CHAPTER 8: ARTICLE

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*An insightful view of Customer Satisfaction and the roles of Employees as the nuclei drivers of the organisation's ability to deliver customer service.*

# Customer Satisfaction and Profitability: Employees – the "Fortuitous Agents" of Business Success or Failure

Probably the most researched topics of business and business process outcomes are the genres of quality dimensions. While much of these research focuses on individual segments of the quality drivers and the impact on customer satisfaction, very little information and empirical evidence is available on the role of frontline service staff and how they influence customer satisfaction and profitability through the quality of their service delivery process.

The lack of factual knowledge of the influential role that service employees play in

the service delivery process adds to the difficulty in managing service business.

Topical research in the motor service industry revealed empirical evidence, which supports the notion that there exists a definite link between employee recognition, satisfaction and retention with customer satisfaction

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*"Nuclei Drivers of Success in Customer Satisfaction"*



and business profitability.

Changing human behaviour to act in a certain way is difficult, especially if it is to do with something they have religiously been doing the same way over a long period. This added to the institutionalised culture of the organisation and the industry would make behaviour change a virtual impossibility.

### Reward and recognise your service employees to improve customer satisfaction

If one cannot change peoples behaviour then one must change their environment, which will force the people to adjust to the new playing field and game plan.

Employees who do not want to adjust will feel uncomfortable. They will become unhappy and eventually leave. The risk of this approach is in the interim where the non-conforming (to change) employees may impact on customer service delivery.

Environmental changes in the organisation can take many forms such as:

- organisational structure changes;
- reward and recognition policy changes;

- changes in policy and procedures;
- upgrade in work flow;
- redefining job and work descriptions;
- deployment of new systems and processes.

A successful way to influence behaviour changes rapidly is through the reward and recognising policy. By offering incentives to improve customer satisfaction, service employees overcome some of the inherent risk associated with aspects such as systems learning and adaptability issues that may develop pertaining to the other environmental change options mentioned.

Besides the elements of risk of the other environmental options, the reward and recognition option linked to customer satisfaction is directly related to employees' interaction with customers over which the service employee has direct control and poses the least risk for staff leaving.

### Understand the reasons why staff defect and do something about it.

Various studies have been conducted on staff defection and consistently the results conclude that more than 70% of staff across industries have little or no loyalty to the

organisation. This implies that these employees are at high risk of leaving their organisations.

It is also a popular belief that service staff defection impacts on customer service due to the loss of the bond relationship between employees and customers. New employees will need to kindle new relationships with customers, where trust can only be built through long relationship and interaction.

The most quoted reason for leaving is reward and recognition (pay). Common reasons for staff defection obtained from research are listed in the table below:

Reasons cited for leaving	%
Dissatisfaction with pay	58%
Dissatisfaction with management	48%
Inadequate promotional opportunities	48%
Inadequate opportunity for career related skills development	44%
Dissatisfaction with benefits	37%
Uncomfortable work environment	24%
Conflict with managers / co-workers	23%

While the risk of losing technically competent employees is high from a business impact

perspective, there is also the risk of losing the customer relations skills from the soft skills of the frontline staff, which is more difficult to measure.

### Recognise the effect of staff defection on cost and customer satisfaction.

When experienced staff leave it becomes increasingly difficult to deliver consistently high customer service. It is also true that new appointees incur cost and time to adjust to the internal organisational environment and that their contribution towards organisational goals will most probably be less than that of the existing employees. Justifiable elements of importance to articulate this cost are embedded in:

- actual replacement cost associated with recruitment;
- first needs to first learn the corporate culture;
- training needs in business processes;
- time cost to build an affiliation with customers.

The combination of lost customer satisfaction and incurred recruited employee

cost is a double-edge sword on organisational profitability.

## Interconnectivity between customer satisfaction and profitability

Customers are said to vote with their feet. If a customer's perceive service experience is lower than their expected service they will be dissatisfied and most probably look for alternative service providers. This customer defection will impact on profitability, not only due to potential future lost business but also the costs associated with gaining new customers. From this it is fair to construe that customer satisfaction impacts on organisational profitability. The deduction can thus be made that customer satisfaction is directly correlated with organisation profitability. This positive correlation between customer satisfaction and profitability do, however, reach a turning point when customers perceive that the serving organisation is profiteering. When customers assume profiteering they will become dissatisfied and look for alternative service providers. As customers become more detached from the organisation, they will defect and cost will set in for the

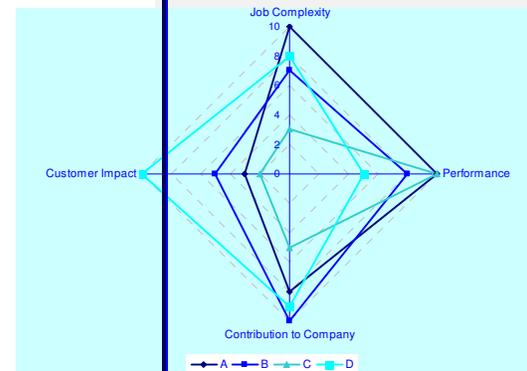
organisation in the form of lost potential business of the defecting customers and the cost of acquiring new customers.

## Linking it all – What should be focused on?

Research found conclusive evidence that the key source of organisation success is in the way that human resources capital is mustered and managed to obtain long-term organisation viability. There exists a virtuous

link between employee behaviour (quality delivery and employee retention), customer satisfaction and profitability.

Organisational behaviour and culture change require a change in processes, structures and policy, which will force people to adjust to the new way of doing business and serving customers, or alternatively if they do not adjust to leave the organisation. This alludes to the notion that organisational



leaders should lead the organisational behaviour change.

Reward and recognition are potential tools to changing organisational behaviour.

Organisational reward and recognition systems however tend to be one dimensional in the sense that they recognise business outcomes (results) and ignore the input drivers (behaviours) that generate these results. Such an approach is fundamentally flawed, in that market bullishness may result in positive business outcomes without any organisational behaviour changes. This implies that the downturn of favourable market conditions will also see a similar impact on business results. A narrow dimensional reward approach forces people to operate in chimneys, focusing on their own key performance outputs to the detriment and potential risk of breaking down teamwork and elevating their personal objectives above organisational (holistic) objectives.

A multidimensional approach of reward and recognition should be adopted whereby the value of employees is measured through areas of contribution, input efforts, output results and complexity of job.

Such a multidimensional performance recognition approach would determine the truer value of an employee by measuring the area (size) of the variable attributes, and recognising behaviours aligned with the objectives of the organisation.

Organisational behaviour change towards a customer centric organisation requires a structural approach, which should cover at least the elements in this list.

- Leadership from the top must enact strategy and direct change.
- Structure and process re-engineering (change the environment - process and structure) is the foundation to change the employees orientation to customer service.
- Have a process for every customer touch point.
- Make customer service a way of doing business – create a culture.
- Focus on single elements for improvement.
- Consistently measure.
- Constantly review performance.
- Recognise that people are the core drivers.

- Make the entire organisation customer-centric.
- Remember that tangible evidence is what will remain in the customer's mind as the experience with the organisation.
- Manage the “servicing” organisation as a singular business entity and not as functional entities.
- Empower employees to act in the interest of the long-term success of the organisation.
- Training and accreditation should focus on long-term outcome objectives and must be factually measured – this is, behaviour change as a training outcome must be evident in business results.
- Reward and recognise performance on a broad spectrum, which should include results (outcomes) and efforts (inputs) according to above points.

## CHAPTER 9: TERMS AND DEFINITIONS

CCSI	The Competitive Customer Satisfaction Index is used to compare OEM's CSI's.
Chaos Theory	From a business perspective it implies that environmental influence continuously create chaos in organisations which consistently strive to create order.
CSI	The Customer Satisfaction Index describes the rating customers bestow regarding vehicle serviced and purchased.
CSO	Customer Service Operation is responsible for the maintenance (Parts & Service) of customers after vehicle sales.
FLE	Front Line Service Employees.
OCB	Organisational Citizenship Behaviours (OCB) are work related activities performed by employees beyond the scope of job descriptions, contractual sanctions and incentives, which improves organisational efficiencies.
OEM	Original Equipment Manufacturer is a termed used for describing Vehicle Brand Manufacturers and Importers.
PBT%	Profit Before Tax Percentage.
SERVQUAL	Service Quality Model.
TQM	Total Quality Management Model.
TSQ	Total Service Quality Model.

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## 10 CHAPTER 11: APPENDICES

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### APPENDIX 1: CUSTOMER SATISFACTION RESEARCH SURVEY (CSI)

Question	Description	Weight	Scale
<b>1</b>	<b>APPEARANCE</b>		
	The cleanliness and neatness of the service reception area	4.9	Likert
<b>2</b>	<b>TELEPHONE AND RECEPTION STAFF</b>		
	The competence and courtesy of the reception staff	3.2	Likert
	The ease with which you were able to schedule your appointment	3.2	Likert
	IF FAIR OR POOR No. of Respondents		
	1.1 When making the appointment		
	1.2 When checking in your vehicle		
<b>3</b>	<b>QUALITY OF SERVICE STAFF AND ATTITUDE</b>		
	The assurance that your vehicle was in good hands	10.4	Likert
	The interest shown in you as a customer	9.4	Likert
	Was the work completed correctly the first time?	9.4	Likert
	IF NO, WHY NOT? No. of Respondents		
	3.1 Parts availability		
	3.2.1 Mechanical		
	3.2.2 Electrical		
	3.2.3 Paint		
	3.3 Other		
	Were you informed, in advance, of any extra work, costs or service delays?	8.8	Likert
	The explanation of the work done and the costs incurred	9.7	Likert
<b>4</b>	<b>PRICING AND INVOICING</b>		
	Bearing in mind the entire service experience, the extent to which the costs was fair	9.1	Likert
<b>5</b>	<b>THE COLLECTION OF THE VEHICLE</b>		

	Was your vehicle ready at the promised time?	9.3	Yes/NO/NA
	Was your vehicle clean after the service?	8.5	Yes/NO/NA
<b>6</b>	<b>AFTER THE SERVICE</b>		
	After the service, did you receive a follow-up contact from the dealership to determine your satisfaction	4.1	Yes/NO/NA
<b>7</b>	<b>RECOMMENDATION AND RETENTION</b>		
	Would you recommend the SERVICE CENTRE to a friend?	5.0	Yes/Maybe/No
	Would you service at this SERVICE CENTRE again?	5.0	Yes/Maybe/No
	Total weight	100	

Likert scale used:

Excellent = 100%

Good = 66.7%

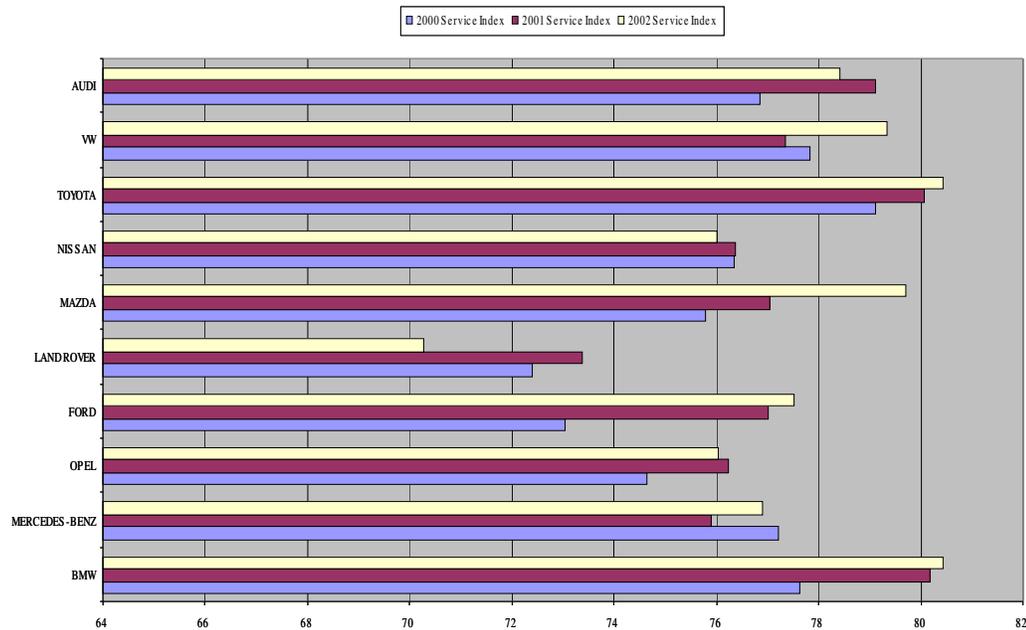
Fair = 33.3%

Poor = 0%

N/A was excluded from the score.

## APPENDIX 2: SAMPLE RESULT OF THE COMPETITIVE CUSTOMER SATISFACTION

### INDEX (CCSI)



Notably, only Toyota, **Mazda**, **Ford**, & **BMW** improved consistently in the service index. However, only Toyota & BMW broke through the psychological barrier of 80, as far back as 2001.

Source: Ford Motor Company CCSI Data 2004

**APPENDIX 3: INCENTIVE REWARD CHALLENGE (PRIMARY DATA – FIELD  
EXPERIMENT)**



BULLETIN NO. CSO

14 October 2004

**TO:** Dealer Principal, Service Manager and Service Follow-up Person  
**DEPARTMENT:** Aftersales  
**SUBJECT:** Customer Follow-up incentive

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The After Sales Team at CSO has done it again. We've managed to secure the continuation of the highly successful June to August 2004 "Vouchers for Follow-up" program.

The Follow-up person in the Dealership will receive a R500.00 "Pick&Pay" voucher (per month), if the person manages to achieve a stand-alone follow-up score in excess of 85%.

The program will run for October, November and December 2004. Stand-alone results will determine the success for the Follow-up person. If the stand-alone score for any one of the above-mentioned months is 85% or more, your After Sales Business Manager (ABM) will award the Follow-up person with a R500.00 shopping voucher.

For any queries please contact your ABM.

We would like to congratulate all staff in your dealership on behalf of Ford for an excellent commitment towards customer satisfaction.

**Nicho Le Roux, Adriaan Coetzee & Dave Beck**

Aftersales Management

Ford Customer Service Operation

**APPENDIX 4: DEFLECTION SURVEY (PRIMARY DATA – RESEARCH SURVEY)**



September 14, 2004

TO: The Service Manager:  
 Fax:  
 SUBJECT: Staff Table

Dear,

We are conducting an in-house research on Dealer Service Department staff to establish the portfolio structure of the Dealers Service Departments. The information obtained from the research is to determine how we can best structure our support programs such as training, promotions and incentives to ultimately enhance our collective business.

The results of this research together with other market intelligence will be shared during the 2005 Merit Club conference.

Please accurately complete the two tables below. Your participation and accuracy is of cardinal importance to ensure the outcome is representative of true picture.

Dealer Code:  Dealer Name:

Dealer Town:

Number of Staff Turnover the Past 12 Months for November 2003 to October 2004													
	Nov 2003	Dec 2003	Jan 2004	Feb 2004	Mar 2004	Apr 2004	May 2004	Jun 2004	Jul 2004	Aug 2004	Sep 2004	Oct 2004	Total
Service Manager													
Service Advisor													
Service Foreman													
Service Technician													
Service Receptionist													
Total													

Staff Title Description	Regular Number of Service Staff Employed
Service Manager	

Service Advisor	
Service Forman	
Service Technicians	
Service Receptionist	
Total	

Please return Fax this information to fax number 012 842 2456 by 12h00 Friday November 18, 2004.

Regards  
Nicho Le Roux  
National Aftersales Manager

**APPENDIX 5: SERVICE STAFF DEMOGRAPHICS (PRIMARY DATA – RESEARCH SURVEY)**

**Research on Dealer Service Staff**

**Section A – Demographics**

Dealership

Town

Sex  Female  
 Male

Age

Race  Black  Coloured  Indian  White  Other

*Tick correct box.  
Information  
used for  
statistical  
purposes only.*

**Section B – Detail**

*Please tick the most appropriate box.*

<b>1. What is your highest qualification?</b>	Less than Matric	<input type="checkbox"/>
	Matric	<input type="checkbox"/>
	Diploma	<input type="checkbox"/>
	Degree	<input type="checkbox"/>
	Higher Diploma	<input type="checkbox"/>
	Post Degree	<input type="checkbox"/>
	N1T1	<input type="checkbox"/>
	N2T2	<input type="checkbox"/>
	N3T3	<input type="checkbox"/>
	N4T4	<input type="checkbox"/>
	N5T5	<input type="checkbox"/>
	N6T6	<input type="checkbox"/>

<b>2. Which of the following describes your position best?</b>	Service Manager	<input type="checkbox"/>
	Service Advisor	<input type="checkbox"/>
	Service Foreman	<input type="checkbox"/>
	Service Technician	<input type="checkbox"/>
	Service Receptionist	<input type="checkbox"/>
	Follow-up Admin	<input type="checkbox"/>

<b>3. How long have you been employed in this position?</b>	< 2 Months	
	>=2 Mnths < 4 Mnths	
	>=4 Mnths < 6 Mnths	
	>= 6 Mnths < 12 Mnths	
	>=12 Mnths < 18 Mnths	
	>= 18 Mnths < 2 Years	
	>=2 Years < 3 Years	
	>=3 Years < 4 Years	
	>= 4 Years < 5 Years	
	>= 5 Years < 6 Years	
	>= 6 Years < 10 Years	
	>= 10 Years	

<b>4. How long have you been employed at this dealer?</b>	< 2 Months	
	>=2 Mnths < 4 Mnths	
	>=4 Mnths < 6 Mnths	
	>= 6 Mnths < 12 Mnths	
	>=12 Mnths < 18 Mnths	
	>= 18 Mnths < 2 Years	
	>=2 Years < 3 Years	
	>=3 Years < 4 Years	
	>= 4 Years < 5 Years	
	>= 5 Years < 6 Years	
	>= 6 Years < 10 Years	
	>= 10 Years	

<b>5. Is one of your functions to do post service follow-up?</b>	Yes	
	No	
	Unsure	

<b>6. Which of the following is the basis of you income?</b> (It can be more than one)	Monthly Salary	
	Weekly Wage	
	Hourly	
	Bonus	
	Commission	
	Profit Share	

<b>7. If you earn other income – on what is it based?</b> (Other than Salary or Wages)	Gross Profit	
	Revenue	
	CSI	
	Nr. of Jobs done	
	Labour Sales	
	Other	

↓

**Specify Other:**

<b>8. What are your total gross earnings per month?</b> (Salary & Wages [point 6] plus Other Income [point 7])	< R3,000	
	>= R3,000 < R4,000	
	>= R4,000 < R5,000	
	>= R5,000 < R6,000	
	>= R6,000 < R7,000	
	>= R7,000 < R8,000	
	>= R8,000 < R10,000	
	>= R10,000 < R12,000	
	>= R12,000 < R15,000	
	>= R15,000 < R20,000	
	>= R20,000 < R25,000	
	>= R25,000	

<b>9. What best describes why you work for this dealership?</b>	Earn an Income	<input type="checkbox"/>
	It's a Job	<input type="checkbox"/>
	Family connections	<input type="checkbox"/>
	Career	<input type="checkbox"/>
	Self-fulfilment	<input type="checkbox"/>

<b>10. I will leave the dealership or current job when:</b>	Better money offer	<input type="checkbox"/>
	I am promoted	<input type="checkbox"/>
	I never plan to leave until I retire	<input type="checkbox"/>
	I finished my studies	<input type="checkbox"/>
	I find something better (not money)	<input type="checkbox"/>

↓

**Specify "something better":**

**Questions 11 and 12 to be completed by the Service Manager only**

**11. Please provide the numbers as accurate as possible for the following:**

1. How many service people are employed by the dealership?	
2. How many service people left the dealership the past 12 months	
3. Of those people that left, how many were Service Technicians	

**12. Do you have a discretionary budget to use for customer satisfaction?**

	No	
	Yes	
If Yes, how much per month?		

**Section C – Your views**

Element/View	Strongly Agree	Agree	Neither Agree nor Disagree	Dis-agree	Strongly Disagree
1. I know what our Dealer Service CSI score is					
2. Most of the people within the Service department knows our CSI score					
3. Our manager informs us on a monthly basis what our CSI performance is					
4. We have a formal meeting at least once a month to discuss CSI					
5. CSI results are regularly updated on a visible board for all to see					
6. We have a backup plan to maintain CSI if someone falls ill or leaves the dealership					
7. I know my exact role and the impact of my job activity on our CSI					
8. Our Dealer Principal is actively involved with our Service Departments CSI					
9. We perform better with CSI results if it is linked to an incentive					
10. Customer satisfaction is Job 1 in our Dealership					
11. We have an active action plan to improve on our CSI performance					
12. Customer Satisfaction is the highest priority in our daily activity					
13. Customer Satisfaction is a flavour of the moment and it will disappear going forward					
14. Profit Margin is more important for our Dealer than Customer Satisfaction Improvement					
15. Our rating of the Service CSI score is Higher than our Sales CSI score					
16. I am happy in my current job					
17. We serve our customers well					
18. Our labour cost is competitive					
19. We work together to serve the customer better					
20. Our remuneration scheme is fair					
21. We receive adequate training to do our jobs					

22. Training forms an important role in our work					
23. I can apply what I learned in training					
24. Everybody is in it for themselves					

***Thank you for your participation.***

## APPENDIX 6: DEALER PBT% AND CSI% TABLE (SECONDARY DATA)

Dealer PBT% to CSI% Data Jan - Dec 2004

Dealer No.	YTD CSI%	YTD PBT%
1	87.0%	2.0%
2	84.7%	1.7%
3	89.0%	4.0%
4	84.7%	1.8%
5	80.7%	1.3%
6	88.1%	3.8%
7	82.8%	0.8%
8	80.4%	-0.1%
9	86.3%	1.5%
10	84.8%	1.2%
11	80.8%	1.9%
12	79.7%	-3.0%
13	83.0%	2.8%
14	78.4%	2.5%
15	81.0%	5.2%
16	90.5%	3.4%
17	84.3%	2.1%
18	86.5%	3.3%
19	82.8%	0.1%
20	87.2%	1.2%
21	80.0%	2.4%
22	86.2%	2.2%
23	83.2%	1.0%
24	79.1%	5.1%
25	91.2%	2.6%
26	81.8%	0.9%
27	91.2%	2.0%
28	85.5%	5.9%
29	82.3%	6.1%
30	84.6%	3.7%

Dealer No.	YTD CSI%	YTD PBT%
31	88.8%	3.6%
32	84.0%	2.0%
33	83.2%	2.7%
34	82.1%	2.9%
35	88.0%	2.9%
36	82.1%	5.6%
37	85.2%	10.3%
38	87.0%	1.5%
39	79.5%	1.5%
40	82.7%	-2.7%
41	82.2%	2.8%
42	78.4%	2.2%
43	80.4%	0.8%
44	85.4%	0.3%
45	84.1%	2.3%
46	85.1%	2.1%
47	75.6%	4.0%
48	85.2%	1.5%
49	91.4%	3.4%
50	90.7%	3.6%
51	82.2%	1.4%
52	91.5%	2.2%
53	79.7%	2.9%
54	82.2%	1.8%
55	85.8%	0.9%
56	81.8%	0.8%
57	86.2%	1.1%
58	82.7%	0.4%
59	86.1%	3.8%
60	82.4%	-3.1%
61	81.4%	1.2%
62	86.5%	1.6%
63	86.0%	2.7%

Dealer No.	YTD CSI%	YTD PBT%
64	82.7%	1.6%
65	87.0%	-0.4%
66	89.3%	4.5%
67	86.7%	2.2%
68	83.8%	2.1%
69	90.1%	0.7%
70	83.0%	1.7%
71	83.5%	2.9%
72	83.2%	2.0%
73	87.3%	3.3%
74	82.3%	1.4%
75	81.9%	0.5%
76	83.8%	0.9%
77	83.7%	0.9%
78	81.2%	3.4%
79	87.4%	2.2%
80	89.0%	1.2%
81	82.7%	2.1%
82	83.9%	2.1%
83	84.9%	9.5%
84	84.5%	5.9%
85	83.3%	8.0%
86	82.8%	0.8%
87	83.0%	0.9%
88	85.6%	1.8%
89	84.4%	0.1%
90	81.5%	1.8%
91	79.8%	7.2%
92	85.0%	-0.4%
93	83.8%	4.5%