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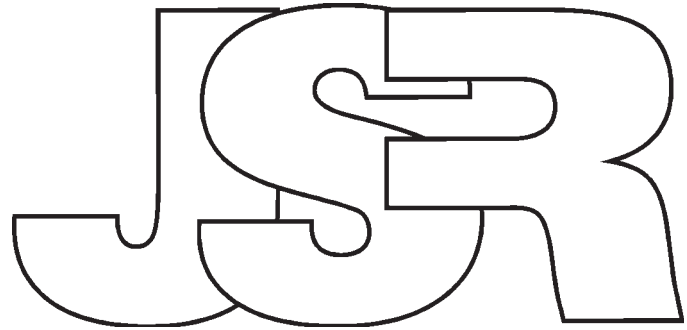
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JOURNAL OF SERVICE RESEARCH

Volume 4

Number 2

November 2001

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The Potential Hazard of Self-Service in Developing Customer Loyalty

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Recent developments in information technology imply that more service operations can now be transformed from expensive manual operations to low-cost automated self-service. Managers, however, are reluctant to replace personal service with self-service because of the potential negative consequence of self-service on social bonding and subsequent customer loyalty. In this article, the authors argue that the decision should be reframed as follows: "How can self-service be integrated with personal service?"

Executives in North America, Europe, and Asia expect automation of services with new technology to result in substantially lower levels of customer service costs (The Economist Intelligence Unit 1998). In addition, automated self-service is likely to increase service availability and thus provide customers with more flexibility in terms of when and where they want to be served. Despite the potential advantages with self-service, managers are reluctant because impersonal service may create more distance between the customer and the company, and thus reduce customer loyalty. Managers are also reluctant because they are uncertain to what degree self-service can match the level of relational benefits (e.g., customization) achieved through personal service. Thus, despite the potential advantages of automated self-service, managers question how self-service systems can secure and develop customer loyalty.

The reluctance seen among managers can to some extent be explained by the service literature. Personal service is viewed as the cornerstone of most service industries (e.g., Berry 1983; Grönroos 1983), and service encounters have also been positioned as being first and foremost social encounters (McCallum and Harrison 1985). When such interactions are of a repetitive nature, the customers usually receive several benefits. First, employees who interact with the same customer repeatedly are able to customize the service delivery to a larger extent, giving the customer a feeling of higher quality (Lovelock 1983). Second, customers may receive relational benefits beyond the core service itself, and Gwinner, Gremler, and Bitner (1998) argued that one example of such benefits are the social ones. As the personal interaction continues over time, social bonds are likely to develop between the employee and the customer (Bendapudi and Berry 1997; Price and Arnould 1999). For a number of service firms such bonds are important to gain customer loyalty, and the social aspects of a relationship are sometimes found to be even more important than occasional price breaks or special service (Gwinner, Gremler, and Bitner 1998). However, personal service is also a matter of costs, and the driving force behind the introduction of a number of self-service systems has been standardization to reduce service production costs. Firms have focused on the advantage of lower costs, and self-service technologies have also been attractive and satisfying to customers. Due to increased availability (Lovelock 1983) and because these systems have been timesaving and easy to use (Meuter et al., 2000),

We greatly appreciate the helpful comments from Jan B. Heide, Tor W. Andreassen, and Håkan Håkansson. We are also grateful for the helpful comments given by the *JSR* editor and three anonymous reviewers.

self-service systems also receive more and more attention from customers. Hence, for a variety of reasons, both personal service and self-service are attractive to both firms and customers.

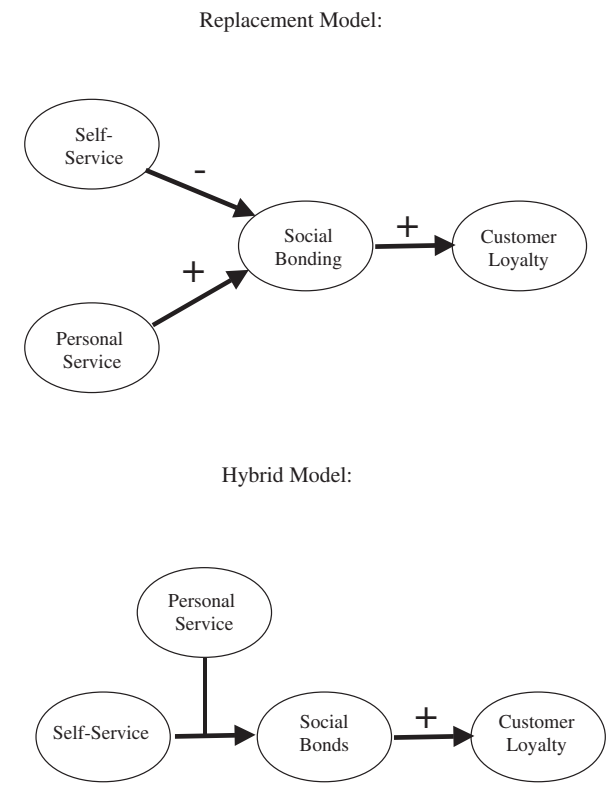
One potential risk faced by firms introducing self-service systems is reduced customer loyalty through weakened social bonds. However, as we will argue, transformation from personal service to self-service is not necessarily a change from a personal to an impersonal relationship but a change from personal service to a mix of personal and self-service. Lovelock (1983) suggested that a relationship can contain a mix of situations where there is personal interaction between customers and service employees and situations where the parties transact at arm's length. Gutek (1997) offered a typology of service interactions, where the difference between service encounters, pseudo relationships, and service relationships is the degree of repeated interactions between the customer, the firm, and the employee. At one extreme is the service encounter where a provider serves a customer only once, whereas the other extreme is the service relationship implying that the customer is served repeatedly by the same employee representing the same firm. In other words, the level of personal interaction will vary depending on the kind of customer-firm relationship. Following the arguments offered by Lovelock (1983) and Gutek (1997), there is also reason to believe that the level of personal interaction will be influenced by self-service systems. One important question is how a transformation from mainly personal service to a mode with a combination of (close) personal service and self-service (at arm's length) will affect social bonding and subsequent customer loyalty.

The purpose of our research is to develop a better theoretical understanding of the underlying processes in transforming customer interaction toward more automated self-service devices. The point of departure in developing a theoretical model is the social bonding mechanisms between a customer and a service worker, and we specifically ask what will happen to the personal relationship and to customer loyalty when the mode of interaction becomes more automated.

THEORETICAL MODEL

We will present two alternative theoretical models for how self-service affects social bonding and subsequent customer loyalty, as illustrated in Figure 1. In the *replacement* model, social bonds will erode to the degree self-service replaces personal service. In the *hybrid* model, the usage level of personal service moderates the effect of self-service on social bonds. We will first discuss the concept

FIGURE 1
Theoretical Models Linking Type of Service to Social Bonding and Customer Loyalty



of social bonds, before the two competing models will be outlined and related to service interactions.

Social Bonds

First, social bonds have been related to a sense of obligation between interacting individuals. This characteristic also applies to customer-firm relationships, and Price and Arnold (1999) found that both parties in commercial friendships perceived reciprocal gift giving as a general characteristic of their relationship. Thus, when a customer experiences some kind of friendly act from a sales person or another representative of a company, he or she is likely to feel obligated to return a favor of some kind. Such friendly acts are also identified by Gwinner, Gremler, and Bitner (1998), who reported statements from customers who received services free of charge because they were good customers. Such benefits are likely to create a sense of obligation to repay it. Hence, we suggest that one important aspect of social bonds is a sense of obligation toward the employee.

Second, social bonds have been related to the utilitarian value of personal relationships. For example, DiMaggio and Louch (1998) found that customers tend to trade with people they know when acquiring products associated with high levels of risk. Gwinner, Gremler, and Bitner (1998) found that the utilitarian value of a personal relationship was closely connected to positive experiences with the competence of the employee. Zeithaml (1981) argued that when customers develop personal relationships to service providers, this allows the latter to gain knowledge of the customers' taste and preferences, which enables better service. Hence, theory suggests that social bonds between customers and employees provide not only social benefits but also a utilitarian value to the customer.

The initiation and growth of social bonds are argued to be a function of, among other things, the number of interactions and emotional intensity (Granovetter 1973). This implies that a social tie develops as a cumulative function of the number of interactions in the relationship. Although not all interactions result in social bonds, communication at a more personal level between the customer and the employee is important for social bonds to progress. Selnes and Gronhaug (2000) found that experienced benevolence from a supplier representative creates positive affect and thus a liking of the other party. It is, therefore, reasonable to assume that social bonding is not only a function of frequency of interaction but also the likability of the employees involved in the interaction. In addition to these reasons, the speed of the socialization process will depend on other factors such as the equality of personalities and background, the nature of the service produced (e.g., hairdresser vs. physician), and so forth. However, the frequency of positive personal service experiences should by itself have a positive effect on the closeness between the customer and a frontline employee. When the frequency of satisfactory interactions increases, social bonds should become stronger, and vice versa.

Replacement Model

The line of reasoning in the replacement model is that reduced frequency of personal interaction due to more frequent usage of self-service will hamper already established bonds. Our point of departure is that social bonds exist at the time when transformation from less personal service to more self-service starts. We acknowledge that different types of services imply varying levels of personal contact (Bowen 1990), but we believe that, equivalent to the social benefits studied by Gwinner, Gremler, and Bitner (1998), social bonds will exist at varying levels across service typologies. The focal question is how these bonds will be affected by a transformation from personal

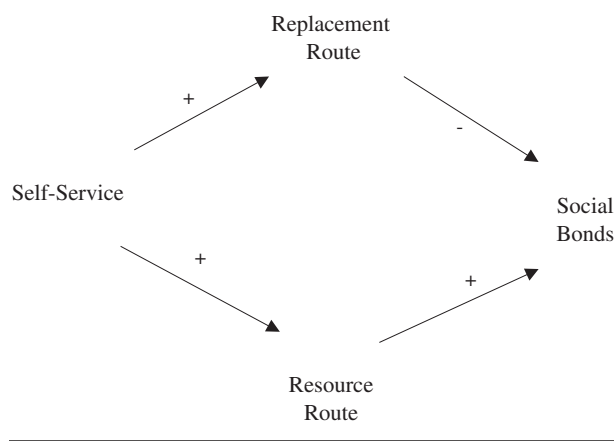
interaction to transactions through self-service devices at arm's length.

Because of several reasons, customers who employ self-service rather than personal service are likely to become less attached to the service personnel. First, the benevolent and friendly behaviors performed by employees are now experienced more sporadically because a number of services are obtained without interpersonal contact. The feelings of obligation toward the employee are grounded on repeated personal interactions, thus less use of personal service will reduce the presence of such feelings because they are cued less frequently. This, in turn, should weaken the social bonds. Second, a basic feature of most self-service technologies is that the customers are responsible for an extended part of the service production. Hence, the resource pool previously associated with the employee(s) will decrease in significance because a number of services can now be easily acquired without assistance. This will reduce the perceived utilitarian value of the service worker and thus also weaken the social bonds. In summary, as the customer replaces personal service with self-service, important bonding processes are removed, and it is thus reasonable to expect that high usage of self-service will gradually reduce social bonds as illustrated in Figure 1.

Hybrid Model

The rationale in the hybrid model is based on two parallel processes resulting from a transformation from less personal service to more self-service. We refer to these processes as the replacement route and the resource route. As illustrated in Figure 2, self-service will have a negative effect on social-bonds through the replacement route. The rationale for this effect is the same as in the replacement model. However, self-service will also have a positive effect on social bonds through the resource route. The rationale for this is that self-service removes simple operative services from the personal interaction, and the remaining personal interaction will be devoted to more demanding services. This will make the personal interactions more significant and thus have a stronger effect on social bonding. The net effect of self-service on a social bond will depend on the nature of the relationship between the customer and the firm. Lovelock (1983) suggested that service personnel interaction is either operative or consultative. Operative interaction is for the service employee repetitive in nature, whereas the consultative interaction requires a high degree of individual judgment. Operative procedures are well suited for automation and self-service solutions if a feasible technology is available, whereas advisory services are less suited for automation. It is the mix of service needs for operative assistance and consultative

FIGURE 2
The Two Processes
Operating in the Hybrid Model



assistance that will determine the effect of self-service on social bonding, and thus the need for personal service is expected to moderate the effect as illustrated in Figure 1.

When customers only need operative assistance, their relationship may be conceived as low in complexity. Spence and Brucks (1997) classified this as well-structured problem solving. Problems that are well structured are usually the result of prior experience in solving the problem, or the problem is being stated in such a way that a solution is transparent. They further argue that experts usually do not perform better than novices in this type of problem solving. In the context of services, this suggests that the value of personal assistance from employees is only marginal because customers have no need for such assistance if they are permitted to solve the problem themselves. When an ongoing relationship is low in complexity, the replacement route (in Figure 2) will dominate the effect of self-service on social bonds. The resource route will be close to zero, and thus the net effect of transformation is expected to be negative, which will gradually erode the established social bonds.

When customers need both operative and consultative assistance, their relationship is more complex. Personal interaction will be more important to these customers because the employee's expertise is needed to solve the less well structured problems (Spence and Brucks 1997). A social bond to a service employee will be an important resource to the customer and is activated when relevant problems arise. Furthermore, the more complex the relationship, the more important this resource will be. As simple, standardized tasks can be removed from the personal interaction through self-service, the remaining service needs will obtain higher levels of attention and thus be more significant to the personal relationship. Thus, in

complex relationships, the positive resource route (in Figure 2) is expected to be stronger than the negative replacement route, and thus the net effect of self-service on social bonds is expected to be positive.

In sum, the effect of self-service on social bonding is moderated by the need for personal assistance. When the customer relationship is simple due to inherent simplicity of product needs or the customer's expertise and experience, self-service will be the preferred mode of contact with the company because it is more efficient. At the other extreme, where the customer relationship is complex due to the complexity of product needs or the customer's lack of expertise or experience, personal relationships are important because they create value to the customer. In complex relationships, repetitive and simple problems are directed to self-service (if available), and the remaining personal service interaction is increasingly devoted to more complex (and more valuable) problem solving. The effect of self-service on social bonds is expected to be negative in simple relationships and positive in complex relationships.

Social Bonds and Customer Loyalty

Linking social bonding to customer loyalty is important because loyalty has become an accepted metric of business performance (Reichheld 1996). Customer loyalty is usually related to the customer's motivation to continue a relationship (e.g., Fornell 1992; Richins 1983), to talk favorably about the supplier (e.g., Blodgett, Granbois, and Walters 1993), or through a stronger commitment and motivation to expand the scope of the relationship (e.g., Morgan and Hunt 1994). Thus, customer loyalty is as an assessment of expected future customer behavior. Factors that drive customers loyalty have received wide attention in the literature, such as customer satisfaction (e.g., Yi 1990), idiosyncratic investments (e.g., Bendapudi and Berry 1997), and lack of relevant alternatives (e.g., Kumar, Hibbard, and Stern 1994). Although personal relationships have been identified as a potential driver of loyalty (Mittal and Lassar 1996), the empirical evidence is limited and thus a closer investigation is warranted.

Social network theory points out that a social tie between two people is embedded in a network of social relationships and that the network of relationships is likely to moderate their behavior (Granovetter 1973). A person does not only perceive a tie to the person to whom he or she is related (e.g., a friend, a spouse, a peer, etc.) but also to the network to which this other person is connected (e.g., group of friends, family, colleagues, etc.). This suggests that when a customer perceives an obligation toward an employee, this obligation is likely to carry over to the net-

work in which the relationship is embedded, that is, the company.

The idiosyncratic knowledge a customer and a service worker develop together can be perceived as an idiosyncratic resource and thus a switching cost toward other suppliers (e.g., Emerson 1962; Gutek 1997). For example, the trust a customer has developed in a specific person is not transferable to another supplier (Reynolds and Beatty 1999). Thus, when customers have developed idiosyncratic knowledge, this will motivate the customer to continue the relationship and commit oneself (Bendapudi and Berry 1997). Although through different mechanisms, both social network theory and economic theory suggest that personal relationships (social bonds) between customers and employees have a positive effect on customer loyalty.

METHOD

The data used to test the two models were collected in a telephone survey of personal banking customers. Half of the customers were selected from a population of Internet bank users, and half were selected from a population not using the Internet. This procedure, we believe, increased variation in our independent variables. From an electronic customer database, we were able to draw a random sample from each subpopulation. The selected customers were contacted by telephone and asked to participate. A total of 368 respondents agreed to participate in the study.

As the purpose of our research is to investigate the effect of self-service in relationships where the customer has a social bond to one or more of the employees, we needed to select them from the general sample of customers. To accomplish this, a procedure comparable with the one used by Gwinner, Gremler, and Bitner (1998) was applied. The respondents were asked to agree or disagree with the statement "I know one or more employees in the bank so well that I have a personal relationship with him/her or them!" Of the 368 respondents, 195 (53%) agreed with the statement. Thus, the sample used for testing the theoretical model consists of 195 persons with personal relationships to service workers, of which 93 (47.6%) used Internet for personal banking at least once a month. In addition to Internet, self-service devices employed in personal banking include use of automated teller machines, telephone banking, and postal payment service. Personal service includes both visits to a branch office and telephone calls to service workers. Thus, we expected respondents from both subpopulations to employ both self-service and personal service. As can be seen in Table 1, this was quite successful. For example, we see that 56.8% of the Internet bank sample is in personal contact with a frontline agent one to

TABLE 1
Use of Personal Service and Various Automated Service Devices (in percentages)

<i>Service</i>	<i>Internet Sample</i>	<i>No Internet Sample</i>	<i>Total Sample</i>
Personal ^a	56.8 ^b	60.8	60.0
Automated teller	91.3	79.5	84.1
Automated telephone	12.1	7.9	9.8
Postal payment	15.4	78.4	48.5
Internet bank	100	0	47.6

a. Includes both visits to a branch office and telephone calls to service workers.

b. Percentage of sample with frequency of use at least 1 to 3 times a month.

three times a month or more often. We also see that the no-Internet sample frequently employs other self-service devices, with 79.5% using automated teller machines, 7.9% using automated telephone systems, and 78.4% using postal payment services.

Development of Measures

The measures were developed based on a literature review and two focus groups. In addition to the marketing and service literature, the review also included social exchange theory. In the two focus groups, we addressed personal relationships customers have with service workers in banks, in particular to what degree they perceived any kind of commitment or loyalty at the interpersonal level. The questionnaire for the survey was developed and pretested. All measures used in the study are reported in the appendix.

Social bond (BOND). Social bonds were defined as a combination of the customer's perceived obligation toward the service worker and the perception of the service provider as a resource. Relationship obligation was defined as an expected obligation to return a favor to the service worker. This definition is consistent with the one used in Frenzen and Davis (1990). Building on the ideas presented by Roloff (1987) about the content of this obligation, we developed four items that reflect the degree of perceived obligation in a relationship between a customer and a specific frontline agent the customer has come to know. Relationship resource concerns the instrumental outcome the customer expects from knowing a service worker. The employee is a resource through which the customer can achieve goals outside the interpersonal relationship itself, consistent with the definition discussed in DiMaggio and Louch (1998). Four items reflecting such expectations were developed.

Self-service (SSER). Use of self-service was defined as the level of interaction between the customer and one or

more of the self-service devices. We asked how frequently the customer used automated tellers, an automated telephone, a mail service, and Internet. As the selection of the various self-service devices is often independent of each other, a formative scale is appropriate. For example, heavy usage of Internet does not imply any level of usage of teller machines. Thus, from the four questions, we developed a scale of self-service (SSER) as the sum of the four items.

Personal service (PSER). Use of personal service was defined as the level of personal interaction between the customer and a frontline agent. With personal interaction, we include both face-to-face and telephone interaction. The measure of frequency of personal service is not limited to interaction with familiar service workers but also includes interactions with other employees. The focus groups indicated that customers preferred to interact with a familiar service worker but that their choice could be constrained for practical reasons (e.g., the person they know was not present, was serving another customer, and so forth). As discussed above, the quality of a personal interaction will determine to what degree an interaction will develop into a personal relationship and subsequent bonding. A measure of satisfaction with the personal service interactions was therefore included and employed to weight the frequency of interaction. Thus, the personal service variable is the product of frequency of personal interaction and satisfaction with that interaction.

Customer loyalty (LOYL). Customer loyalty was defined as the motivation to continue the relationship, to talk favorably about the supplier, and to expand the relationship. We assessed customer loyalty as a composite of these three behavioral intentions (Zeithaml, Berry, and Parasuraman 1996). This is consistent with former empirical research related to relationship commitment and loyalty (e.g., Blodgett, Granbois, and Walters 1993; Kumar, Scheer, and Steenkamp 1995).

Other variables. In addition to testing the hypothesized model, we wanted to explore how our key variables are related to other relevant variables such as expertise, time pressure, and demographics. We added one question reflecting perceived knowledge of financial services, one question reflecting perceived knowledge of information technology, and one question addressing perceived time pressure. Demographics included were age and education.

To capture the four constructs in the hypothesized model, 13 items were used. Social bond includes 8 items (bond1-bond8), customer loyalty includes three items (loy11-loy13), and self-service and personal service are single-item scales (sser and pser). The means, standard deviations, skewness, and kurtosis of the items are reported in Table 2. The correlation matrix is reported in Table 3.

TABLE 2
Descriptive Statistics of Measured Items

Item	M	SD	Skewness	Kurtosis
bond1	5.5028	1.7595	-1.187	0.608
bond2	6.1730	1.1143	-1.277	1.041
bond3	5.6180	1.3819	-0.924	0.506
bond4	5.7391	1.2920	-0.901	0.512
bond5	6.3763	1.0797	-2.073	4.814
bond6	6.0595	1.1986	-1.054	0.318
bond7	6.1250	1.1691	-1.428	2.077
bond8	5.7901	1.3458	-1.090	0.910
loy11	3.8571	1.0188	-0.563	-0.155
loy12	4.0052	0.9655	-0.923	0.750
loy13	3.8632	0.9879	-0.687	0.206
sser	11.7068	2.6789	-0.381	0.808
pser	26.6211	10.8043	0.488	0.773

NOTE: Social bond (BOND) includes eight items (bond1-bond8), customer loyalty (LOYL) includes three items (loy11-loy13), and self-service and personal service are single-item (sser and pser, respectively) scales.

Reliability of the Social Bond (BOND) Scale was first assessed by principal component factor analysis. The eigenvalue of the first factor was 3.93, accounting for 49.2% of the variance. Eigenvalue of the second factor was substantially lower with a value of 1.07 and thus indicating a one-factor solution. All items loaded .41 (bond3) or higher. Coefficient alpha for the eight items was .84. The Social Bond Scale (BOND) is judged to be reliable, and scale value was composed as the sum of the eight item scores.

Reliability of the Loyalty Scale (LOYL) was assessed by the same procedure. Eigenvalue of the first factor was 2.10, accounting for 70.1% of the variance. Item loadings were .80, .88, and .83. Coefficient alpha for the loyalty scale was .79. Thus, the customer Loyalty Scale was judged to be reliable, and scale value was composed as the sum of the three item scores.

The four theoretical variables were correlated with other variables (product expertise, technological expertise, time pressure, age, and education) to assess nomological validity. In Table 4, we see that expertise, time pressure, and education have a positive relationship with usage of self-service. However, usage of personal service is more common among older people and less common among those who have good knowledge of information technology. Usage of personal service does not correlate significantly with usage of self-service, although the sign is in the expected direction. Furthermore, we observe that social bond (BOND) is negatively correlated with expertise, which indicates the role of a service worker as a competent resource. We also see, as expected, that social bond is not related to age or education. Customer loyalty is neither related to expertise, nor time pres-

TABLE 3
Pearson Correlation Matrix of Measured Items

Item	bond1	bond2	bond3	bond4	bond5	bond6	bond7	bond8	loyl1	loyl2	loyl3	sser	pser
bond1	1.00												
bond2	.47**	1.00											
bond3	.13	.26**	1.00										
bond4	.49**	.33**	.29**	1.00									
bond5	.34**	.58**	.25**	.19*	1.00								
bond6	.51**	.57**	.27**	.48**	.44**	1.00							
bond7	.35**	.58**	.26**	.27**	.61**	.58**	1.00						
bond8	.47**	.58**	.23**	.34**	.48**	.58**	.60**	1.00					
loyl1	.18*	.15*	.17*	.29**	.19*	.13	.16*	.22**	1.00				
loyl2	.18**	.16*	.13	.34**	.17*	.17*	.20**	.17*	.57**	1.00			
loyl3	.13	.12	-.01	.23**	.03	.13	.09	.14	.47**	.60**	1.00		
sser	-.11	-.07	-.09	-.08	.09	-.10	-.01	-.07	-.09	-.04	-.05	1.00	
pser	.19**	.18**	.30**	.22**	.13	.25**	.10	.20**	.18**	.16*	.12	-.06	1.00

NOTE: Social bond (BOND) includes eight items (bond1-bond8), customer loyalty (LOYL) includes three items (loyl1-loyl3), and self-service and personal service are single-item (sser and pser, respectively) scales.

*Correlation is significant at the .05 level. **Correlation is significant at the .01 level.

sure, nor age and education. We also observe that level of usage of personal service is correlated with loyalty, whereas self-service is not. We believe the correlations between type of service interaction, social bond, loyalty, and the other variables give credit to the validity of the operationalizations of the theoretical constructs.

RESULTS

The alternative models to be tested, the replacement model (1) and the hybrid model (2), can be expressed as follows:

Replacement model:

$$\text{BOND} = \beta_0 + \beta_1 \text{PSER} + \beta_2 \text{SSER},$$

where $\beta_1 > 0$ and $\beta_2 < 0$.

Hybrid model:

$$\text{BOND} = \beta_0 + \beta_1 \text{PSER} + \beta_2 \text{SSER} + \beta_3 \text{PSER} \times \text{SSER},$$

where $\beta_1 > 0$, $\beta_2 < 0$, and $\beta_3 > 0$.

The specification of the hybrid model is in accordance with the recommendations provided by Irwin and McClelland (2001). They also suggest that β_1 and β_2 (within the interaction model) should be referred to as simple effects, not main effects. This because the term refers to the simple relationship between the dependent variable (BOND) and the independent variable (i.e., SSER) at a particular level of the other independent variable (i.e., PSER).

The two models were estimated in LISREL with generalized least square estimations. Loyalty and social bonding were defined as endogenous factors with single indicators. We employed the reliability estimates to adjust for measurement error. In addition to the service variables, we included product expertise, technological expertise, time pressure, age, and education as covariates affecting degree of social bonding.

The estimated coefficients of the replacement model are reported in Table 5. The fit of the model is quite good with a chi-square of 14.87 with 7 degrees of freedom ($p = .038$). We see from Table 5 that personal service interaction has the expected positive effect on social bonding, and the effect of bonding on customer loyalty is also significant. However, self-service did not have the expected negative effect on bonding. None of the covariates were significant. The model explains 21% of the variance in social bonding and 19% of the variance in customer loyalty. None of the modification indexes suggested that the model should be specified differently. Although the replacement model fits the underlying variance-covariance matrix fairly well, the expected negative effect on social bonding was not found, and thus the replacement model is only partly supported.

The estimated coefficients in the hybrid model are reported in Table 6. The overall fit of the model is also fairly good with a chi-square of 18.34 with 8 degrees of freedom ($p = .019$). Other fit statistics are reported in Table 7. First we observe from Table 6 that the interaction effect is positive and significant as hypothesized. Second, the simple effect of self-service is negative as expected, whereas the simple effect of personal service within the interaction model is not positive as expected. In fact, the estimated co-

TABLE 4
Correlation Among Measured Variables

Variable	PSER	SSER	BOND	LOYL	Product Expertise	IT Expertise	Time Pressure	Age	Education
PSER	1.00								
SSER	-.06	1.00							
BOND	.29**	-.08	1.00						
LOYL	.18**	-.08	.25**	1.00					
Product expertise	-.06	.23**	-.14	-.06	1.00				
IT expertise	-.21**	.43**	-.25**	-.13	.47**	1.00			
Time pressure	-.12	.20**	-.06	-.08	.19**	.36**	1.00		
Age	.14*	-.23**	.12	.07	-.12	-.22**	-.22**	1.00	
Education level	-.03	.28**	-.02	-.09	.34**	-.40**	.18**	-.10	1.00

NOTE: PSER = personal service; SSER = self-service; BOND = social bond; LOYL = customer loyalty; IT = information technology.
*Correlation is significant at the .05 level. **Correlation is significant at the .01 level.

efficient is negative, but not significantly different from 0. The explained variance in social bonding and loyalty is 24% and 23%, respectively, which is an improvement from the replacement model. None of the modification indices suggested that the model should be specified differently. Although the interaction effect and the effect of self-service on bonding were as expected, the data did not support the positive effect of personal service. Thus, the hybrid model was also only partly supported by the data.

Comparison of models should first and foremost be based on a theoretical rationale (Fornell 1983; Rust, Lee, and Valente 1995). Neither of the two models we tested received full support from the empirical test. In the replacement model, we did not find the expected negative effect of self-service on bonding, and in the hybrid model, we did not find the expected positive simple effect of personal service on bonding. As none of the models received full empirical support, we cannot conclude that one is better than the other. However, statistical comparison will provide interesting information about the two competing models. A (statistical) comparison of the replacement model and the hybrid model is, according to Rust, Lee, and Valente (1995), classified as a nonnested model comparison with all variables in common. For this type of model comparison, Rust, Lee, and Valente (1995) stated that the most common statistical tests are chi-square divided by degrees of freedom, Goodness-of-Fit Index (GFI), Adjusted Goodness-of-Fit Index (AGFI), and Akaike information criteria (AIC). These statistics are reported in Table 7, and as we see, the replacement model is equal or better on all statistics. Although the comparisons favor the simpler replacement model, the magnitude of difference is hard to evaluate from these statistics. One indication of magnitude is to compare the difference in chi-square and degrees of freedom between the two models and assess the statistical significance of the difference. The difference in chi-square is 3.47 and the difference in degrees of freedom is 1, which

TABLE 5
Estimated Coefficients of the Replacement Model (N = 195)

	Path	Estimate ^a	t-Value
	Modeled effects		
$\gamma_{2,3}$	PSER → BOND	0.27	3.48
$\gamma_{2,4}$	SSER → BOND	-0.05	-0.54
$\beta_{1,2}$	BOND → LOYL	0.46	4.99
	Correlates		
$\gamma_{2,5}$	IT expertise → BOND	-0.18	-1.79
$\gamma_{2,6}$	Product expertise → BOND	-0.05	-0.63
$\gamma_{2,7}$	Time pressure → BOND	-0.05	-0.60
$\gamma_{2,8}$	Age → BOND	-0.00	-0.04
$\gamma_{2,9}$	Education → BOND	-0.04	-0.53
	Squared multiple correlations		
	BOND	0.19	
	LOYL	0.21	

NOTE: PSER = personal service; SSER = self-service; BOND = social bond; LOYL = customer loyalty; IT = information technology.
a. Completely standardized solution.

is not statistically significant at a 95% level. Thus, although the replacement model received better statistical fit than the hybrid model, the difference appears to be small. As the two models only received partial theoretical support, and as the differences in fit are rather small, we cannot conclude that one model is superior to the other. More empirical tests are needed to make this judgement.

Although the hybrid model received only partial support, we believe it is helpful to illustrate its meaning given the estimated coefficients. The hybrid model suggests that the effect of self-service on social bonding is dependent on the level of personal service in the relationship. To illustrate how this works, we compute the effect of self-service

TABLE 6
Estimated Coefficients
of the Hybrid Model (N = 195)

	<i>Path</i>	<i>Estimate</i> ^a	<i>t-Value</i>
	Modeled effects		
$\gamma_{2,3}$	PSER \times SSER \rightarrow BOND	0.72	2.56
$\gamma_{2,4}$	PSER \rightarrow BOND	-0.36	-1.38
$\gamma_{2,5}$	SSER \rightarrow BOND	-0.47	-2.58
$\beta_{1,2}$	BOND \rightarrow LOYL	0.49	5.37
	Correlates		
$\gamma_{2,6}$	IT expertise \rightarrow BOND	-0.14	-1.46
$\gamma_{2,7}$	Product expertise \rightarrow BOND	-0.09	-1.05
$\gamma_{2,8}$	Time pressure \rightarrow BOND	-0.03	-0.32
$\gamma_{2,9}$	Age \rightarrow BOND	-0.01	-0.12
$\gamma_{2,10}$	Education \rightarrow BOND	-0.02	-0.21
	Squared multiple correlations		
	BOND	0.23	
	LOYL	0.24	

NOTE: PSER = personal service; SSER = self-service; BOND = social bond; LOYL = customer loyalty; IT = information technology.
a. Completely standardized solution.

TABLE 7
Fit Measures for the Competing Models

<i>Measure</i>	<i>Replacement Model</i>	<i>Hybrid Model</i>	<i>Best</i>
χ^2/df	14.87 / 7 = 2.12	18.34 / 8 = 2.29	Replacement
Goodness-of-Fit Index (GFI)	0.98	0.98	—
Adjusted Goodness-of-Fit Index (AGFI)	0.89	0.87	Replacement
Akaike Information Criteria (AIC)	90.87	112.34	Replacement

on bonding under different levels of personal service using the estimated coefficients in Table 6. In our data, the simple effect of personal service is estimated to be not significantly different from zero, and we will therefore use 0 in the following equation:

$$\text{BOND} = 0 \times \text{PSER} - 0.47 \times \text{SSER} + 0.72 \text{PSER} \times \text{SSER}$$

$$\text{BOND} = -0.47 \times \text{SSER} + 0.72 \text{PSER} \times \text{SSER}$$

We can first start estimating the effect of self-service when personal service is low, that is, PSER = 1;

$$\text{BOND} = -0.47 \text{SSER} + 0.72 \times 1 \times \text{SSER}.$$

We can then estimate level of BOND under various values of SSER. When SSER is 5, BOND is estimated to be 1.25. When SSER is 10, BOND is estimated to be 2.5.

When personal service is high, for example, PSER = 10, we get the following equation:

$$\text{BOND} = -0.47 \text{SSER} + 0.72 \times 10 \times \text{SSER}.$$

Now when SSER is 5, BOND is estimated to be 33.65. When SSER is 10, BOND is estimated to be 67.3. We notice that BOND is substantially lower when personal service is low (simple relationships) than when personal service is high (complex relationships).

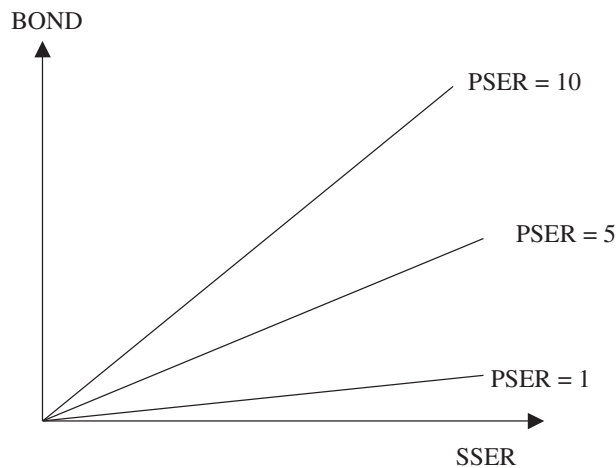
If PSER was moderate (PSER = 5), the estimated BOND would fall between, as illustrated in Figure 3. Thus, self-service usage has a strong positive effect on social bonding under higher levels of personal service usage, as argued in the development of the hybrid model. When personal-service levels are low, we see that social bonds are weak. If customers completely transform their mode of interaction from personal service to self-service, social bonds are thus likely to erode and the loyalty mechanism is gradually removed.

If the simple effect of personal service is positive, as we would have expected but did not find, social bonding will not approach zero as self-service is removed. It is counterintuitive that personal service will have no effect on social bonds just because self-service is zero. As stated above, more empirical tests are needed to estimate coefficients in the hybrid model.

DISCUSSION

Given the methodological limitations, the theoretical discussion and the reported findings suggest that (a) personal service usage has a positive effect on social bonding and subsequently customer loyalty, (b) transformation from personal service to self-service will have a negative effect on social bonds in low-complexity relationships, and (c) transformation from personal service to self-service will have a positive effect on social bonds in high-complexity relationships. In the latter situation, personal service is likely to be used in difficult and nonfrequent problem-solving situations that are of higher importance and make the service worker more significant. Self-service is used for the simple and more frequent tasks. Automating services may have several advantages to a company including lower costs, fewer deviations of quality, and increased productivity. However, our study shows that self-service without a minimum of personal interaction may well have a negative effect on customer loyalty because the important social-bond mechanism is removed. Unless

FIGURE 3
The Effect of Self-Service Under
Various Levels of Personal Service



NOTE: BOND = social bond; PSER = personal service; SSER = self-service.

other loyalty mechanisms are created and integrated into self-service systems, the long-term effect of self-service without personal interaction is likely to be reduced customer loyalty. Thus, personal service and personal relationships between customers and employees are even more important when simple and repetitive tasks are automated.

There are several limitations with the present study. One important limitation with the present study is that we have only analyzed customers with established social bonds within a context of retail banking. The context is appropriate for a theoretical investigation because of the ongoing transformation in this industry from personal service to more usage of self-service. The generalizability of the findings in this study to other service industries might be somewhat limited. To enhance external validity of the findings, future research should examine other industries where customers are likely to have a mix of needs for operative as well as consultative services, and where personal relationships are likely to be challenged by recent technological developments. Employing a multitude of service industries will also give a better operationalization of service complexity. In the presented study, complexity was assumed to be low when customers primarily used self-service and high when customers primarily used personal service. This may have been too simplistic, and future research should take care to develop a better operationalization of the complexity of services.

A second limitation of the current study is the cross-sectional design employed to assess an effect of transfor-

mation in type of service interaction. By employing the cross-sectional design, we have assumed that respondents who are now employing self-services frequently did not do so before and that those who now use little self-service are likely to use more in the future. This may not be the true situation as frequent users may come from a different customer segment than low frequent users, and thus the differences we observe may come from other sources. To test the effect of transformation from personal service to self-service, other research designs that capture the transformation at the individual level are to be preferred.

Given the inherent methodological limitations in the present study, we believe our findings have several managerial implications, in particular to those companies that have a mix of personal service and self-service, and where frequency of personal interaction is diminishing and automated self-service is increasing. Self-service can either replace or compliment personal service, and managers should attempt to use the strengths of both types and their potential synergies. The service worker may, for example, teach the customer how to use automated services for routinized problem solving and encourage the customer to contact him or her for more complex problems. Managers should be careful in transforming personal service toward self-service, unless they have a clear strategy for how the loyalty mechanisms created through social bonds can be reproduced. Recent technological developments related to the Internet provide several opportunities for using self-service to create such loyalty mechanisms. First, some self-service systems can memorize the history of interaction, thereby improving routinized problem solving and remove time-consuming processes. Also, companies can employ electronic customer memories to provide more relevant information and develop their learning capabilities in the relationship. The loyalty mechanism is created through a relationship memory system that continuously improves the value of the relationship. In general, companies can use self-service systems to improve and differentiate their offerings to deliver superior value and to strengthen their customer relationships through better information exchange and learning. Transforming operative services to self-service will change the role of personnel in the business model and, according to Lovelock (1983), provide managers an option to move in different directions. One option could be to move in the consultative direction where key attributes are expertise and trust. Another option is to move in the operative direction where key attributes are convenience and price.

In addition to improved methodological designs as discussed above, we believe future research should explore self-service systems in more detail. First of all, self-service systems may vary in their reliability and functionality, which are very likely to affect their impact on customer

loyalty. As more intelligent self-services are being developed with the help of Internet technologies, it is important to investigate what loyalty mechanisms they potentially create. We believe that social bonding processes can be imitated, or even improved through technological solutions, and future research should address these mechanisms.

Future research should also address the changing role of the service worker with respect to technological development. As the customer's interaction with the company is a mix of technological devices and people, this will also affect the role of the service worker (Parasuraman and Grewal 2000). Traditionally, the service worker has been the storage bin for customer memory and the mechanism for relationship learning. Introducing advanced automated self-services has at least two implications. One is that a technological memory device is developed outside the individual service worker. Second is that relationship learning is no longer limited to the interpersonal interaction between the customer and the service worker but extended to mechanical systems. We believe that these changes will fundamentally change the role of the service worker and customer interaction and thus provide an important and interesting avenue for future research.

APPENDIX Questionnaire

Social Bond (BOND)

Relate the following questions to an employee you know:

1. I believe the person expects me to contact him or her whenever I have a problem.
2. I believe the person expects me to be honest in disclosing information.
3. I believe the person expects me to show understanding regarding his or her work situation.
4. I believe the person expects me to continue to be a customer of the bank.
5. I expect the person to be honest in terms of solving my problems.
6. I expect the person to be interested in solving my problems.
7. I expect the person to show understanding for my needs.
8. I expect the contact person to advocate my interests internally in the bank.

(7-point scale indicating degree of agreement)

Customer Loyalty (LOYL)

1. If a friend asked for your advice, how likely is it that you would recommend this bank?
2. How likely is it that you will continue to use this bank as your primary bank?
3. If you should be in need of new banking service, how likely is it that you would choose this bank?

(5-point scale indicating probability of behavior)

Personal Service (PSER)

Frequency:

How often are you in personal contact with an employee in your bank, either in a branch office or by telephone?

- c 5 times a week or more
- c 2-4 times a week
- c 1 time a week
- c 1-3 times a month
- c Less than 1-3 times a month
- c Practically never
- c Never

Satisfaction With Service

How satisfied are you with the service attitude of the people in the bank?

(10 point scale indicating degree of satisfaction)

Self-Service (SSER)

1. How frequently do you use automated tellers?
2. How frequently do you use mail service?
3. How frequently do you use automated telephone services?
4. How frequently do you use Internet banking services?

(Same scale used as for personal service [PSER] listed above)

Other Variables

1. Compared to an expert, to what degree would you say that you have a good knowledge of financial-service products like savings, mortgages, and finances?
2. Compared to an expert, to what degree would you say that you have a good knowledge of computer technology?
3. To what degree is your average day characterized by time pressure?

(7-point scale indicating degree of agreement)

4. What is your level of education?

- c Primary school
- c High school
- c 1-2 years college
- c 3-4 years college
- c 5 years or more university

5. What is your age?

(Number of years)

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The Impact of Relationship Type on Customer Loyalty in a Context of Service Failures

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This article examines the impact of relationship type (true service relationship, pseudorelationship, and service encounter) on customers' behavioral intentions in a context of service failures. Overall, the results from the two scenario-based experiments indicate that building a true service relationship with the customer might be a critical factor in ensuring customer loyalty with a failed recovery attempt. Moreover, the findings suggest that bonding the customer to the company might reduce customer resistance to premium prices.

Relationship marketing is often contrasted with transaction-specific marketing (Gronroos 1996; Gummesson 1999). The goal of the latter is to acquire new customers, whereas relationship marketing aims at retaining profitable customers by catering to their individual needs (Liljander 2000). The popularity of relationship marketing is explained by an assumption that building and maintaining relationships with customers leads to long-term customer retention, which in turn results in higher profitability (Schneider, White, and Paul 1998). In today's business environment, focusing on the customer or customer equity is paramount (Rust, Zeithaml, and Lemon 2000). Despite the paradigm shift from transactional to relationship marketing (Gundlach, Achrol, and Mentzer 1995), the basic question of how an ongoing relationship with a service firm contributes to customer loyalty remains largely unanswered (Tax and Brown 1998). There seems to be little agreement as to what extent relationship mar-

keting might be useful to marketers in the real world (Bejou 1997).

The broad goal of this study is to examine the influence of the relationship type on customers' behavioral intentions and their responses to service failures. In this investigation, I use Gutek's (1995) framework of social relationships to gain a better understanding of the optimal level of interaction between a service firm and its customers. Gutek et al. (1999) have demonstrated that service encounters can be divided into three conceptually distinct mechanisms for delivering service: true relationships, pseudorelationships, and encounters. *Service relationships* occur when the customer has repeated contact with the same provider, whereas in a *service encounter*, the customer interacts with a different provider each time. *Pseudorelationships* occur when a customer interacts with a different provider each time, but within a single company.

Because service failures are inevitable even in the best run service organizations, this study focuses on the impact of relationship type on customer intentions within the context of both failed and successful service recovery. I propose that a personal relationship with the customer might mitigate the negative consequences of a failed service recovery attempt. Conversely, when the recovery is successful, customers might be willing to give the company a second chance regardless of the relationship type. Moreover, I postulate that service failures should have the strongest negative impact on behavioral intentions, including willingness to accept premium pricing, when the customer considers the service experience as a single interaction

with the firm. Finally, I hypothesize that customer expectations for service recovery might be magnified in true service relationships, thus resulting in relatively low recovery satisfaction levels. In the next section, I will first explore the concept of relationship types. A brief summary of the service recovery literature follows.

CONCEPTUAL BACKGROUND

In recent years, relationship marketing has attracted attention among scholars in various subdisciplines of marketing such as channels (e.g., Weitz and Jap 1995), business-to-business (Dwyer and Oh 1987), sales management (J. Smith and Barclay 1997), and consumer marketing (Sheth and Parvatiyar 1995). Dwyer and Oh (1987), for example, suggested that supplier commitment is moderated by the relationship phase, which ranges from exploration to decline. Although Berry (1983) formally introduced the concept of relationship marketing to services management literature, the Nordic school of thought has emphasized the long-term relational nature of marketing since the late 1970s (Gronroos 1980; Gummesson 1977). Relationship marketing treats the exchange structure as a continuum—ranging from purely discrete transactions to long-term relational exchanges (Mohr and Nevin 1990). Because relationship marketing emphasizes mutual gains and cooperation (e.g., Ganesan and Hess 1997), it is typically long-term oriented. Moreover, the management of the customer-employee interaction is at the core of relationship marketing (Gronroos 2000).

In Gutek's (1995) framework, when the customer expects to interact with the same service provider in the future and can identify a particular person as his or her service provider, then the interaction can be classified as a true *service relationship*. In a service relationship, customers expect to receive relational benefits as a result of having cultivated long-term relationships with a service provider (Gwinner, Gremler, and Bitner 1998). These positive bonds or relational benefits can be categorized into psychological, social, economic, or knowledge bonds (Liljander and Strandvik 1995). For example, to reduce perceived risk, many consumers build a long-term relationship with their primary care physicians or lawyers. Because many of these relationships are built via social or emotional bonds (Berry 1995), this approach often implies a high degree of personalization or customization in the service delivery process. From the customer's perspective, social benefits derived from service relationships often involve feelings of familiarity, personal recognition, and friendship (Barnes 1994). In sum, the goal of creating and maintaining service relationships is to individualize the service delivery based on knowledge about the customer.

Crosby, Evans, and Cowles (1990) suggested "core service upgrading" and Berry (1995) proposed "service augmentation" as a means for offering special treatment to reward customer loyalty. In service relationships, the emotional component of the bonding might be a particularly salient driver of loyalty (Fournier 1998; Oliver 1999). For example, Shemwell, Cronin, and Bullard (1994) reported that affective feelings about the customer-employee relationship explained a high percentage of variance in intentions to remain in the relationship with auto mechanics, physicians, and hair stylists.

In Gutek's (1995) model, single interactions between a particular customer and a service provider are considered as *service encounters* rather than relationships. In these encounters, neither the customer nor the employee expects to interact with each other in the future. Service encounters are like single-play games in which mutual cooperation will not be achieved without some central authority that guides the actions of the two players (Axelrod 1984). Consequently, management must design a service delivery system that rewards frontline employees for cooperation (good service) and punishes them for defects (Gutek 2000). Because there is no expectation of future interaction, the encounter level is similar to the traditional transaction focus in marketing.

A *pseudorelationship*, on the other hand, involves repeated contact between a customer and a service company. For example, buying a hamburger at a McDonald's is a pseudoencounter because the customer does not get to know any individual service provider, but he or she identifies with the embedding service organization (Gutek et al. 1999). In other words, the customer does anticipate future interaction with the company but not with a particular service employee. Gutek (1995) coined these types of customer-firm interactions pseudorelationships because each interaction takes place between strangers, yet customers are familiar with the firm's products and services. Consequently, unlike with true relationships, it does not matter if the customer gets a different service provider each time. Because the goal of this study is to determine whether the distinction between relationship types matters in terms of customers' reaction to service failures, the discussion will now turn to service recovery issues.

Service recovery has been identified as one of the key ingredients to customer loyalty (Tax and Brown 2000). Service recovery refers to the actions a service provider takes in response to service failure (Gronroos 1988). A major goal of customer retention strategies is to stabilize the endangered relationship with dissatisfied customers by an effective service recovery policy (Strauss and Friege 1999). A successful recovery can either break or enhance customer retention (McCollough, Berry, and Yadav 2000). Prior research indicates that consumers hold expectations

regarding what the service firm will do in case of a service failure (e.g., Kelly and Davis 1994). Moreover, most customers expect to be compensated for service failures (Berry and Parasuraman 1991; Blodgett, Hill, and Tax 1997; Goodwin and Ross 1992). Recent research by Kelley, Hoffman, and Davis (1993) identified refunds, credits, replacements, and apologies as main compensation methods used by service organizations. Service quality literature suggests that a failed service recovery presents a double deviation in that both the initial event and the recovery attempt are failures (Bitner, Booms, and Tetrault 1990). Unfortunately, lingering dissatisfaction is not limited to the incident or customer at hand (Brown 1997). Various studies indicate that upset customers may tell 10 to 20 people about their bad experience with a service company.

To reiterate, the broad goal of this study is to make an empirical contribution to both the relationship marketing and service recovery literatures. Service failures typically have a negative impact on customer perceptions of the service firm (A. Smith and Bolton 1998; Tax and Brown 2000). However, the impact of relationship type on customer intentions is less clear. To that end, I wanted to investigate how the relationship type might influence customers' behavioral intentions, including their willingness to accept premium pricing. In addition, I wished to examine the relative influence of relationship types on service recovery satisfaction. The specific research hypotheses will be presented next.

RESEARCH HYPOTHESES

Oliver (1999) suggested that dissatisfaction is loyalty's Achilles tendon. In this study, loyalty is viewed as a multidimensional construct. Prior research indicates that loyalty can be manifested by various customer behaviors such as expressing preference for a particular service provider, doing more business with that service firm, generating positive word of mouth (WOM), or accepting price increases (Zeithaml, Berry, and Parasuraman 1996). This broader conceptualization of loyalty is also consistent with relationship marketing. As Gronroos (2000) stated, the goal of the relationship marketing process is to increase future purchases and to spread positive WOM recommendations.

Previous research indicates that inadequate recovery efforts represent a double deviation from customer expectations (e.g., Bitner, Booms, and Tetrault 1990). I propose that the magnitude of the adverse consequences of a failed service recovery might depend on the type of relationship between customers and service providers. Specifically, I expect that a poor recovery (no apology/no compensation)

after a service failure will have a more negative impact on customer loyalty when the consumer considers the service experience an isolated encounter or a pseudorelationship rather than a true service relationship. Personal recognition and customization characterizing true service relationships (Guttek 1995) are likely to lead to a more forgiving customer base. Therefore, customers at the higher level of the relationship-building hierarchy might be more willing to give the service organization a second chance after a failure than customers whose ties to the service firm are weaker.

Hypothesis 1: Given a failed service recovery, customer loyalty will be relatively higher among customers with a true relationship with the service provider than among customers in the pseudorelationship or service encounter condition.

A successful service recovery is needed to rebuild the relationship after a service failure (Levesque and McDougall 2000). In this study, I propose that given a successful recovery effort, customers are equally likely to give a service firm a second chance regardless of the relationship type. Service failures are inevitable, in particular with services characterized by a high degree of human contact, and hence, customers realize that being loyal to a particular service provider is no guarantee against occasional service failures. Murray and Schlacter (1990), for example, suggested that many customers are aware that service consumption entails some potential for dissatisfaction. Yet, a skillfully implemented recovery effort can turn dissatisfaction into satisfaction or even delight (McCullough, Berry, and Yadav 2000). Consequently, the harmful effects of service failures on customer loyalty should be mitigated by successful service recovery regardless of the relationship type. This leads to the following hypothesis:

Hypothesis 2: Given a successful recovery, there will be no significant differences in customer loyalty among the three experimental groups.

From a managerial perspective, the influence of relationship type on customers' price perceptions would be of significant interest. Reichheld and Sasser (1990) proposed that loyal customers might be less sensitive to price increases than transactional customers. Recent evidence suggests that the consumer's willingness to pay a price premium can be used as an additional measure of bonding between the customer and the service provider (Zeithaml, Berry, and Parasuraman 1996). Extending my arguments from the loyalty discussion above, I hypothesize the following:

Hypothesis 3: Regardless of the outcome of the service recovery process, the willingness to accept future price increases will be relatively higher among customers with a true service relationship with the service provider than among customers in the pseudorelationship or service encounter condition.

Recent work (e.g., McCollough, Berry, and Yadav 2000) has extended the disconfirmation framework to customers' reactions to service recovery. In their model, recovery disconfirmation is a function of recovery expectations and recovery performance. In this study, I propose that relational bonding with a service organization might enhance customer expectations for the service recovery process. This proposition is consistent with A. Smith, Bolton, and Wagner's (1999) notion that a customer's reactions to service recovery efforts might vary depending on the nature of the service and the customer's relationship with the service firm. In service relationships, customers expect to receive special treatment due to their long history of shared interactions with the service provider. Hence, it is reasonable to assume that this request for special attention will carry over to customer expectations for service recovery. In sum, customers in a service relationship might be more demanding with the interactional aspects of the recovery process than customers who have not formed a bond with an individual service provider. Consequently, I predict the following:

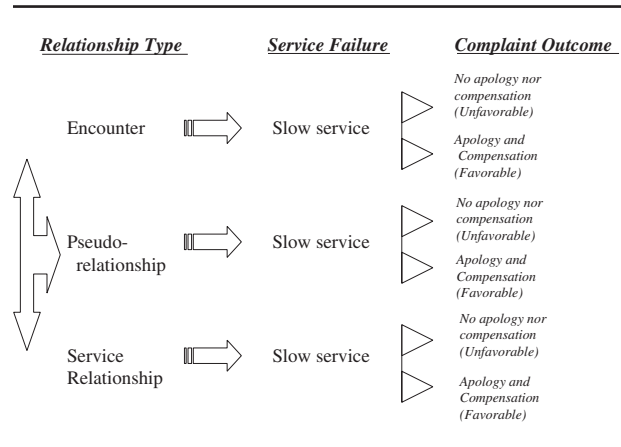
Hypothesis 4: Customers in the true-service-relationship condition will have significantly lower satisfaction ratings for the problem handling than customers in the pseudorelationship or new-encounter condition.

STUDY 1

Experimental Design and Sample

The experimental design was a 3 × 2 factorial between-subjects design. In this study, three relationship types (encounter, pseudorelationship, and intimate relationship) were matched with two service recovery conditions (negative outcome and positive outcome). One hundred forty-two undergraduate students were randomly assigned to one of the six experimental conditions. Fifty-one percent of the participants were male with an average age of 22 years. A dining experience served as the context of this study. This setting was chosen for several reasons. First, prior studies based on the critical-incident method indicate that service failures are frequent in the restaurant industry (e.g., Hoffman, Kelly, and Rotalsky 1995). Second, eating

FIGURE 1
Research Design



out is a service consumed by a majority of the U.S. population. Third, the variables of interest to this study could be easily manipulated in this setting. Slow service was chosen as service failure based on prior research in the restaurant industry and based on a pilot study for this investigation. The differences between the experimental groups were analyzed by the analysis of covariance (ANCOVA) method. Because magnitude of failure has been identified as a critical factor in service recovery literature (e.g., A. Smith and Bolton 1998), participants' ratings on the importance of slow service were run as a covariate in the data analyses. Similarly, prior research postulates that women might be more interested in relationship building than men (e.g., Shemwell, Cronin, and Bullard 1994), and therefore, gender was added as a controlling variable in the analysis. Please refer to Figure 1 for an overview of the research design.

Scenario Manipulations

Service failure was identical across the experimental groups, that is, everybody was exposed to a 45-minute in-process wait. The script for each vignette was exactly alike, except for the description of the relationship type. In the service encounter scenario, the participant was asked to imagine that he or she was going to visit a brand-new restaurant serving Italian food. The pseudorelationship scenario involved an Italian restaurant frequently patronized by the participant. To ensure that participants anticipated future interaction with the restaurant chain, a loyalty card involving a free pizza after 10 meals was used in the vignette. To downplay personalization in the service delivery, the waitperson was described as an unfamiliar face. Finally, the relationship scenario was composed of a hypo-

thetical neighborhood Italian restaurant called Luigi's. Participants were told that they always received special treatment in this restaurant. Furthermore, the husband-wife owners of the place were described as being highly familiar with the participants' life events during the past 4 years. In the condition of a favorable service recovery outcome, participants were offered an apology and given a 20% discount on the total bill as compensation for slow service. Conversely, neither an apology nor any compensation was offered in the negative-outcome condition.

INSTRUMENTATION

Manipulation Checks

The manipulation checks for scenario effectiveness were composed of four 7-point bipolar questions (familiarity with the restaurant, past loyalty, feelings of special treatment, and the extent of emotional bond with the restaurant). In addition, realism in the scenario descriptions was checked on a scale ranging from 1 to 7 (*highly realistic to highly unrealistic*).

Service Failure and Satisfaction Measures

The magnitude of the service failure was measured on a 1- to 7-point bipolar scale (*important, unimportant*). Consistent with prior research (e.g., A. Smith, Bolton, and Wagner 1999), satisfaction with the service provider's handling of the problem was measured via a two-item scale (How do you feel about the organization on this particular occasion? and How satisfied would you be with the company's handling of the problem?).

Behavioral Intentions

The Loyalty Scale was composed of five items: say positive things about the restaurant to other people, recommend the restaurant to others, encourage friends and relatives to do business with the restaurant, consider the restaurant your first choice to buy casual dining services, and do more business with the company in the next few years (see Zeithaml, Berry, and Parasuraman [1996] for the development of this scale). Cronbach's alpha for this scale was .90, thus indicating adequate reliability. In addition, participants were asked to indicate their willingness to pay price premiums for the service provider described in the scenario. Two 7-point scales were employed: (a) likelihood of continuing to do business if prices increased somewhat and (b) likelihood of paying a higher price than competitors charge.

RESULTS

Manipulation Checks

The results from a one-way ANOVA indicate that the three relationship types elicited differential responses on all four manipulation checks, $p < .01$ for all four items. As expected, the true-relationship and pseudorelationship scenarios received significantly higher ratings on the perceived familiarity measure ($M = 5.5$ for the true-relationship scenario, $M = 4.9$ for the pseudorelationship scenario) than the service encounter description ($M = 3.7$). The participants' feelings of special treatment were significantly higher with the true-relationship scenario ($M = 4.4$) than with the two other encounter types ($M = 2.5$ for both). Similarly, the participants' ratings on the emotional bond with the restaurant were the highest with the true-relationship scenario ($M = 4.4$ for relationship, $M = 3.6$ for pseudorelationship, and $M = 3.5$ for the new-restaurant scenario). In terms of past loyalty, the two relationship scenarios were rated significantly higher than the service encounter scenario ($M = 5.9$ for the two relationship scenarios and $M = 2.3$ for the encounter scenario). Overall, the participants in this study indicated that they would be rather annoyed or irritated by slow service described in the vignettes (mean rating of 5.3 on a 7-point scale for both items). Finally, participants perceived the scenarios to be highly realistic as indicated by an average rating of 5.7 on a 7-point scale. Taken together, the results from these manipulation checks suggest that the manipulations were effective.

Loyalty

The results from an ANCOVA table indicate a significant main effect for both relationship type and service recovery outcome ($F = 3.66$ and $F = 33.8$, respectively; $p < .05$ for both). The interaction effect is not significant. The cell means are reported in Table 1.

An examination of the cell means shows that in case of a failed service recovery, customer loyalty is significantly higher for the true-relationship-type scenario ($M = 3.3$) than for the other two scenarios ($M = 2.8$ and $M = 2.4$ for pseudorelationship and new restaurant, respectively). The linear contrasts for the comparison of means are significant ($t = 2.2$, $p < .05$), thus providing support for Hypothesis 1. This relative advantage seemed to disappear when the problem handling involved an apology combined with a tangible compensation ($M = 3.9$ for all three relationship types). These results are consistent with Hypothesis 2. As expected, loyalty ratings are significantly higher with a successful rather than a failed service recovery for all three relationship types.

TABLE 1
Customer Loyalty, Willingness to Accept Higher Prices,
and Service Recovery Satisfaction Ratings by Experimental Condition

Experimental Condition	Study 1			Study 2		
	Loyalty	Price	Satisfaction	Loyalty	Price	Satisfaction
True/P	3.9	3.3	4.4	4.4	4.1	4.3
Pseudo/P	3.9	3.4	4.5	4.2	3.8	4.3
Encounter/P	3.9	2.8	4.5	3.7	3.1	4.4
True/N	3.3	2.7	2.8	3.3	2.8	2.4
Pseudo/N	2.8	2.6	2.4	1.9	1.7	1.9
Encounter/N	2.4	2.2	2.4	2.1	1.8	1.9

NOTE: P refers to service recovery outcome composed of an apology combined with tangible compensation; N refers to no service recovery scenarios (i.e., no apology/no compensation).

Willingness to Pay Higher Prices

The main effect for relationship type and service recovery outcome is significant ($F = 3.6, p < .05$ and $F = 1.6, p < .05$, respectively). The interaction effect failed to reach statistical levels of significance. The linear contrast between true-relationship ($M = 3.0$) and service encounter scenarios ($M = 2.5$) is statistically significant (contrast estimate = .56, $p = .02$), whereas the contrast between the true relationship and pseudorelationship fails to reach statistical levels of significance. Consequently, these results provide mixed support for Hypothesis 3. As with the Loyalty Scale, a successful recovery ($M = 3.2$) resulted in consistently higher willingness to accept higher prices than no-apology/no-compensation scenarios ($M = 2.1$).

Satisfaction With Problem Handling

The results from an ANCOVA table indicate a significant main effect for service recovery outcome, whereas the relationship-type main effect and the interaction effect are insignificant. Thus, Hypothesis 4 is rejected. As expected, satisfaction ratings are significantly higher with a positive compensation ($M = 4.5$) than with no compensation ($M = 2.5$).

STUDY 2

It can be argued that the manipulation of the restaurant itself in Study 1 could account for higher mean customer loyalty under conditions of no service recovery, and hence, a follow-up study was conducted. In Study 2, the relationship type was manipulated within the same restaurant. To maximize consistency across the scenarios, the loyalty card concept used in the pseudorelationship scenario in Study 1 was eliminated in Study 2.

As in Study 1, the stimuli were hypothetical vignettes describing a casual dining experience. The scenario descriptions were kept constant except for the interaction with the frontline service provider, which was manipulated at three levels (true relationship, pseudorelationship, and service encounter). The service recovery and service failure manipulations were identical to those employed in Study 1. Please refer to the appendix for sample scenarios used in Study 2. One hundred and twenty-six students drawn from the same population as in Study 1 served as participants for Study 2.

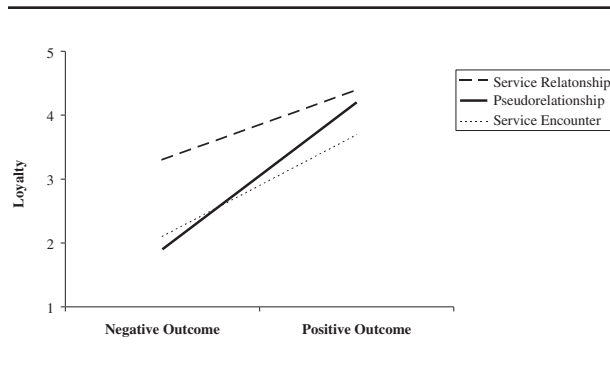
RESULTS

As in Study 1, the results from our manipulation checks indicate that the scenarios were perceived as intended. The true-relationship vignette received high ratings in terms of the amount of special attention and emotional bonding ($M = 5.05$ and 4.8 , respectively), whereas the corresponding scores are relatively low for pseudorelationship and service encounter scenarios ($M = 2.58$ for pseudorelationship, $M = 2.58$ for service encounter, and $M = 2.21$ for pseudorelationship, $M = 2.21$ for service encounter). Similar to Study 1, participants rated the scenarios to be highly realistic ($M = 5.4$ on a 7-point scale).

With regard to loyalty, both main effects are statistically significant ($F = 78.25$ for service recovery outcome and $F = 10.71$ for relationship type). These main effects are, however, qualified by a significant relationship-by-recovery interaction ($F = 3.82, p < .05$). The cell means for Study 2 are reported in Table 1. The interaction effect is visualized in Figure 2.

Given a failed recovery attempt, the linear contrast in loyalty ratings between the true service relationship and the other two experimental groups is significant (contrast estimate = .67, $p < .05$). Conversely, the corresponding contrast estimate failed to reach statistical levels of signifi-

FIGURE 2
Interaction of Relationship Type
and Recovery Outcome



cance when the scenarios involved a successful recovery. Although the participants' loyalty ratings are at the highest level with a true service relationship ($M = 4.45$), the corresponding ratings for the pseudorelationship are also above the neutral level ($M = 4.2$). In contrast, customer loyalty remains relatively low ($M = 3.75$) for service encounters despite monetary compensation and apology as service recovery efforts. Taken together, these findings provide further support for Hypotheses 1 and 2.

The results for customers' willingness to pay higher prices and satisfaction with problem handling largely replicate the results from Study 1. Regarding the pricing variable, the main effect is significant for both factors ($F = 49.95$ for compensation and $F = 6.88$ for relationship type, $p < .05$ for both). The linear contrasts between true relationship and the other two experimental groups are also statistically significant (contrast estimate = $-.99$ for true relationship vs. service encounter and contrast estimate = $-.663$ for true relationship vs. pseudorelationship). These findings provide additional support for Hypothesis 3.

As in Study 1, the service recovery main effect is significant for satisfaction with problem handling ($F = 126.02$), whereas relationship type failed to influence the participants' ratings. Consequently, there are strong grounds to reject Hypothesis 4.

DISCUSSION

Mistakes are an unavoidable feature of all human endeavors, including service delivery (e.g., Boshoff 1997). Prior research suggests that a successful recovery can lead to highly satisfied customers (e.g., Johnston and Fern 1999). Yet, anecdotal evidence indicates that nearly half of the recovery efforts in the real world might actually

strengthen customers' negative feelings toward the company (Hart, Heskett, and Sasser 1990). The purpose of this study was to explore how the depth of the relationship between customers and service providers influences customers' behavioral intentions and service recovery evaluations.

Prior work focusing on the social aspects of service encounters has categorized relationships between customers and service providers into three categories: true relationships, pseudorelationships, and transactional service encounters (e.g., Gutek 2000). In a true relationship, the customer has a shared history of past interactions with a particular service provider, thus creating an intimate bond between the two parties. In pseudorelationships, the customer has identified with the service organization, but he or she does not care about the particular employee delivering the service. In other words, customers perceive frontline employees as functionally equivalent providers who are expected to treat each customer the same (Gutek et al. 2000). Starbucks, Kinko's, or HR Block provide some common examples of pseudorelationships. Finally, service encounters can be conceptualized as isolated interactions in which neither party necessarily expects any future commitment. As such, there is no sense of mutual interdependence between the two parties. In sum, the three relationship types represent conceptually different mechanisms for delivering service. Gutek's typology shares some similarities with the notion of relationship life cycles (e.g., Jap and Ganesan 2000). Supplier-retailer relationships evolve through four distinct phases (exploration, buildup, maturity, and decline), and the effectiveness of relational norms as a control mechanisms tends to depend on the relationship stage (Jap and Ganesan 2000).

The results from the two experiments suggest that building and maintaining close relationships with customers are critical in case of a failed service recovery. As evidenced by their higher loyalty ratings, participants in the true-relationship condition were more willing to forgive the service provider for poor handling of the problem than participants in the pseudorelationship or service encounter conditions. Previous work has shown that customers seek social benefits such as personal recognition or even friendship from a relational exchange with a service provider (Barnes 1994; Berry 1995; Gwinner, Gremler, and Bitner 1998). My results indicate that personalization of the service delivery and making the customer feel special may shelter the company from the negative consequences of a failed or nonexistent recovery effort. Thus, service companies that reward loyal customers by core service upgrades (e.g., airlines, hotels, or car rentals) might gain a double benefit from preferential customer treatments: enhanced patronage during normal conditions and forgiveness in case of a failed service recovery effort. Yet, companies that are able to create an emotional bond between the service

provider and the customer might be the true winners in terms of continued loyalty (Fournier 1998). Shemwell, Cronin, and Bullard's (1994) empirical investigation of several service industries showed a strong link between consumers' affective feelings about the service provider and loyalty.

My results with successful recovery are consistent with previous empirical investigations on service failures. For instance, Webster and Sundaram (1998) found that customer loyalty is not necessarily influenced by service failures. Overall, participants were equally loyal regardless of the relationship type when the service recovery involved an apology combined with a tangible compensation. However, the relatively neutral behavioral intention ratings observed in both experiments suggest that relying on service recovery to maintain customer relationships is risky. This finding is consistent with recent observations in the service recovery literature (e.g., A. Smith, Bolton, and Wagner 1999; Tax and Brown 2000; Tax and Chandrashekar 1998). From the pricing perspective, relationship building might condition the consumer to accept premium pricing. In Study 1, participants in the true-relationship condition were willing to pay higher prices than their counterparts in the service encounter condition. In addition to the contrast between service relationship and encounter conditions, in Study 2, the willingness to accept premium pricing was higher when the scenario involved a true service relationship rather than a pseudorelationship. These findings suggest that a personal touch in the service delivery process might lower customer resistance to charging premium prices.

When faced with a service failure, customers want to be compensated for the inconvenience (Tax and Brown 2000) and for having to go through the recovery process (Zemke 1995). In other words, customers expect justice or fairness. Prior research suggests that customer perceptions of fairness are based on three components: outcomes, procedures, and interactional treatment (e.g., Tax and Chandrashekar 1998). Compensation is strongly linked to perceptions of distributive justice (Tax and Brown 1998), whereas an apology communicates empathy to customers who have experienced a service failure (Hart, Heskett, and Sasser 1990). Consistent with past research, compensation with an apology led to significantly higher satisfaction with the problem handling than situations in which the perceived justice was low (e.g., A. Smith, Bolton, and Wagner 1999; Tax and Chandrashekar 1998). Unexpectedly, the relationship type failed to have an impact on service recovery ratings. This implies that customers' service recovery expectations might be universally high, thus leaving little room for poor performance

during the recovery process. This finding is congruent with Zeithaml, Berry, and Parasuraman's (1993) argument for a limited zone of tolerance when failures occur. Or alternatively, loyal customers might have more realistic or rational expectations for service recovery. Because this study failed to measure recovery expectations, future research is needed to clarify how the degree of relationship building might moderate consumers' expectations in case of a service failure. To conclude, customers might feel equally dissatisfied about poorly handled service recovery regardless of the relationship type, yet their behavioral intentions might differ depending on the closeness of the customer-provider bond.

MANAGERIAL IMPLICATIONS

Overall, the findings of this investigation postulate that creating a close bond with a customer might limit the harmful impact of service failures on customer loyalty. Building a genuine relationship with the customer goes beyond the so-called loyalty or frequency programs. To build an emotional bond with a loyal customer, a service organization needs to recognize that person as a special individual. Customization of the service delivery might thus be the foundation of a successful relationship-building and maintenance program (Berry 1995). Today's powerful database management programs can easily store vast amounts of information on idiosyncratic customer preferences, yet successful service firms need to go a step further in ensuring that customers perceive their relationship marketing efforts as genuine. TGI Friday's, for example, uses its database to automatically send birthday cards, special promotions, and newsletters to its loyalty program members. Whether customers perceive these transactions as genuine relationship-building efforts or mere company gimmicks remains unknown.

Yet, great service recovery does not happen by luck; effective recovery needs to be carefully planned and managed. Both what is done (e.g., compensation) and how it is done influence customer perceptions of service recovery effectiveness (e.g., Levesque and McDougall 2000). Training the frontline employees to deal with service failures is the key to any successful recovery strategy. Recognizing the importance of response speed on customer reactions to service failures, many service organizations have empowered their customer-contact employees to handle customer complaints. Ritz-Carlton, for example, trains all its employees to take care of customer problems right then and there, even if it requires the employee to leave his or her immediate tasks unattended.

Finally, creating a strong bond between the customer and the service firm might have direct implications for pricing of products and services. My results indicate that repeat customers might be less sensitive to potential price increases than transactional customers. Although offering economic incentives to reward continued patronage might be sufficient in influencing customers' price perceptions, offering nonprice benefits to valued customers might be even more important in the long run. Service augmentation such as airline upgrades and private lounges might entice customers to stay with a particular service provider despite its premium price structure.

LIMITATIONS AND FUTURE RESEARCH

Several limitations of this study must be recognized. Owing to the restaurant-oriented focus of this study, these results may not be generalizable to other service industries. Second, the two experiments were paper-and-pencil studies with written descriptions. Consequently, the emotional content of the scenarios might have been minimal. Third, the dependent measures were largely composed of behavioral intentions rather than actual purchase, and hence, the results of this investigation must be interpreted with caution (e.g., Bolton, Kannan, and Bramlett 2000). Finally, due to the research method employed in this study, the impact of emotions in driving customer loyalty is ignored (Oliver 1999). In addition to continued behavioral loyalty, a successful service recovery might enhance the emotional bond between the customer and the service provider.

Future work should consider how customer characteristics might moderate an individual's desire to engage in service relationships. Some customers might value the relational contact with the service company, whereas others may prefer to remain in a pseudorelationship situation. In addition, service type might influence the customer's propensity to build relationships with service firms. Building and maintaining true relationships with the customer base might be highly beneficial for services characterized by high levels of perceived risk (e.g., hair salons, child care centers, financial institutions). Or services plagued with high levels of performance heterogeneity (e.g., resorts or pet-grooming services) may also wish to invest in relational marketing efforts. Finally, additional research is needed to better understand the role of pricing in relationship marketing (e.g., how much extra are consumers willing to pay in exchange for relational customer benefits?).

APPENDIX Sample Scenarios—Study 2

True Relationship

You and your friend have decided to go out for a dinner at an Italian restaurant called Toni's. You have kept coming back to this restaurant since your freshman year. As you enter the restaurant, the waiter immediately recognizes you and escorts you to the table. After having received an update on your current events, he takes your order. After 30 minutes, you are still waiting for your entrees to arrive.

Finally, after *45 minutes*, the waiter brings you your food. You are *not* offered an apology. You are given *no* discount off your total bill. The food tastes good and is reasonably priced.

Service Encounter

You and your friend have decided to go out for a dinner at a new Italian Restaurant called Toni's. Neither of you has yet tried this place. You enter the restaurant and are seated at the table. The waiter comes back to take your order. After 30 minutes, you are still waiting for your entrees to arrive.

Finally, after *45 minutes*, the waiter brings you your food. You are *not* offered an apology. You are given *no* discount off your total bill. The food tastes good and is reasonably priced.

Pseudorelationship

You and your friend decide to go out for dinner at Toni's, an Italian restaurant that you frequently patronize. You enter the restaurant and are seated at the table by an unfamiliar waiter. The waiter comes back to take your order. After 30 minutes, you are still waiting for your entrees to arrive.

Finally, after 45 minutes, the waiter brings you your food. You are *not* offered an apology. You are given *no discount* off your total bill. The food tastes good and is reasonably priced.

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Retail Theater

The “Intended Effect” of the Performance

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Retailers selling very different types of merchandise are adopting the phrase retail theater in their public descriptions of their offers. The contribution of this article is an assessment of the use of the theater metaphor in retailing, especially with respect to the theatrical stage settings designed to create specific intended effects on audiences. Four forms of theater—theatrical realism, political realism, surrealism, and absurd theater—are used as examples. From the analysis of the theatrical performances, it is seen that the role of the audience is always considered explicitly; the role is different in different forms of theater, and writers and directors are clear as to the role that they would like audiences to adopt in a given performance. Such an approach can be translated into retailing. Examples are given of the intended customer (audience) effects, which can be created from retailing versions of the four theater styles.

Aristotle's dictum was that the greatest thing by far is to be the master of the metaphor (Monin and Monin 1997). Indeed, metaphors have been adopted widely by management academics and practitioners to achieve a variety of outcomes: most notably, to develop new perspectives on situations through evocative imagery (Bolman and Deal

1991; Cleary and Packard 1992; Morgan 1993), to clarify areas of uncertainty, and to direct employees' behavior in particular ways (Hunt and Menon 1995). In the field of services marketing, Goodwin (1996) specifically highlighted the contribution of the factory and drama metaphors in helping researchers seeking to explicate service encounters and service delivery.

We turn our attention, in this article, to the theater metaphor that has been used extensively in the services marketing and management literature (see, e.g., Goodwin 1996). References to frontstage, backstage, scripts, roles, and settings, in the context of service encounters, are commonplace (Broderick 1998; Pranter and Martin 1991; Grove and Fisk 1992, Zeithaml and Bitner 1996), most of them emanating from Goffman's (1959) dramaturgical perspective on human behavior in everyday life.

One of the strengths of the theater metaphor has been its “applicability to a wide range of service categories and its readily apparent implications for managers” (Goodwin 1996, p. 20). In retail settings, managers have clearly found it easy to incorporate elements of theater into store design and merchandise presentation. The promotional literature of the retail trade and popular press contains numerous references to the creation of *exciting retail theater environments* that invariably involve opportunities for *audience participation and interaction*, characteristic of theatri-

cal performances. The metaphor has been enthusiastically embraced as a way of creating new consumer interest in stores and merchandise, and as a means of differentiation in an increasingly competitive marketplace.

A closer analysis of the content of these sources, however, reveals an absence of a detailed appreciation of some of the fundamental issues involved in staging a theatrical performance and the specific implications for retail strategy, segmentation, and human resource management. In the theater, each performance is designed to achieve a very specific audience reaction. This aspect does not appear to have been translated into retail practice, where the expression “retail theater” seems to imply an intention to create a whole variety of customer reactions and responses. In this sense, our concern is that the metaphor, as currently applied by retailers, is incomplete, to some degree misleading (Van den Bulte 1994), and certainly not fulfilling its potential.

However, it has been argued that “it is from metaphor that we can *best get hold of something fresh* [italics added]” (Bywater, quoted in Monin and Monin 1997). We believe that, if used appropriately, the theater metaphor can be used to bring freshness and creativity into retailing.

Aims

In this context, the aims of this article are to

1. demonstrate, with reference to *the intended effect of the performance on the audience*, how the theater metaphor can be more appropriately translated into retail practice;
2. provide a classification of a variety of customer responses to retail performances that might be generated from a detailed study of distinct types of the theatrical movements; and
3. encourage discussion between retail and service practitioners and academics about new approaches to the provision of on-site retail experiences for consumers. To facilitate the discussion, we consider in detail how service system managers might use these approaches to improve retail practice.

The article is organized as follows. First, we provide examples of how retail practitioners are currently using the expression “retail theater.” From these examples, words and terms that retailers and store designers juxtapose with retail theater are highlighted to identify what these practitioners believe to be the intended effect of retail performances on the audience/customers. Second, using Tsoukas’s (1991) terminology, we return to the “familiar domain,” the theater literature, and describe examples of four theatrical movements—theatrical realism, political

realism, surrealism, and absurd theater—that demonstrate how the specific setting (including the lighting, sound, and use of stage properties), under the guidance of the producer, are deliberately designed to create a highly focused audience response. Third, on the basis of the above, we identify how these intended audience effects and responses might be (and, to some extent are currently being) applied in retail settings. Fourth, we discuss in detail the managerial implications of the advocated approaches, and finally, we suggest directions for further research.

THE THEATER METAPHOR IN RETAILING

Various searches have revealed that a number of retailers use the term *retail theater* extensively, either through their own publicity or via press releases and/or newspaper features (examples are shown in Appendix A). The use of theater in a retail context is international and covers many different product categories: food, shoes, perfume/toiletries, children’s clothing and toys, electrical goods, sports goods, home furnishing, garden products, and cars, as well as department stores and public houses. Shop and store designers also use retail theater to convey particular messages to retail clients (examples are shown in Appendix B). From their perspective, it is the design of the physical environment, which is especially important, and the recognition of a need for flexibility of the settings. Retail theater is generally presented as a “fun” experience involving spectacle and excitement. Few retailers would readily admit to an absence of theater in their offer in case they were to be accused of being dull or behind the times. As Joe Riordon of Comet states, “When you walk into the Paisley store, it’s like being in Disneyland. You have the ‘wow’ factor, and shopping is fun” (Nelson 1999).

It may encompass a variety of intended effects for the customers. Retailers such as Girlheaven, Niketown, Sephora, and Toyota want consumers to interact physically with their merchandise to stimulate a variety of behavioral responses leading to purchase. Others try to influence the consumers’ cognitive and affective responses more directly. Coles Myers, for example, in their cooking “theater,” want consumers to learn about the preparation and delivery of quality food, as well as purchase the ingredients. Allied Domecq and others try to appeal to the senses and talk of wanting their consumers to develop a “sense of belonging.”

Looking at the available evidence, the overriding impression is that the theater metaphor usage in retailing lacks depth and coherence. Sometimes “theater” is used simply as a new expression for well-established practices such as merchandising or selling: “He wants to bring in the

idea of retail theatre, where you have such a fantastic display of apples, for example, that you cannot resist loading into your trolley” (Safeway, U.K. Supermarket Group, cited in “Wow Experience” 2000). For some retailers theater is about elaborate servicescapes, for others it is about fun and entertainment, and for yet others it is about customer participation. This can result in exaggerated claims of theater: “If all retail is theater, Zagara’s can be likened to a blockbuster Broadway musical. Intricate detailing, theatrical décor and an array of customised treatments and materials . . . make it an entertaining and exciting shopping destination” (Zagara’s, U.S. Supermarket Group, cited in Bass Pro Wins 2000).

To seek depth and coherence, we go back to the familiar domain of actual theater, where all aspects of a production focus on creating an intended effect on an audience.

THEATRICAL INSIGHTS: THE INTENDED EFFECT OF THE PERFORMANCE

There is a wide body of theater literature that concentrates on audiences’ interpretation of performances (Barthes 1968; O’Toole 1992; Reynolds 1986; Schechner 1988), particularly in the field of theater semiotics (Aston and Savona 1991; Bennet 1997; Elam 1980; Issacharoff and Jones 1988; Pavis 1993). Pavis (1993) identified the difficulties of breaking down the elements of a performance into distinct signs and encouraged the interpretation of an “ensemble of signs forming a gestalt pattern.” Aston and Savona (1991) highlighted the importance of *spectators* in the performance and of the need to write them carefully “into the frame as an engaged, active receiver” (p. 122). Pavis (1993) also made an important distinction between the play text as an intended performance and the actual staging effect of the play. By analyzing examples of theater from the perspective of the play text—the “intended effect” of the performance—we are able to establish how the theoretical intention behind the performance manifests itself in the actual experience of the production.

The four chosen theatrical movements to be discussed reflect a wide range of theoretical ideas extended into practice. In performance, they embody the ideas of four key theater practitioners (Stanislavski, Brecht, Artaud, and Craig) who are acknowledged by contemporary theater critics as “models for our own time” (Cooper and Mackey 1995, p. 183). It is also evident, as we will see, that elements of the four movements are clearly visible in retail “performances” *currently* taking place globally.

Theatrical Realism: Audience as Distanced Observer

The first movement is that of theatrical realism. The emphasis is on detail and accuracy in the creation of a realistic environment. The intended effect on the audience is that they become voyeurs, looking into a realistic world in which the costumes, properties, and backdrops capture the exact detail of the environment.

In the 1953 production of Ibsen’s *A Doll’s House* by the Lyric Theatre, London (1991), the staging adhered closely to the conventions of theatrical realism employed by the influential practitioner, Stanislavski (1863-1938). The set designer provided a “multiple set that opened up the entire living area of the Helmer household—including the master bedroom” (Tornqvist 1995, p. 68). The stage directions from the opening of the play indicate the attention to detail in the environment: “A room furnished comfortably and tastefully but not extravagantly” and “The floors are carpeted, and a fire burns in the stove.” The lighting reflects the realism of the environment: “It is winter;” and the sound supports the scene: “A bell rings in the hall.” According to Bennet (1997), it is “the typical room of the naturalist play, to be framed by a proscenium arch and filled with furniture and other trappings” (p. 143). The effect is to create a sense for the audience that they are looking into a private world, observing a very personal situation, and an initial excitement that they perhaps should not really be there.

Political Realism: Audience as Participator and Reviewer

The second movement reflects the ideas of political or epic theater. It is exemplified in the work of the German practitioner Brecht (1898-1956), who was identified by Williams (1993) as “the most original in European drama since Ibsen” (p. 277). Theater critic Harold Hobson spelt out the idea of epic staging: It “constantly reminds the audience that what it sees on the stage is not real, but only a fictional entertainment intended to illuminate the mind. . . . Instead of life, it [the audience] is offered an explanation of life” (Bartham and Wain 1991, p. 212). A suitable example is Brecht’s play *Mother Courage* (1975), performed by the Berliner Ensemble in 1956. The backdrop for the environment is that of war-torn northern Europe in the 17th century, and the scenes shift within this harsh world. There is no attempt to create reality in the scenery. The scenes and props are presented in a representational manner. A pair of glasses borrowed from a member of the audience, for example, might be used as gun

during the execution scene in *Mother Courage*. Brecht encouraged the use of signs and placards on which the events of the scenes are written clearly for the audience to see.

The audience, in Brecht's productions, were often seated in an arena environment in which they can clearly see each other. All the elements of the staging and the performance work together to create a relaxed and responsive atmosphere among the audience in which discussion and, more important, critical debate was encouraged. The atmosphere created encourages the audience to eat and smoke and exchange views on the events being obviously played out on the stage. The intention is to use the environment to focus the audience on the issues of the rights and wrongs of war. It stimulates a critical response from the audience.

Surrealism: Attacking the Senses

The third movement is associated with surrealism, where the intention of the writer or director is to create a more subconscious experience for the audience. It encapsulates the ideas of total theater that were outlined by Artaud (1896-1948), a practitioner who was said to have had "a profound influence on notions of theatre in our time" (Huxley and Witts 1999, p. 28) and who is described as "the most powerful seminal influence on the modern French theatre" (Esslin 1991, p. 380). The audience response is achieved by creating an environment in which the staging effects are brought together to convey a single or multiple essential theme(s) inherent in the performance.

Steven Berkoff's play *Metamorphosis* (first performed at the RoundHouse in London in July 1969) is a suitable example. His work aims to "engage the senses on all levels totally" (Berkoff 1981). The stage is designed as a "skeletal framework of steel scaffolding suggesting an abstract sculpture of a giant insect." The play focuses on the suffering and mental anguish of the central character Gregor who, in physical and emotional terms, "mutates" into a beetle. This is physicalized by the actor within a cage at the center of the giant scaffold shape that reaches out over the audience. The "abstract sculpture" reinforces these essential ideas for the audience throughout the play. The lighting in *Metamorphosis* is harsh and angular and reflects the dreamlike, nightmarish transformation from Gregor to the beetle. Strange, flashing, colored lights are matched with twisted and distorted synthesized sounds and odd instrumental percussion beats.

Berkoff's work is widely recognized for its "fierce and unrelenting exploitation of all the elements of Theatre" (Cooper and Mackey 1995, p. 277). The intended effect for the audience is to impress and shock, and to stimulate subconscious sensory reactions.

"Absurd" Theater: Challenging the Mind

The final movement is known as "absurd" theater, inspired by Craig (1872-1966), a practitioner whose "thinking can be said to have influenced generations of European Theatre Directors" (Huxley and Witts 1996, p. 150). Craig's ideas of symbolism, the actor as "ubermarionette" (physical statue or image within the setting), and the use of darkness and shadow in the lighting can all be seen in Samuel Beckett's works. In Beckett's *Play* (produced by the Schiller Theatre in 1978; cited in Kalb 1989), the actors are trapped in giant urns with only their heads sticking out of the top, heavily made up with grey and black-lined faces. The emphasis in the staging is on minimalism, with the three heads isolated in spotlights, and only the top of the urns visible. The surrounding area is in total darkness, and the heads occupy an isolated space over the stage. This highlights a sense of dislocation and is an example of Beckett's careful placing of the actors within an overall artistic picture.

The movement presents a "meticulously sculptured tableau . . . allowing spectators to meditate on its metaphorical significance" (Kalb 1989, p. 49). The audience is engaged intellectually, asking questions: Why are they in urns? What is the significance of this situation? Are they being tortured? Have they died? Is this a representation of hell? The intended experience is that of engaging the audience at both an intellectual and emotional level, and encouraging an artistic and individual response from the audience members.

The Four Movements and the Audience Experience

The experiences created for the audiences, in each of these examples, are very different and very specific. In the first example, the audience plays the role similar to that of a voyeur, looking into a "slice of life" world. In the second example, the people in the audience have become critical spectators ("spect-actors"), responding thoughtfully, and with perception, to the themes and issues presented in the play. In the third example, the audience is engaged in a sensory and subconscious way and is attacked by the actors and the environment at a physical and intellectual level. Members of the audience are recipients of sensory experiences ("sense-ceptors"). In the fourth example, audience members are actively engaged as artists, responding imaginatively and creatively, in the role of connoisseurs, to the absurd stage imagery and situations.

The four movements have been chosen not only because of their influence on modern theater but also because

of the diversity of the intended effect created in the performance. The movements are not necessarily mutually exclusive, as the ideas of more than one of the practitioners may influence a given performance. Equally, performance of a play script may be different according to the different desired audience responses. For example, Shakespeare's *King Lear* has been produced in each of the four movements above. At the Barbican Theatre in London in 1999, theatrical realism was employed, especially the detailed use of sound—"a soundscape of twangs, and gongs and clinks and bells" creating the environment of Feudal China (Clapp 1999). Brecht's ideas of epic staging were evident in the redesigned Globe Theatre in London, where in 1996, the audience were stood/seated around an open stage, entertained by staging devices; the flies, simple props, and representative costumes. In the 1990 production at Stratford-upon-Avon, the ideas of total theater were used to design a set that symbolized the internal chaos of Lear's mind—"a revolving open-sided cube that, during the storm scene, gives onto a dizzying skyscape" (Billington 1990). Finally, in the 1997 production in London's National Theatre, the absurdism of Lear's extreme condition was emphasized by a set that placed the central character "isolated on a traverse stage that neatly bisects the audience" (Billington 1997).

DEVELOPING AN "INTENDED" EFFECT ON RETAIL CUSTOMERS

If we transpose the audience roles to those of the customer, the possibilities for using the movements of theater discussed above as a framework for approaching retail performances seem wide-ranging. In Table 1, we identify the customer roles, intended effect, and retail management focus associated with the different theatrical movements. The four roles for customers—that is, voyeur, spect-actor, sense-ceptor, and connoisseur—are examined in relation to current retail practices and also with regard to possible retail scenarios resulting from a more literal transposition of the audience role to the customer role.

Customer as *Voyeur*

Two elements have been identified as being central to this style of theater that could be translated into the retail performance. First, merchandise would need to be presented in a *realistic* setting. Second, this theatrical style is a deliberate attempt to create a distance between the actors and the performance, and the audience.

In this vein, the Kotva Department Store in the center of Prague ran a competition for a real family to spend a month living in the store, where the winners could take furnish-

ings from the store back to their home. In the store, the kitchen and living room settings were located in prime street-level display areas. The competition winners—a couple with a young daughter—used the rooms in a perfectly normal way, cooking in the kitchen, reading a paper and watching television in the living room, for example. The event attracted enormous publicity and drew crowds each day, all playing the customer-as-voyeur role.

Although several retailers make some efforts to present merchandise in realistic settings (e.g., through simulation of experiences and by displaying merchandise, such as furniture, in room settings), to what extent do customers associate these settings with rooms in their own homes? An accurate interpretation of this theatrical movement would involve, for example, employees (not an actual family) sitting watching TV in a room, scattered with coffee cups and newspapers. The furniture being presented would form part of this realistic environment. Similarly, a clothing retailer might present certain types of merchandise actually being worn in a particular setting, for example, party outfits at a party. This style of performance would lend itself readily to cross selling of merchandise. In this example, fashion retailers and furniture retailers could work together to create a realistic "party" environment that presents both fashion clothing and furniture within the design.

Figure 1 shows an artist's impression of a customer-as-voyeur experience based on theatrical realism. A human house/zoo effect is created by designing areas behind screens, separated from customers. The customers at several levels, in semidarkness, can look up, down, and through to specific lighted areas of "realism." They can listen on headphones to realistic dialogue and/or improvised scenarios relating to the characters and products of the environment. Staff-customer interaction is minimal, with staff undertaking backstage roles (changing environments or supplying products when required) or frontstage roles as characters in the scenarios. The merchandise (furniture, clothing) is located specifically in the lighted areas and can be used as trigger "props" for interactions. The performance could be supported by curtains opening and/or closing in areas, slow fades, interesting exchanges over speakers, and so forth.

Customer as "*Spect-Actor*"

This role has been identified from an understanding of the ideas behind political realism. There are two key elements of this style of theater that have obvious implications for the delivery of retail performances. First, little attempt has been made to disguise the fact that the audience is in a theater (or retail environment) watching a performance. The customers' role is transparent and clearly

TABLE 1
Classification of Customer Roles and Intended Effects; Retail Applications

<i>Role of the Customer</i>	<i>Intended Effect</i>	<i>Retail Management Focus</i>
Voyeur	The customer recognizes a realistic setting. "I am observing 'a slice of real life.'" The customer has no sense of involvement. "I am observing the performance from a distance."	Present merchandise in a realistic setting. Maintain a distance between the customer and the presentation.
"Spect-actor"	The customer's role is transparent and clearly understood by both parties. "I am fully aware that this retailer is trying to sell me something." The customer has the opportunity on-site, to be critical of the offer and the way that it is presented. "I feel comfortable challenging any aspect of what's on offer."	Present merchandise in a simple, open and honest environment. Empower employees to be open and honest about their roles and feelings toward the merchandise. Provide extensive opportunities for customer participation. Develop mechanisms to encourage customers to be critical of merchandise.
"Sense-ceptor"	The customer has a sensory experience. "I feel as if I have been through this experience. I know what it feels like."	Provide opportunities for customers to experience events. Provide stimulus to arouse depth of affective response.
Connoisseur	The customer is intellectually challenged by what is presented. "I don't know what this means, but I will try to make sense of it." The customer's response is an individual response. "In my opinion this is about . . . but I will keep it to myself."	Present merchandise in a thought-provoking, but minimalist, way. No attempt to be made to explain logic behind the presentation. Little information to be provided. No opportunities to be provided for customer-employee or customer-customer interactions.

understood by both parties. The customer is fully aware that the retailer is trying to sell something. Second, customers have the opportunity on-site to be critical of both the merchandise and the way that it is presented. They are provided with opportunities to openly express their views.

Up-Front, a U.K. retailer selling climbing and walking gear, has one of its stores located in the Derbyshire Peak District (a popular destination for both walkers and serious climbers). The store is divided into two sections: "the 'fluffy' section in the front, with the kiddies stuff, the fleeces, the books, maps and craft items . . . and the boot room and rock hardware counter at the back" (Pioc and Brook 1999, pp. 77-78). The back room has become a meeting place for climbers, who share knowledge and stories about climbing with each other and the employees. The owner says, "Climbing is what I like, but also what the staff enjoy" (p. 85), and insists that the spirit of the climbing fraternity should be reflected in the store atmosphere. The boot room and rock hardware room promote honest debate among the fraternity—the staff and the customers who are encouraged to play the role of "spect-actors." This store has a much higher turnover than the other stores, and Up-Front is about to build an extension to the back room.

In a clothing outlet, one might expect to find the merchandise presented exactly as it was delivered to the store, in a simple no-frills manner. Employees would mingle openly with customers expressing their honest opinions about the merchandise and passing on comments of previous purchasers to interested new buyers. Customers would

be encouraged to offer opinions to other customers. Employees and customers, who would be encouraged to share knowledge and expertise on certain product categories, would operate customer information points. Information could be shared on the fabric, fit, and style of certain merchandise. Price negotiations would take place in the store in a relaxed and nonthreatening environment.

An artist's impression of a version of a "customer as spect-actor" experience is shown in Figure 2. Customers are seated in a relaxed fashion around a market arena and can see each other clearly. Signs and placards lay out the purpose of the retail environment and encourage critical thought about the merchandise. The lighting is very clear and bright with revolving spotlights dispersing customer attention across the arena. Employees are located backstage and are summoned to customers as "runners" when required to bring samples of merchandise for discussion. The products/merchandise are located on platforms that are flown round to customers who sit drinking, eating, and talking in a relaxed mood. Laser signs, street entertainers, and children's areas complete the setting.

The greatest challenge for retailers directing this performance is associated with redefining the actor (or employee) role in the performance. This approach represents a radical departure for many retailers from the traditional role expected of employees. In this scenario, the employees are primarily facilitators of information exchange between customers rather than necessarily being experts in the field.

FIGURE 1
Customer as Voyeur

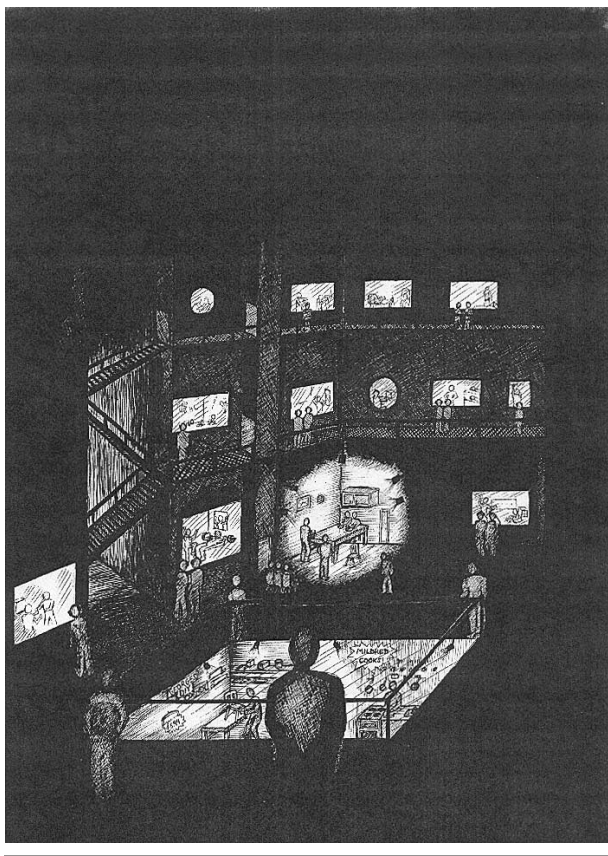
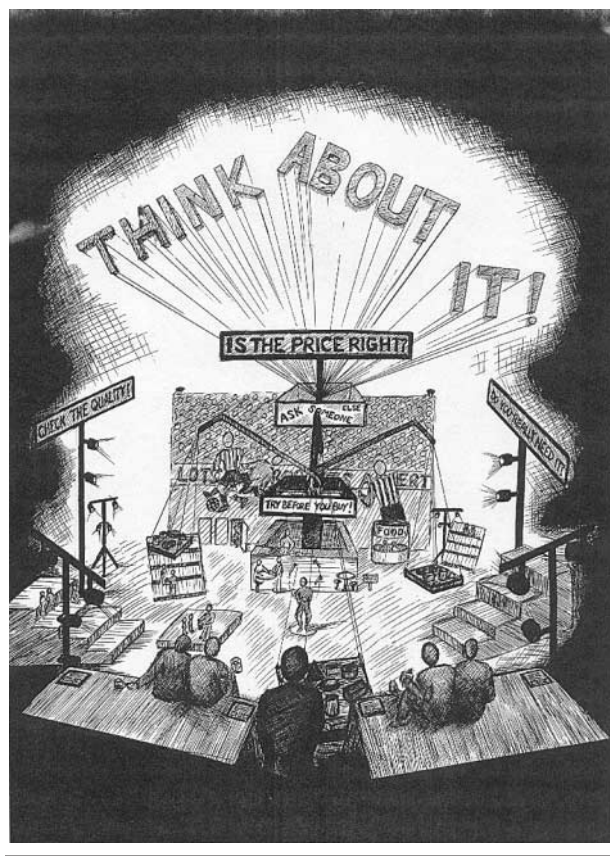


FIGURE 2
Customer as "Spect-Actor"



Customer as "Sense-Ceptor"

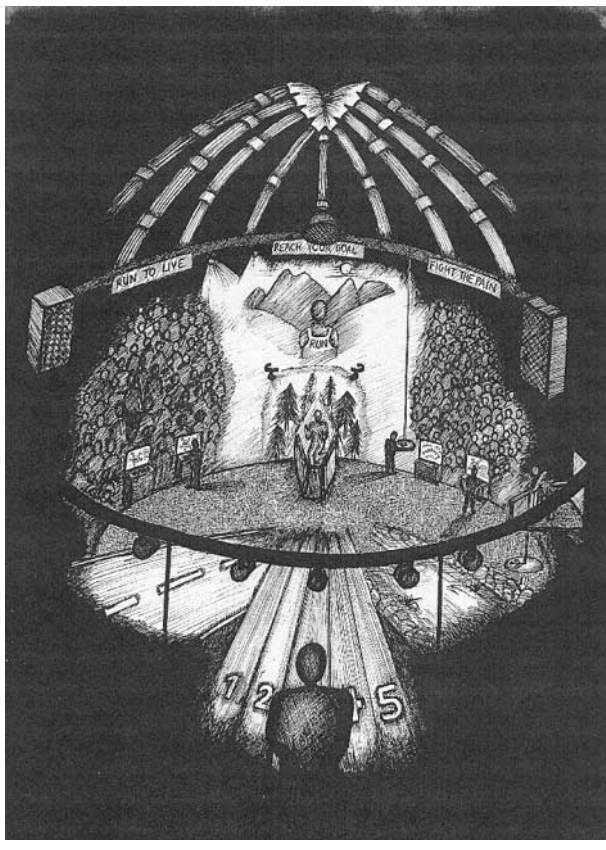
Versions of this role can already be identified in many retail environments. Customers are bombarded with stimuli designed to arouse different levels of physiological response. In Land Rover, Nashville, for example, customers can experience the thrill, excitement, and perhaps horror of driving a vehicle on a 30-degree side tilt. In Albert Heijn, in Holland, customers can excite their taste buds by trying freshly prepared merchandise, and in Girlheaven, young girls can experience what it is like to wear makeup. The Niketown stores across the world are designed to offer customers a sensory experience. Opportunities for customers to engage physically in sports of their liking are made available, and the many slogans provide experience goals—"Pick Your Team, Pick Your Skates, Game on" (Niketown, Toronto); "See Him, Dress Like Him, Play Like Him" (Niketown, Berlin); "A Tribute to the Bone-Crunching Sport of Australian Rules Football" (Niketown, Melbourne). The store experience for the customer (as "sense-ceptor") is very different from that

gained at the typical sports retailer that concentrates primarily on merchandise display.

A theatrical performance might focus in more detail on one, or possibly two, types or categories of response and reinforce the message through different elements of the performance. Each retail environment could be carefully designed to stimulate the same type of affective response. An example would be a toy store concentrating exclusively on stimulating positive emotions associated with playing with toys; enjoyment, happiness, and pleasure. Customers would be expected to physically demonstrate these emotions through laughter. Similarly, a sports retailer, like Niketown, might wish customers to experience the feelings associated with physical exercise, that is, the adrenalin rush (through use of equipment) combined perhaps with the feelings of achievement. An artist's impression of the "customer as sense-ceptor" experience in this context is shown in Figure 3.

Customers enter an enclosed sports dome, designed to produce a sensory response from the theme idea of running. The dome is enclosed by scaffold frames, and floor mats create different surfaces—track, road, cross-country.

FIGURE 3
Customer as “Sense-Ceptor”

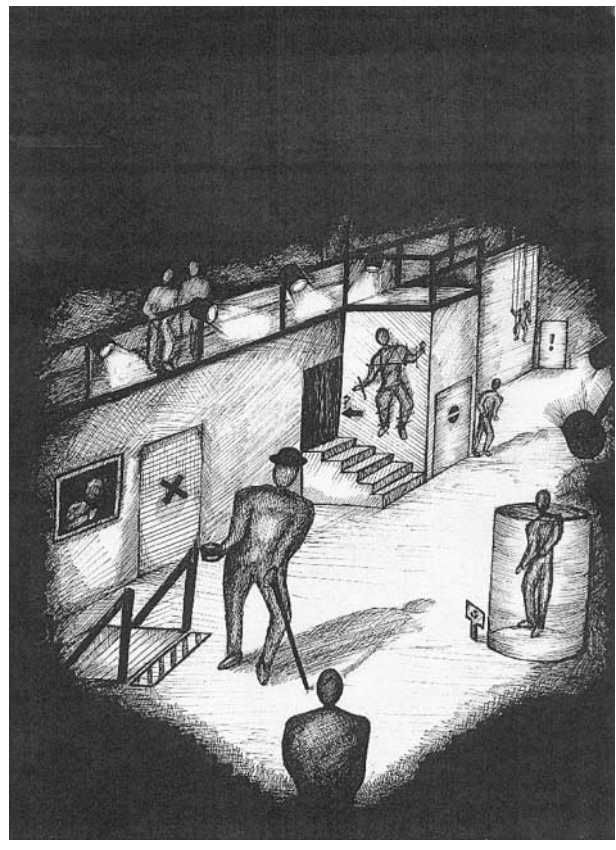


A screen projects images of crowds in a stadium, together with product advertisements. Specific practice areas include running machines with a view projection and signs conveying experience goals. The lighting atmospheric is mood inducing and can be changed according to the products that are being tried or experienced. Sounds associated with the experience include crowd encouragement, breathing, forest branches cracking. Employees are both backstage, dropping merchandise from “flies,” and frontstage, acting as assistants, advisers, and facilitators in trials. Customers can choose products to experience (e.g., running shoes) from three-dimensional kiosks.

Customer as *Connoisseur*

Here, the customer performs a role associated with “absurd” theater. Customers are connoisseurs, and it is their personal interpretation of the merchandise on offer that counts most. There is no right or wrong way to judge the merchandise, and it simply depends on the individual’s prior knowledge and experience. The challenge for the retailer is to present merchandise in the most thought-

FIGURE 4
Customer as Connoisseur



provoking manner possible. On the Wall Productions of St. Louis create store visibility through an eight-foot inflatable model of Munch’s painting of *The Scream* at the entrance. When inside the store, there is an art theme, or is there? The self-portrait of Van Gogh has with it a set of 12 ears, to “pin the ear on Van Gogh.” It is therefore a game shop, or is it? There are rubber clocks, inflatable ancient Egyptian mummies, and tubes of various shapes that make thunder-like noises. Models of modern space rockets and ancient medieval treasures glow in the dark.

Display in “absurd” theater is about creating abstract imagery designed to provoke an artistic, creative, but very individual response in observers. An artist’s impression of the customer-as-connoisseur experience in the context of quality fashion retailing is shown in Figure 4. Customers descend to a basement gallery with exhibits in strategic positions near doors, shutters, and closed areas. Signs encourage a challenged interest—“How do I get through to the merchandise?” and “What is the merchandise?” Figures are situated in installations. Customers interact with the figures (e.g., a gold mime artist) to solve the problems of reaching the merchandise (e.g., mime artist requires

gold coin to reveal hidden areas). Lighting is predominantly dark and selective to reveal figures in absurd situations (e.g., head in a TV screen) and create a gallery/journey experience. The employees play frontstage roles as human exhibits, interacting creatively with customers, and backstage roles, changing environments when installations are closed. As the merchandise is displayed in hidden areas, revealed through the doors, the emphasis is on achieving the products, through a solving process.

What is absurd and thought provoking may depend on the retail context. For example, if a fashion retailer was to intersperse life-size models of endangered wild animals reading science fiction novels among the range of ski clothing, customers would find it hard to find an obvious explanation. However, if book retailers were to use the same models, it may well be perceived to be a promotion of both wildlife and science fiction books. There should be no easily worked-out answers to absurd displays and no explanations given. Adopting a minimalist approach to the merchandise display will increase the intellectual engagement of the customers.

MANAGERIAL IMPLICATIONS

Specific examples and ideas emanating from influential theatrical movements have been set in the context of retailing to illustrate the potential *offered by a more detailed application* of the theater metaphor. Some more general implications are developed below that have relevance to all on-site retailers.

A Gestalt Approach: Opportunities for Coherent "Theater"

We have highlighted that a number of retailers are currently embracing *some* elements of the four theatrical movements into their retail performance. An opportunity exists for retailers to apply elements of each movement more fully by taking a holistic approach within the movement, with detailed consideration given to *all* the elements creating the intended effect and how they work together. Two illustrations are provided, which reflect retail/service policy decision making in the year 2001.

First, we take the case of Farmers' Markets. In the United States, there are more than 3,000 Farmers' Markets, and the concept of *local* growers and producers of farm products selling their products at a convenient location in the main town or city of an area, usually on a Saturday morning, is well established. In the United Kingdom, the concept is relatively new. However, two medium-sized towns in the northwest of England are proposing to set up

Farmers' Markets to revitalize the town centers that have been hit badly by a recently built large shopping mall in the region. There are important lessons to be learned from the operation of Farmers' Markets in the United States, which in many respects treat customers as "spect-actors." In the Olympia Farmers' Market in Seattle, they claim that the essence of the experience is the people and the produce. The mission statement of the Dane County Farmers' Market in Madison, Wisconsin, states that they should provide

- an opportunity for farmers and people from urban communities to deal directly with each other . . . and thereby get to know and learn from one another; and
- an educational forum for consumers to learn the uses and benefits of quality, locally grown or prepared food products.

The key to success of the ventures in the northwest of England may well lie in the ability to convince shoppers that a Farmers' Market is indeed different from the street markets that are to be seen in towns and cities throughout the United Kingdom. They would be seen as different if the consumers' experience was different. A way of ensuring a coherent, yet different experience would be to treat customers as "spect-actors" and totally embrace the retail management focus for this customer role, outlined in the final column of Table 1. All aspects of the offer would need to be fully developed in the Brecht movement.

Second, we look at the changing face of museums. Museums wish to attract visitors per se, but they also sell merchandise to visitors, relating to the theme of the presentation. The Jorvik Viking Museum, in York in the north of England, recently celebrated its 12 millionth visitor since it opened in 1984. It is situated on the remains of a site of a Viking village in the Coppergate area of the city, but the feature that has made the museum so popular has been the visitor trip back through time to Viking-age Jorvik, complete with *sights, sounds, and smells*. The visitor, as "sense-ceptor," has a sensory experience and begins to know what it would have felt like to have lived in the Viking village on that site. The York Archaeological Trust is spending £5 million to replace the current ride and displays with a new exhibition depicting 10th-century Coppergate (later in the Viking age). The members of the trust maintain that the smells are one of the most memorable aspects of the Jorvik experience and promise new environmental effects that will cool visitors with autumnal breezes and warm them with blasts from a metal worker's furnace. For the redevelopment of the format to continue to be successful, it will depend on the continued use of stimuli to arouse a depth of affective response and the maintenance of a coherent sensory experience for visitors—a proven appropriate intended effect on the customers.

A Basis for Consumer Segmentation

The focus throughout the article has been on creating a performance that produces a specific experience for *segments* of retail consumers. Clearly, not all consumers will appreciate being intellectually challenged nor want to be encouraged to be critical of the merchandise. Research on customer participation in services, generally, highlights how consumers vary in terms of their willingness, motivation, and ability to participate in, and respond to, service provision (Harris, Baron, and Parker 2000; McGrath and Otnes 1995). Rodie and Kleine (2000) suggested that firms may even choose to segment their market and position their service based on consumers' abilities and willingness to participate in service production.

Although segmentation is not without its critics (see, e.g., Day and Montgomery 1999; Wright 1996), it still provides an opportunity for service organizations to gain competitive advantage through clear service positioning (Cahill 1997). Terence Conran, founder of Habitat, urged global retailers to use segmentation more carefully to help put creativity at the center of their philosophy and was openly critical of retailers who have tried to

roll out formulas and have just forgotten that different people in different areas have different needs and aspirations . . . they try to produce a product range and a store environment that suits everybody, but the result becomes so dumbed down that in the end it appeals to no-one. ("Creative Thinking" 2000)

Retailers can draw on the theatrical movements to identify a role for their chosen segment(s) of customers that will, in turn, define the intended effect and then the retail management focus (as outlined in Table 1). A detailed understanding of these three areas will enable retailers to manage customer expectations of the retail performance. The targeted groups of consumers will have a clearer idea of the role they are expected to perform. As Cahill (1997) argued, this is the essence of effective segmentation—the development of customers in segments that are most profitable to the firm, by giving them what they want and communicating this to them in a language that they understand. The other side is preventing customers who the firm does not want to attract from seeing or hearing its communications.

As the *King Lear* example demonstrated, it is possible for the same script/story to be played out in different theatrical movements. Although each movement is clearly differentiated in terms of the intended effect, it would still be possible for a particular retailer, say, to adopt different styles in different locations under the same banner. The Microsoft store in San Francisco provides a good example.

According to the business manager, the store is an attempt to get the (Microsoft) software out of the box and show-case it in a lifestyle environment around working, living, learning, and playing. So the store is split into areas such as "successful living," "small business," "creative publishing," and "road warrior." In the "successful living" area, for example, boxes of software ("Family Lawyer 1999") are placed on shelves with silk, beanbag wrist rests, etched glass vases, and mugs with dictionary definitions of *passionate* written on them.

From this brief description, it seems that there is more to the store than just the merchandising of software products. The retailer has a flexibility of choice in that it could present the offer in different ways according to *the defined* customer role. If the customer is to respond as "voyeur," there could be even more realism in the working, living, learning, and playing areas, with staff acting appropriate parts. If the customer is "spect-actor," the store could include "rooms" for debate about products, where customers are encouraged to share knowledge and there are regular information technology (IT) educational sessions. If the customer is "sense-ceptor," there could be a concentration on virtual-reality experiences. If the customer is "connoisseur," the artefacts in the display areas should have no real explanation, and customers could be challenged intellectually (by electronic means) to reach their purchase goals.

Review of the Role of the Product in the Retail Experience

All four movements demonstrate the relatively subordinate role played by the physical product/merchandise within the service experience. The key to stimulate product sales is to ensure that the customer can make a product selection at some point during the experience—a relatively easy task, given developments in new technology. The "voyeur," for example, would be able to use a screen to make a product selection, after observing the product being used in a realistic environment. A shift in emphasis away from product display provides opportunities for cross selling various types of merchandise within one experience. Joint projects between fashion, furniture, and electrical retailers would enable "voyeurs" to purchase any product that they may encounter in an "inside lounge setting." The retailer, in a sports environment, can devote attention to the customers' experience—the feeling of going running—rather than to say, the display of sports shoes. Retailers are clearly aware of the selling potential of experiences, rather than simply tangible products. Three of the United Kingdom's most visible multiple retailers—Marks and Spencer, Boots, and WH Smith—have added

experiences to their product portfolio. Consumers can buy, for example, a deluxe spa day out from Marks and Spencer, a James Bond Experience from Boots, or a Big Boys Toys adventure (e.g. driving an eight-wheel-drive artillery tractor) from WH Smith (Waterhouse 2000).

Traditionally, a distinguishing feature of *retail* service-scapes is the presence of products/merchandise on display. A lessening of the domination of the products means that the design of retail settings can be guided not only by theatrical considerations but also by servicescape usage, especially for interpersonal services (Bitner 1992). From a strategic perspective, the servicescape should act as a package (conveying an external image of what is inside the store), a facilitator (which aids the performances of customers and employees within the store), a socializer (in that it makes clear the expected roles and behaviors of people within the store), and a differentiator (showing clearly its marketplace difference and the intended market segment) (Zeithaml and Bitner 1996). These services marketing considerations are present in Figures 1, 2, 3, and 4, where, because accessibility to merchandise and functionality of the service provided are less of an issue, there is scope, through the design of the servicescape, to encourage communal linking values (Aubert-Gamet and Cova 1999).

Improving Job Satisfaction for Service Performers

An important characteristic of the four movements is that they offer innovative insights about how to manage and develop the performance of frontline employees within retail environments. Traditionally, employees in this sector receive low wages and few rewards for responding positively to the rising service expectations of consumers. As with actors, retail employees involved in these movements would need to be recruited and trained to accept and perform new and more significant roles. These roles offer the potential to enhance their job satisfaction, providing them with a new range of skills and responses to service encounters. For example, employees within the “voyeur” environment would need to be trained to “act” in the realistic environments *and* ensure customers received relevant products. Where customers play the role of “spect-actors,” employees would need to learn how to encourage interactions between customers, to be prepared to be open and honest about the merchandise, *and* to perform as runners to bring merchandise to customers. In the “connoisseur” setting, employees would need to learn to act as high-profile mime artists at the front stage *as well as* display designers at the back stage.

There are bound to be retail management concerns about the cost-effectiveness of employing staff to sit around drinking coffee or playing a mime artist (even

though these roles will only represent part of their jobs). These concerns, however, should be seen in the context of the current high employee turnover in the retail industry. Employee turnover in U.S. stores is said to cost the average large retailer more than \$77 million per year, with an annual turnover as high as 83% for nonmanagement personnel (International Mass Retail Association 2001). In the United Kingdom, almost one quarter of retail employees feel underused, more than half of them feel stressed and demotivated by boredom, almost 90% of them feel that they would be more motivated if they were able to express their own ideas, and almost one third of them stated that creativity was not encouraged by their company (Investors in People UK 1997). The redefined roles of employees should address many of these “boredom costs” that contribute to employee turnover.

The role played by employees is widely acknowledged as being critical in influencing customer satisfaction (Bitner, Booms, and Tetreault 1990; Crosby, Evans, and Cowles 1990), with employee satisfaction being explicitly linked to the creation of customer value (Heskett et al. 1994). This is the philosophy being adopted in Safeway’s new concept store at St. Katherine’s Dock in London, United Kingdom (Clements 2001). Employees are trained to be “actors” to interact with customers and involve them with the store and the products; for example, during the time they are tossing pizza dough and making fresh pasta. The new roles are acknowledged to be very popular with the staff, and the customers gain value through the entertainment. From a managerial perspective, the key issue would be to identify and measure the impact of these new roles on employee satisfaction and ultimately on the consumer experience. This area, which we feel offers the greatest potential for further research, is discussed below.

CONCLUSIONS AND FURTHER RESEARCH

In the late 1990s and the early 2000s, there is evidence that retailers across different product groups and across different countries are adopting the phrase “retail theater” to convey messages about their intended relationships with customers. What appears to be associated with the use of the theater metaphor is a desire to create general effects such as experiences and, in some cases, entertainment for customers. Very rarely do the retailers, or store designers, demonstrate that the metaphor is examined in greater depth. In this article, to provoke ideas, we have explored four theatrical movements—theatrical realism, political realism, surrealism, and absurd theater, each of which has very specific intended effects on the audience. What emerges is a recognition that the staging of actual theatrical

productions is highly focused on what the writer/director wishes to be the intended effect on the audience.

The main aim of this article was to encourage discussion among retail and service practitioners and academics about new approaches to the provision of on-site retail experiences for consumers. For this reason, we have provided a conceptual overview of the theatrical movements and considered in detail how service system managers might use these approaches to improve retail practice. We suggest four ways in which managers might improve their retail performance:

- adopting a “gestalt” approach to create an intended effect for each retail performance,
- using the theatrical movements as a basis for segmentation,
- reviewing the role of the tangible product in the performance, and
- using the insights to improve job satisfaction of service employees.

There are two areas that have emerged from the discussion that offer potential for empirical investigation in the

short term. The first relates to the changing roles suggested for service employees. New scripts and roles could be developed for employees operating within a given retail environment, which reflect more closely the desired intended effect of a specific performance. The impact of the new scripts and roles on employee satisfaction (and ultimately customer satisfaction) could then be measured. The second area would be to measure the consumers’ awareness of the intended effect of a range of different retail performances from a gestalt perspective. Which elements of the performance have the greatest impact, and what conflicting and/or complementary messages are currently being received?

It is claimed that innovation (in products and services) is often the result of “taking developed ideas, and applying them in new situations” (Hargadon and Sutton 2000, p. 166). The goal of this article has been to encourage a search for innovation in retailing through applying ideas from aspects of theater that go beyond the use of the metaphor as a purely literary device.

APPENDIX A

Retailer Statements About Retail Theater

<i>Retailer</i>	<i>Country</i>	<i>Product</i>	<i>Statement on Retail Theater</i>	<i>Source</i>
Dobbies' Garden Centres	United Kingdom	Garden products	M. D. (James Barnes) talks of providing theater in garden centers—Christmas extravaganzas are part of the strategy to make garden centers entertainment destinations.	"Growing Pains" (1999)
Comet	United Kingdom	Electrical goods	(in the Paisley store) a 230-square foot video screen . . . has pride of place. This is part of retail theater, and it will become a new way to sell electrical goods. "Retail theatre allows the customer to touch, feel and experience the product," says MD, Joe Riordon. "When you walk in the Paisley store, it's like being in Disneyland. You have the 'wow' factor, and shopping is fun."	Nelson (1999)
Berketex Brides	United Kingdom	Wedding clothes	Silk, satin, tiaras and traumas create real retail theatre at Berketex Brides every single day of the year! We are now auditioning.	"Jobs in Fashion" (1999)
Girlheaven	United Kingdom	Accessories for preteen girls	Little girls want shops where they can browse through products designed to appeal to them. "Little girls increasingly see shopping as a way to play. This is retail theatre." "We're not encouraging young girls into make-up. It's more for fun—face paints, glitter, tiaras."	"Tween Shop Plugs Gap" (1999)
Schuh	United Kingdom	Shoes	The Schuh concept is always to source and present a product targeted [at those] with an interest in the fashion, music, and club scene "but also for anyone else young at heart and interested in looking good and enjoying themselves. These products are sold in a unique, fast paced retail environment, with the emphasis on Retail Theatre, Excellent Customer Service, and the highest standards of Merchandising and Display." . . . Exciting Retail environment, "RETAIL THEATRE."	Schuh Company (1999)
Toyota Megaweb Centre	Japan	Cars	Toyota is plotting the future of car retailing. . . . This is the car dealership as theme park, "an interactive facility built around the appeal of cars." "[When a person] buys an experience, he pays to spend time enjoying a series of memorable events that a company stages—as in a theatrical play—to engage him in a personal way." To walk through Megaweb is to walk through the airiest, cleanest, slickest amusement arcade ever.	Bulgin (1999)
Albert Heijn	Holland	Food and groceries	Concentric rings of groceries encircle the store's central point, known as L'Avonture. L'Avonture has specialist service counters, akin to a traditional market, where customers can purchase fresh products and receive advice on cooking and food preparation. Customers are drawn to this appealing area from any point of the shop where they will find ambience and theatre. . . . Customer feedback suggests that . . . [t]he exciting central layout helps to create an emotional bond to the store.	Institute of Grocery Distribution (1999)
Niketown, Chicago	United States	Sports goods	The store was "built as a theater, where our consumers are the audience participating in the production."	Press release, quoted in Pine and Gilmore (1999)
Sephora	France	Cosmetics and perfume	The marketplace is becoming theatre, as shopping changes from chore to recreation. Sephora is simply a huge toy store for grown-ups Allows customers to "play" and try out the products, and encourages its staff to offer independent advice. Make-up artists, estheticians and computer screens are on hand to advise on the best face cream for certain skin types.	"Sephora's French Chic Challenges American Way" (1999)
Esprit, Los Angeles store	Germany	Fashion	A 20,000 sq. ft. space was almost hand-crafted . . . into a sort of retail "theater," the sweep on the concrete façade echoing Hollywood movie screens and the billboards of the nearby Sunset Strip. The interior of the store featured an elaborate theatrical lighting grid . . . and swarms of Esprit's signature flat black mannequins flying overhead.	Esprit International (1999)
Neiman Marcus	United States	Upmarket department store	What we do in our stores is retail theater. Our stores are extensively appointed and create a residential feel—carpets, walls, seating, comfort and the largest art collection of any retailer.	Burt Tanskey, CEO (Retail World Conference, London, 1999, videotape 1)
Land Rover, Nashville, Tennessee	United States	Cars	Before entering the Centre, customers are greeted by a 12-foot bronze elk . . . a symbol that the facility represents a new trend in auto retailing where customers are invited into a "retail theater" to truly experience the . . . outdoorsy, adventuresome lifestyle synonymous with the brand. . . . The facility allows customers to experience natural obstacles, a steep hill and a 30-degree side-tilt.	Land Rover Nashville (1999)

(continued)

APPENDIX A continued

<i>Retailer</i>	<i>Country</i>	<i>Product</i>	<i>Statement on Retail Theater</i>	<i>Source</i>
Tags Hardware	United States	Home furnishing	The owner, Simon Shapiro, states that “these items [housewares] put fashion in the merchandise mix. We treat retail like theater: Come in, be entertained and spend money on your way out.”	King (1998)
Fabiani	South Africa	Clothing	Fabiani’s customers can now shop in a retail theatre . . . many forms of entertainment; a cigar humidor, a fragrance section, selections of exclusive books and CDs where you will be able to view clothing with jazzy sounds with a cappuccino or espresso in hand	http://www.suits.co.za/who_is_fabiani/body_who_is_fabiani.html
Coles Myers	Australia	Supermarket	Coles Myers revolutionary new concept culinary venture “let’s eat” described as a unique “theater of cooking.” A bakery runs along the left and a huge preparation and cooking area is on the right. A staircase leads to a cooking school upstairs. Décor features cream and gray paintwork, accentuated with pale charcoal toned gray tiles and large expanses of stainless steel.	Coles Myers (1998)
Allied Domecq	United Kingdom	Public house retailing	Theatre is a huge part of pub retailing. Theatre does stretch from the Royal Shakespeare Company to the local rep. Licensees and staff generate atmosphere. [Pub retailing] is all about theatre, all about trying to give people a sense of belonging—when they meet people like themselves, they get a sense of belonging.	John McKeown, Marketing Director (Retail World Conference, London, 1999, videotape 1)

**APPENDIX B
Designer’s Statements on Retail Theater**

<i>Design Company</i>	<i>Country</i>	<i>What They Say/Do</i>	<i>Source</i>
ImagiCorps	United States	Have a special page on their Web site devoted to “Retail Theater.” Claim expertise “in the creation of unforgettable, exciting retail theater environments. Our 3-dimensional marketing solutions invite consumers to become involved in the retail experience . . . we create interactive surroundings designed to enhance [retailers’] products and sales.” Examples shown are mainly multivideo networks (including a “flying video wall”) for toy shops (e.g., FAO Schwarz, Toys ‘R Us).	ImagiCorps (1999)
Carter-Burgess	United States	Publish a quarterly periodical (<i>Quarterly Carter-Burgess</i>) on “Concepts in Retail.” The issue in the 1st quarter of 1999 was on “The Store as Theater.” The metaphor is explored through a five-page article. Approaching store design as theater is said to be a relatively new phenomenon. “The key is to create a feeling of place—an atmosphere that enhances the shopping experience and allows the customer to interact to some degree with the merchandise, much the same way stagecraft facilitates interaction between audience and actors.” Examples shown include designs for Nickelodeon (cable channel store), Hi-Health World of Nutrition (to create a health-oriented amusement park within 26,000 square feet), and Reeds Jewelers.	“The Store as Theater” (1999)
Design International	United Kingdom	Claim that “this is the area where it all began for Design International—our ongoing passion for the retail theatre.” Clients include shopping centers, department stores, and other retail outlets.	http://www.di-design.demon.co.uk/DI-Interiors.html
Haley Sharpe	United Kingdom	Their design of the Dubai duty-free shopping area is described as “a state of the art facility that will offer more than 9,000 sq metres of shopping. Combining years of duty free experience with skills of visitor attractions, we introduce ‘retail theatre’.”	http://www.haley-sharpe.co.uk
IMAGINIF	Belgium	In their store design concept, they state that “retailers must clearly define their image and provide an environment that entertains their customers. Lighting, décor, ‘theater’ (your unique design), and even actors (your store personnel) can be developed to encourage customers to visit your store.” Use their ideas for new store design for a variety of retail clients.	http://www.imaginif.be/e/storedesign.html

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The Relationships Between Culture and Behavioral Intentions Toward Services

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Some recent studies have shown that culture influences how consumers perceive service quality. Others have shown the relationship between perceived service quality and behavioral intentions. In this article, the authors study how culture influences behavioral intentions toward services on the basis of services marketing and cross-cultural psychology literature. They tested and found that customers from cultures with lower individualism or higher uncertainty avoidance tend to have a higher intention to praise if they received superior service. On the other hand, the same groups tend not to switch, give negative word of mouth, or complain even if they received poor service quality. Customers from cultures with higher individualism or lower uncertainty avoidance tend to switch, engage in negative word of mouth, or complain if they received poor service quality. But they do not tend to praise when they received superior service. Managerial implications, contribution, and future research directions are also discussed.

In this article,¹ we seek to add to our understanding of the effect of culture on customer behavior toward services by studying the relationship between culture and behavioral intentions in a service quality context.

Various studies, such as Parasuraman, Zeithaml, and Berry (1988, 1994); Boulding et al. (1993); Zeithaml, Berry, and Parasuraman (1996); and Liu, Sudharshan, and Hamer (2000), have found perceived service quality to have an effect on several types of behavioral intentions. For example, Zeithaml, Berry, and Parasuraman (1996) found that perceived service quality has (a) positive effects on loyalty to a company and willingness to pay more and (b) negative effects on propensity to switch and to engage in an external response to a problem. But they did not find any significant effects of service quality on internal response to a problem. Other recent studies have found that customers from different cultures formed different perceptions of the service quality of the same stimuli either because of differences in expectations or because they attached different weights to different service quality criteria. For example, Donthu and Yoo (1998) found that customers' cultural orientation affects their service quality expectations. Mattila (1999) found that customers with Western cultural backgrounds are more likely to rely on tangible cues from a physical environment to evaluate service quality than are their Asian counterparts. More re-

1. At the outset, we wish to point out that the data used for the present article were collected as a part of a larger project, of which the first published report was that by Furrer, Liu, and Sudharshan (2000).

cently, Furrer, Liu, and Sudharshan (2000) found that customers from different cultures assigned different importance weights to the five SERVQUAL dimensions for measuring perceived service quality. In summary, the extant literature documents investigations of the effects of culture on perceived service quality and of perceived service quality on behavioral intentions. We investigate the next step in this line of inquiry, by studying the relationship between culture and behavioral intentions in a service quality context. Specifically, we show that cultural factors influence customers' behavioral intentions by influencing the perception of service quality. Our article provides both a theoretical and an empirical contribution to the services marketing literature.

This article is organized as follows: First, we present the literature discussing the pairwise relationships between culture and perceived service quality, perceived service quality and behavioral intention, and between culture and behavior. Second, we develop hypotheses about the relationships between cultural factors and behavioral intentions in service situations. Third, we describe the methodology that we used to test our hypotheses and then present the results of our empirical study. Finally, we discuss some managerial implications of our study and future research directions.

LITERATURE REVIEW

The Relationships Between Culture, Perceived Service Quality, and Behavioral Intentions

Some recent studies have already started the investigation on how cultural dimensions influence satisfaction and perceived service quality (e.g., Bianchi 2001; Donthu and Yoo 1998; Furrer, Liu, and Sudharshan 2000; Malhotra, Ugaldo, Agarwal, and Baalbaki 1994; Mattila 1999; Reisinger and Turner 1999; Strauss and Mang 1999; Sultan and Simpson 2000; Winsted 1997, 1999). A review of much of this literature can be found in Furrer, Liu, and Sudharshan (2000). Overall, these studies found that customers from different cultures have different perceptions of service quality. Table 1 summarizes this literature and its principal findings.

However, none of these studies have explicitly addressed the issue of the relationship between culture and behavioral intentions. Behavioral intentions have been studied as intervening variables between service quality and financial performance (Zeithaml, Berry, and Parasuraman 1996). Several studies (e.g., Brown 1997; Tax, Brown, and Chandrashekaren 1996) indicate that upset customers may tell, on average, 10 to 20 people about

their negative experiences. With the increasing use of the Internet, communication among customers will soar. This reality of the extent and speed of word-of-mouth dissemination and the expectation of "spreading on net" has led many service practitioners to place renewed focus on customer complaint behavior and customer complaint management. The economic impact of customer retention that is most often cited is the calculation carried out for 14 industries by Reichheld (1996; Reichheld and Sasser 1990; Reichheld and Scheffer 2000), that the net present value increase in profit that results from a 5% increase in customer retention varies between 25% and 95%.

Most of the early studies linking either service quality or customer satisfaction to behavioral intentions used a unidimensional measure of behavioral intentions (e.g., Anderson and Sullivan 1993; Cronin and Taylor 1992; Woodside, Frey, and Daly 1989). These studies found a significant positive relationship between overall customer satisfaction and loyalty or repurchase intention. More recent studies have investigated the effect of customer satisfaction and perceived service quality on various kinds of behavioral intentions such as loyalty, positive word of mouth (Boulding et al. 1993), intentions toward repeat patronage, and intentions toward communication to others (Liu, Sudharshan, and Hamer 2000). Moreover, in their study of the links between service quality and behavioral intentions, Parasuraman and his associates (e.g., Parasuraman, Zeithaml, and Berry 1994; Zeithaml, Berry, and Parasuraman 1996) identified five dimensions of behavioral intentions: loyalty to the company, propensity to switch, willingness to pay more, external response to problem, and internal response to problem. Studying the relative influence of service quality on the five behavioral-intention dimensions, they found positive effects with loyalty to company and willingness to pay more, negative effects with propensity to switch and external response to problem, and nonsignificant effects with internal response to problem (Parasuraman, Zeithaml, and Berry 1994; Zeithaml, Berry, and Parasuraman 1996). Bloemer, de Ruyter, and Wetzels (1999), using the same items as Zeithaml, Berry, and Parasuraman (1996), found different dimensions for behavioral intentions: repurchase intentions, word-of-mouth communication, price sensitivity, and complaining behavior. They also found that relationships between service quality and behavioral intentions had notable differences across industries.

The Relationship Between Culture and Behavior

A majority of the studies of the similarities and differences in individual psychological functioning in various cultural and ethnic groups assume explicitly that culture is

TABLE 1
SUMMARY OF THE LITERATURE EXAMINING THE RELATIONSHIPS
BETWEEN CULTURE AND SERVICE QUALITY/CUSTOMER SATISFACTION

<i>Study</i>	<i>Service Quality Dimensions/Customer Satisfaction</i>	<i>Culture/Cultural Dimensions</i>	<i>Industry Context</i>	<i>Findings</i>
Malhotra et al. (1994)	Ten dimensions based on SERVQUAL	Developed and developing countries evaluated on Individualism, collectivism, power distance, time value, and communication	Conceptual	Propose that developing nations are high in power distance and collectivism, and place greater emphasis on human touch and personal contact than on reliability to assess the quality of the service.
Winsted (1997)	Authenticity, caring, control, courtesy, formality, friendliness, personalization, promptness	Japan and the United States	Restaurant	Significant differences between the service quality dimensions in Japan and in the United States.
Donthu and Yoo (1998)	SERVQUAL	Individual level based on Hofstede's dimensions (Canada, Great Britain, India, and the United States)	Banking	Negative relationship between power distance and responsiveness and reliability, positive relationship between individualism and empathy and assurance.
Reisinger and Turner (1999)	Argyle et al.'s (1986) relationship rules dimensions	Japan and Australia	Tourism	Five dimensions that differ between Japanese tourists and Australian hosts are courtesy and responsiveness, competence, interaction, idealism, and communication.
Mattila (1999)	Physical environment, personal service component, hedonic dimension	Western and Asian customers	Hotel	Customers with a Western cultural background rely more on tangible cues than Asian ones, and the hedonic dimension is more important for Westerners than for Asians.
Strauss and Mang (1999)	Consumer dissatisfaction	Japanese, American, and German passengers	Airline	Cultural differences have a significant effect on service evaluation. Cultural shocks, which lead to consumer dissatisfaction, occur when service providers do not meet the culturally determined expectations of foreign customers.
Winsted (1999)	Customer satisfaction with eight service encounter dimensions (authenticity, caring, courtesy, formality, friendliness, perceived control, personalization, promptness)	Status-conscious vs. egalitarian, collectivistic vs. Individualistic in Japan and United States	Professional services and generic services	Formality is found to be more important in status-conscious countries than in egalitarian, and personalization is more important for professional services, whereas courtesy and promptness are more important for generic services. Caring and courtesy received the overall highest ratings as most important to satisfaction with service encounters.
Furrer, Liu, and Sudharshan (2000)	Importance of SERVQUAL dimensions	Individual level based on Hofstede's dimensions (USA, China, Singapore, South Korea, Switzerland)	Banking	21 of the 25 possible relationships between SERVQUAL and Hofstede's five cultural dimensions are significant as hypothesized.
Sultan and Simpson (2000)	SERVQUAL	American and European passengers	Airlines	The relative importance of SERVQUAL dimensions are significantly different for reliability and tangibility, but not for responsiveness, assurance, or empathy. Differences in terms of expectations and service quality perceptions are also found significant.
Bianchi (2001)	Customer satisfaction with the service encounter	Individualism, power distance, uncertainty avoidance, masculinity at country level (Hofstede 1980)	Conceptual	Propose that relationships between cultural differences and customer satisfaction with the service encounter are mediated by congruency in expectations and mutual understanding and moderated by intangibility and proximity.

an antecedent to human thought and behavior (e.g., Berry et al. 1992; Triandis 1994). For example, Berry et al. (1992) have proposed that the major orientations in cross-cultural psychology tend to assume cultural explanations for psychological and behavioral differences among groups of people. A second approach that attempts to describe culture in terms of the constraints that *limit*, rather than *determine*, a group's behavioral repertoire also assigns antecedent status to culture (Poortinga 1990). Shweder (1990) stated that "cultural traditions . . . regulate . . . the human psyche, resulting . . . in ethnic divergences in mind, self, and emotion" (p. 1). Triandis (1980) proposed that social behavior is a function not only of prior habits but also of self-instructions (intentions) to act in specific ways in particular social situations. Such self-instructions are determined by sociocultural norms about appropriate behavior, expectations about possible consequences of performing the behavior, and affective reactions. Thus, the utility of the behavior in the social as well as in the personal domain is a fundamental component of the intention to perform it.

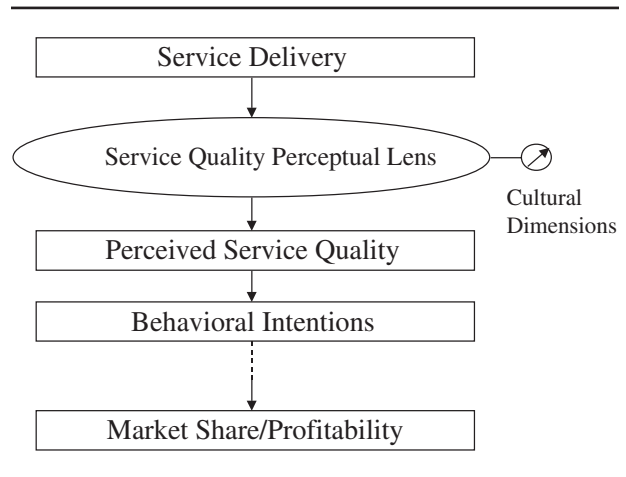
On the basis of the marketing literature cited above and the relevant cross-cultural psychology literature, we reason that cultural factors are part of the fundamental factors contributing to the formation of a person's general perceptual lens. Specifically, we reason that cultural factors may influence customer behavioral intentions through perceived service quality, which in turn is influenced by a service quality perceptual lens. A pictorial overview and visual aid showing the connections between the various service quality constructs and cultural dimensions is provided in Figure 1.

The literature briefly reviewed above provides the motivation for, and insights leading to, the set of hypotheses described in the next section.

HYPOTHESES

To study the relationships between culture and behavioral intentions, we hypothesized relationships between Hofstede's cultural dimensions: *power distance*, *individualism*, *masculinity*, *uncertainty avoidance*, and *long-term orientation* and the five more common categories of behavioral intentions. The behavioral intentions toward banking services are *loyalty to the company*, *propensity to switch*, *positive word of mouth*, *negative word of mouth*, and *complaining*. Extended discussions of the five cultural dimensions can be found in Hofstede (1980, 1991) and Bond et al. (1987), and more recently in the marketing context in the articles by Sødgaard (1994); Nakata and Sivakumar (1996); Donthu and Yoo (1998); Sivakumar and Nakata (1999); and Furrer, Liu, and Sudharshan

FIGURE 1
Relationship Between Culture and Behavioral Intentions



(2000). For a discussion of the five behavioral-intention dimensions, please refer to Zeithaml, Berry, and Parasuraman (1996) and Bloemer, de Ruyter, and Wetzels (1999).

Relationships Between Culture and Behavioral Intentions

Perception of service quality influences behaviors and intentions. Good perceived service quality and bad perceived service quality would not lead to the same behaviors and intentions. Loyalty to company and positive word of mouth are both favorable behavioral intentions that are more likely to occur when customers are satisfied with the service quality they received. Propensity to switch, negative word of mouth, and complaining are unfavorable behavioral intentions that are more likely to occur when customers are not satisfied with the service quality they receive. Therefore, in the next paragraphs, we hypothesize two sets of relationships for the effect of the five cultural dimensions on the five behavioral intentions, one when the perception of service quality is positive and the other when the perception is negative.²

2. Furrer, Liu, and Sudharshan (2000) introduced three contingency variables to the relationships between culture and service quality perceptions: weak versus powerful customers, male versus female service provider, and a frequent versus an infrequent service situation. However, they only tested one combination of these variables (weak customers, female service provider, and frequent service situation); because we are using the same sample, we tested the same combination of the contingency variables. However, to facilitate the flow of the article, we do not present hypotheses for different combinations of the contingency variables.

TABLE 2
Hypothesized Relationships Between Cultural Dimensions and Behavioral Intentions

	<i>Power Distance</i>	<i>Individualism</i>	<i>Masculinity</i>	<i>Uncertainty Avoidance</i>	<i>Long-Term Orientation</i>
Positive scenario					
Loyalty to company	0	0	0	0	0
Positive word of mouth	-	-	+	+	+
Negative scenario					
Propensity to switch	+	+	+	-	-
Negative word of mouth	+	-	-	-	-
Complaining	+	+	+	-	-

Table 2 shows the summary of our hypotheses. The reasoning for each hypothesis is provided in the following paragraphs.

Positive Service Quality Scenario

LOYALTY TO THE COMPANY

When the perceived service quality is positive, the tendency to be loyal to the company is usually high, probably through positive reinforcement, and this effect occurs independent of the culture of the customers. Therefore, we do not expect to find significant relationships between cultural dimensions and loyalty to the company when the perceived service quality is positive.

POSITIVE WORD OF MOUTH

Praising a service provider to other customers is largely influenced by culture. A study by Brown and Reingen (1987) showed a positive relationship between social ties and the use of word-of-mouth referral. Another study by Money, Gilly, and Graham (1998) showed that collectivistic and risk-averse Japanese companies were more likely to use word-of-mouth referral in the purchase of professional services than individualistic and less risk-averse American companies. Mangold, Miller, and Brockway (1999) found that word-of-mouth communication was stimulated when two or more people were collectively trying to select a service.

On the basis of the above, we hypothesize that when the perception of service quality is positive, customers in large power distance cultures are less likely to give positive word of mouth than customers in small power distance cultures because the customers in large power distance cultures tend to be treated as having higher power and thus consider positive service quality as normal. Also, we expect that customers in individualistic cultures are less likely to give a positive word of mouth than those in collectivist cultures because of fewer channels to spread word of mouth. In masculine cultures, customers are more likely to

give positive word of mouth than those in more feminine cultures because they have stronger motivation to show others the good services they received. Customers in high-uncertainty avoidance cultures are more likely to praise good service quality and to give positive word of mouth than customers in low-uncertainty avoidance cultures because praising may help ease the sense of uncertainty. Finally, customers in long-term-oriented cultures are more likely to praise good service quality and to give positive word of mouth than customers in short-term-oriented cultures because praising may enhance the long-term relationship with the service provider.

Negative Service Quality Scenario

PROPENSITY TO SWITCH

When the perception of service quality is negative, customers in large power distance cultures are more likely to switch than customers in small power distance cultures because they perceive having the power to switch to another service provider. Individualists, due to their drive, self-responsibility ethic, and demand for others to be efficient are hence more demanding than collectivists (Furrer, Liu, and Sudharshan 2000). Therefore, we hypothesize that customers in individualistic cultures are more likely to switch when they experience a problem than do customers in collectivist cultures. In masculine cultures, loyalty and harmony are less valued than in feminine cultures. People are more willing to exercise their customer power to discipline service providers by switching to others. So, in such cultures, customers are more likely to switch to other service providers than those in more feminine cultures. In cultures with high-uncertainty avoidance, switching is perceived to be associated with uncertainty, hence undesirable; therefore, in such cultures, customers are less likely to switch than customers in low-uncertainty avoidance cultures. Finally, customers in long-term-oriented cultures are more likely to stay with the same service provider to maintain a long-term relationship than customers in short-term-oriented cultures.

NEGATIVE WORD OF MOUTH

When the perception of service quality is negative, customers in large power distance cultures are more likely to spread negative word of mouth than customers in small power distance cultures because they consider themselves to have higher power and hence less tolerable with negative service quality. On the basis of Mangold, Miller, and Brockway's (1999) findings that word-of-mouth communication was stimulated when two or more people were collectively trying to select a service, we hypothesize that customers in individualistic cultures are less likely to pass on negative word-of-mouth messages than customers in collectivistic cultures because they have fewer channels to pass word of mouth. Customers in masculine cultures are less likely to engage in negative word-of-mouth messaging than customers in feminine cultures because they are unwilling to look bad in others' eyes. Finally, customers in high-uncertainty avoidance or long-term-oriented cultures are less likely to engage in negative word-of-mouth messaging than customers in low-uncertainty avoidance or short-term-oriented cultures. This is because such negative word-of-mouth messaging may have the risk of compromising long-term relationships with the service providers and thus is avoided.

COMPLAINING

Customers' tendency to complain to the service provider is largely influenced by their cultures. Reisinger and Turner (1999) reported that Japanese, characterized by collectivistic, high-uncertainty avoidance and long-term orientation traits, regard explicit complaining or expressing dissatisfaction inappropriate and socially undesirable.

In cultures with large power distance, customers are more likely to complain when they experience a problem than customers in cultures with smaller power distance because their higher power perception enables them to express their complaining more freely. Individualists, due to their drive and self-responsibility ethic, also demand others to be efficient; therefore, they are more demanding than people in more collectivist cultures (Furrer, Liu, and Sudharshan 2000). So, in individualistic cultures, customers are more likely to complain when they experience a problem than those in collectivistic ones. In masculine cultures, customers are more likely to complain than customers in more feminine cultures because they are more willing to confront the service provider for the unsatisfactory experience. In cultures with strong-uncertainty avoidance or long-term orientation, customers are less likely to complain than in cultures with weak-uncertainty avoidance or short-term orientation. This is because a complaint could lead to confrontation, and people in such cultures are

looking more at consensus and harmonious relationships (Reisinger and Turner 1999).

As mentioned in the beginning of this section, the above hypotheses are summarized in a concise format in Table 2.

METHOD

Survey

The empirical part of these studies is based on the data collected by Furrer, Liu, and Sudharshan (2000). However, the data sets for the two articles are, in essence, different. Only the cultural dimensions were common to both studies. These data were obtained from a sample of 285 executive or MBA students from countries with diverse cultures: 103 from the United States, 128 from Asia (China: 49, Taiwan: 24, Korea: 22, Singapore: 19, and other Asian countries [e.g., India, Indonesia, Saudi Arabia, Thailand, Turkey]: 14), 38 from the French-speaking part of Switzerland, and 16 from other countries. The participants were selected to ensure the heterogeneity of the students' cultural backgrounds. These participants all had several years of work and banking experience (some of them even worked as accounting/finance managers dealing with banks intensively). They were asked to recollect their experience with a bank in their respective personal countries of origin.

Measurement

OVERALL PERCEIVED SERVICE QUALITY

Because behavioral intentions are likely to change depending on the service quality, we set up two service scenarios that varied in terms of the perception of the overall quality of a bank. We asked the respondents to evaluate the likelihood of their behavior on a 7-point scale (1 = *not likely at all*, and 7 = *extremely likely*) to a bank with high ratings on the five SERVQUAL dimensions (reliability, responsiveness, assurance, empathy, and tangibles; cf. Parasuraman, Zeithaml, and Berry, 1988, 1994) as well as to a bank with low ratings on the same five dimensions.

BEHAVIORAL INTENTIONS

The five behavioral intentions were measured using items similar to those used by Zeithaml, Berry, and Parasuraman (1996) and Bloemer, de Ruyter, and Wetzels (1999) and are presented in Table 3. Loyalty was measured using four positive behavioral-intention items: do more

TABLE 3
Behavioral Intentions Operationalization

<i>Behavioral Intention Constructs</i>	<i>Item Wording</i>	<i>Similar to Zeithaml, Berry, and Parasuraman (1996) Dimensions</i>
	Positive service quality scenario	
Loyalty to the company	1. Do more business with Bank X in the next few years	Loyalty
	2. Continue to do business with Bank X even if its prices increase somewhat	Pay more
	3. Consider Bank X your first choice to buy banking services	Loyalty
	4. Pay higher price than competitors charge for the benefits you currently received from Bank X	Pay more
Positive word of mouth	1. Encourage friends and relatives to do business with Bank X	Loyalty
	2. Recommend Bank X to someone who seeks your advice	Loyalty
	3. Say positive things about Bank X to other people	Loyalty
	Negative service quality scenario	
Propensity to switch	1. Take some of your business to a competitor that offers more attractive prices	Switch
	2. Switch to a competitor if you experience a problem with Bank X's service	External response
Negative word of mouth	1. Discourage friends and relatives to do business with Bank X	Loyalty (-)
	2. Not recommend Bank X to someone who seeks your advice	Loyalty (-)
	3. Say negative things about Bank X to other people	Loyalty (-)
Complaining	1. Complain to other consumers if you experience a problem with Bank X's service	External response
	2. Complain to Bank X's employees if you experience a problem with Bank X's service	Internal response
	3. Complain to external agencies, such as the Better Business Bureau, if you experience a problem with Bank X's service	External response

business, continue to do business with the company, consider the company first choice, and pay a higher price than competitors. Positive word of mouth was measured using three items: saying positive things about the company, recommending the company to someone who seeks advice, and encouraging friends and relatives to do business with the company. Negative word of mouth was measured using three items: discourage friends and relatives to do business with the company, not recommend the company to someone who seeks your advice, and say negative things about the company. Propensity to switch was measured using two items: take some of your business to a competitor and switch to a competitor if you experience a problem with the company's service. Finally, complaining was measured using three items: complain to other customers, complain to the company's employees, and complain to external agencies such as the Better Business Bureau.

CULTURAL DIMENSIONS

Hofstede's cultural dimensions were originally operationalized to measure work-related values. Because the context of the study is a service situation, we used a different set of items than the one used by Hofstede (1980). We used the 20 items that Furrer, Liu, and Sudharshan (2000) developed based on items proposed by Hofstede (1991) to describe the key differences between the two poles of each dimension in terms of general norms.

These items have been selected to measure a particular cultural dimension and have been given the same weight. The indexes for each of the dimensions were computed as the average of the standardized scores for the items that comprise the dimension (the mean for each item was set to zero, and its standard deviation was set to one).

RESULTS

We analyzed the effect of culture on behavioral intentions by regressing each of the behavioral intentions on each of the cultural dimensions. We found that 76% (19 out of 25) of the standardized regression coefficients are in the same direction as hypothesized, and 56% (14 out of 25) of the coefficients are significant at the 10% or lower level in the same direction as hypothesized. The results are presented in Table 4. The data in Table 4 show that the effects of cultural factors on behavioral intentions are as described below.

Positive Service Quality Scenario

Loyalty to the company is operationalized by four items: (a) do more business with Bank X in the next years, (b) continue to do business with Bank X even if its prices increase somewhat, (c) consider Bank X your first choice

for banking services, and (d) pay a higher price than competitors charge for benefits you currently received from Bank X. A principal components analysis was used to compute a loyalty index. Cronbach's alpha coefficient for this index is .684. As hypothesized, no significant coefficient is found between loyalty and the five cultural dimensions.

Positive word of mouth is operationalized by three items: (a) encourage friends and relatives to do business with Bank X, (b) recommend Bank X to someone who seeks your advice, and (c) say positive things about Bank X to other people. A principal components analysis was used to compute a positive word-of-mouth index. Cronbach's alpha coefficient is .812. The standardized regression coefficient between positive word of mouth and power distance is significant in the negative direction ($\beta = -.174$ at the 1% level), giving a strong support to the hypothesis. The hypothesized negative relationship between individualism and positive word of mouth is supported by a significant negative coefficient of $-.130$ at the 5% level. The positive relationship hypothesized between positive word of mouth and masculinity is not supported. Positive word of mouth and uncertainty avoidance are significantly positively related, giving a strong support to the hypothesis. The standardized regression coefficient is .197 at the 1% level. Finally, positive word of mouth is marginally positively influenced by long-term orientation ($\beta = .103$ at the 10% level).

Negative Service Quality Scenario

Propensity to switch is operationalized by two items: (a) take some of your business to a competitor that offers more attractive prices and (b) switch to a competitor if you experience a problem with Bank X's service. A principal components analysis was used to compute a propensity-to-switch index. Cronbach's alpha coefficient is .750. The positive relationship hypothesized between power distance and propensity to switch is not supported. The expected positive relationship between individualism and propensity to switch is supported by the significant positive coefficient ($\beta = .146$ at the 5% level). The relationship between masculinity and propensity to switch is significant with a coefficient of $-.113$ at the 5% level; however, we hypothesized a positive relationship. The hypothesized negative relationship between uncertainty avoidance and propensity to switch is also supported by the significant negative coefficient ($\beta = -.173$ at the 1% level). The negative relationship between long-term orientation and propensity to switch is not supported by the data.

Negative word of mouth is operationalized by three items: (a) discourage friends and relatives to do business

with Bank X, (b) not recommend Bank X to someone who seeks your advice, and (c) say negative things about Bank X to other people. A principal components analysis was used to compute a negative word-of-mouth index. Cronbach's alpha coefficient is .652. The results show that the relationships between negative word of mouth and power distance and between negative word of mouth and masculinity are not supported. The relationship between individualism and negative word of mouth is marginally significant but in the opposite direction ($\beta = .104$ at the 10% level), which gives no support to the hypothesis. The hypothesized negative relationship between uncertainty avoidance and negative word of mouth is supported by a significant negative coefficient ($\beta = -.116$ at the 5% level). Finally, the negative relationship between long-term orientation and negative word of mouth is not supported by the data.

Complaining is operationalized by three items: (a) complain to other consumers; (b) complain to Bank X's employees; and (c) complain to external agencies, such as the Better Business Bureau, if you experience a problem with Bank X's service. A principal components analysis was used to compute a complaining index. Cronbach's alpha coefficient for complaining is .559, which is lower than the generally recommended level of .70; therefore, we are cautious about drawing conclusions relating to this construct. The expected relationships between complaining and four of the five cultural dimensions are not significant (power distance, individualism, masculinity, and long-term orientation). Only the negative relationship hypothesized between complaining and uncertainty avoidance is supported by the data, with a negative coefficient of $-.129$ at the 5% level. The poor reliability of the complaining index may have led to the lack of significant relationships between complaining and the cultural dimensions.³

INTERPRETATION OF THE RESULTS AND MANAGERIAL IMPLICATIONS

We may summarize the above results in the following way:

1. Customers from a culture with higher power distance have *lower intention to praise* the service provider (given positive word of mouth) even upon experiencing positive service quality.

3. As about half of the results were not statistically significant, we might have rejected some null hypotheses by chance. Fortunately, because we used 10% as the minimum level for statistical significance, such a Type II error may potentially lead to only two null hypotheses having been rejected by chance.

TABLE 4
The Empirical Relationships Between Cultural Dimensions and Behavioral Intentions (N = 285)

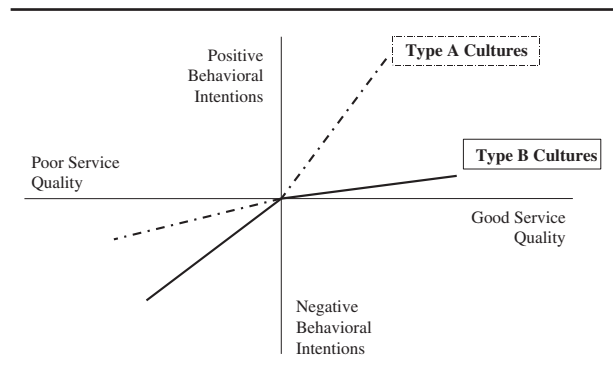
	Power Distance		Individualism		Masculinity		Uncertainty Avoidance		Long-Term Orientation	
	Hypothesis	Result	Hypothesis	Result	Hypothesis	Result	Hypothesis	Result	Hypothesis	Result
Positive scenario										
Loyalty to the company ($\alpha = .685$)	0	<i>ns</i>	0	<i>ns</i>	0	<i>ns</i>	0	<i>ns</i>	0	<i>ns</i>
Positive word of mouth ($\alpha = .812$)	-	-.174***	-	-.130**	+	<i>ns</i>	+	.197***	+	.103*
Negative scenario										
Propensity to switch ($\alpha = .750$)	+	<i>ns</i>	+	.146**	+	-.113**	-	-.173**	-	<i>ns</i>
Negative word of mouth ($\alpha = .652$)	+	<i>ns</i>	-	.104*	-	<i>ns</i>	-	-.116**	-	<i>ns</i>
Complaining ($\alpha = .559$)	+	<i>ns</i>	+	<i>ns</i>	+	<i>ns</i>	-	-.129**	-	<i>ns</i>

NOTE: Entries are standardized regression coefficients; *ns* = nonsignificant.

- Customers from a more individualistic culture have a *lower intention to praise* the service provider, even when they experience positive service quality, yet they exhibit a *higher intention to switch* to another service provider or to *give negative word of mouth* if they experience negative service quality.
- Customers from a masculine culture have a *lower intention to switch* even when they experience negative service quality.
- Customers from a culture with higher uncertainty avoidance have a *higher intention to praise* the service provider if they experience positive service quality. However, if they experience a problem, they show a *lower intention to switch* to another service provider, to *give negative word of mouth*, or to *complain*.
- Customers from a culture with long-term orientation have a *higher intention to praise* the service provider if they experience positive service quality.

Thus, the results seem to reveal that customers from cultures with lower individualism or higher uncertainty avoidance (e.g., for a majority of individuals from Colombia, Costa Rica, El Salvador, Guatemala, Panama, Peru, South Korea, and Venezuela, according to Hofstede 1980), labeled as Type A cultures in Figure 2, tend to have a higher intention to give positive word of mouth if they received positive service quality. But they tend not to switch, give negative word of mouth, or complain even if they received poor service quality. On the contrary, customers from cultures with higher individualism or lower uncertainty avoidance (e.g., for a majority of individuals from Denmark, Great Britain, Ireland, Sweden, according to Hofstede 1980), labeled as Type B cultures in Figure 2, tend to switch, give negative word of mouth, or complain if they received poor service quality. But they do not tend to praise when they received positive service quality.

FIGURE 2
Culture Differences Toward Positive and Negative Behaviors

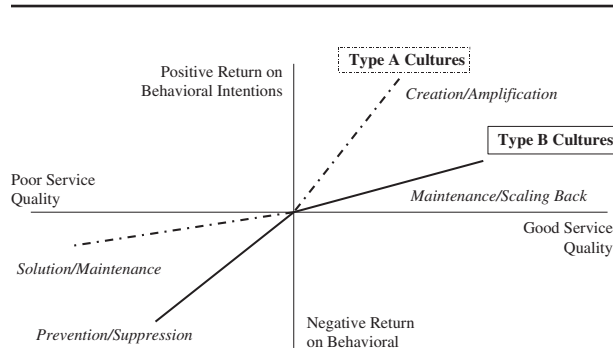


NOTE: Type A cultures: cultures with lower individualism or higher uncertainty avoidance; Type B cultures: cultures with higher individualism or lower uncertainty avoidance.

Furthermore, for service providers serving customers from Type A cultures, if customers perceived service quality to be positive, the return on positive behavioral intention for the service providers will be strong. Yet, if customers perceived service quality to be negative, the return on negative behavioral intention for the service providers will be weak. On the other hand, if the customers from Type B cultures perceived service quality to be positive, the return on positive behavioral intention for the service provider will be weak. Yet, if these customers perceived service quality to be negative, the return on negative behavioral intention will be strong. These phenomena are illustrated in Figure 3.

On the basis of the findings discussed above, we proposed the following set of managerial implications: Service providers serving customers from Type A cultures should create or even amplify their positive service quality

FIGURE 3
Service Quality Strategies
for Different Cultures



NOTE: Type A cultures: cultures with lower individualism or higher uncertainty avoidance; Type B cultures: cultures with higher individualism or lower uncertainty avoidance.

because it will gain a lot of positive behavioral intention in return. We call this the *creation/amplification strategy*. However, when service quality is perceived to be poor by customers from Type A cultures, the improvement of this quality may be too costly compared to the return that can be expected from such an action. So, service providers may adjust only slightly or even maintain the similar level of service quality. We call this the *solution/maintenance strategy*. On the other hand, when serving customers from Type B cultures, service providers should avoid being perceived negatively because the loss to negative behavioral intention is potentially huge. If a negative perception does occur, service providers should make the necessary effort to rapidly suppress the negative quality impression. We call this the *prevention/suppression strategy*. In such a situation, the return on service quality investment is expected to be large. However, when service quality is perceived to be positive by customers from Type B cultures, service providers may maintain or even scale back the level of service quality because any change in service quality will have only a weak effect on customers' behavioral intentions. We call this the *maintenance/scaling-back strategy*. These different strategies are described in Table 5.

CONCLUSION

On the basis of the results discussed above, we conclude that cultural factors do influence behavioral intentions as hypothesized. In particular, customers from cultures with lower individualism or higher uncertainty

avoidance tend to have a higher intention to praise if they receive positive service quality. But they tend not to complain even if they receive poor service quality. On the contrary, customers from cultures with higher individualism or lower uncertainty avoidance tend to complain if they receive poor service quality. But they do not tend to praise when they receive positive service quality.

The pattern of variation across cultures in intentions to give positive feedback or to complain leads us to recommend four types of service quality strategies, each corresponding to a different marketing situation. Applying an appropriate or nonappropriate strategy to the market situation a manager faces can lead to gain or loss of a huge amount of resources. Therefore, using the proposed strategies can help managers to make more effective and efficient decisions on resources allocation.

With the increase of intercultural service encounters (i.e., service providers and customers are from different cultures, for example, Japanese tourists encounter American airlines and European hotel/restaurant services), service providers' expected return on service quality may be quite different from customers' perceived experience, hence the behavioral intentions. Therefore, carefully studying the potential cultural influence on customers' behavioral intentions and adjusting the service decisions can help avoid possible managerial cultural bias and increase business profitability.

Our findings also render support to Triandis's (1980) proposal that culture may influence the relationship between attitudinal variables and behavior by making certain norms and expectations more plausible than others. Specifically, our findings seem to show that self-instructions (intentions) may be determined by sociocultural norms. Thus, the utility of a behavior in the social domain may be a fundamental component of the decision to perform it.

Based on a framework such as that of Triandis, our findings may be interpreted as follows: Cultural factors may have influenced customers' behavioral intentions through changing perceived service quality as well as moderated the effect of perceived service quality on behavioral intentions by providing an overarching frame in the formation of behavioral intentions. Therefore, we propose that future research should be directed toward empirically testing the indirect and moderating effects of cultural factors on behavioral intentions, respectively. Doing so would contribute to the theoretical development in the literature of cross-cultural service marketing and provide a guideline to design an effective service marketing program in an international market arena.

The small yet significant standardized regression coefficients found in our empirical results imply that although there are many other factors (such as personality and situa-

TABLE 5
Cross-Cultural Service Quality Strategies

	Type A Cultures ^a	Type B Cultures ^b
Good service quality	<p>Creation/amplification strategy</p> <p>Create or even amplify positive service quality because it will gain a lot of positive behavioral intention in return</p>	<p>Maintenance/scaling-back strategy</p> <p>Maintain or even scale back the level of service quality if that will result in significant cost-efficiency because the return on positive behavioral intention under this situation is weak</p>
Poor service quality	<p>Solution/maintenance strategy</p> <p>If the cost to improve service quality is high, the service providers may adjust only slightly or even maintain the similar level of service quality for the return on negative behavioral intention is weak</p>	<p>Prevention/suppression strategy</p> <p>Avoid being perceived negatively since the loss to negative behavioral intention is huge</p> <p>If a negative perception does occur, service providers should make the necessary effort to suppress the negative quality impression</p>

a. Low individualism, high uncertainty avoidance (e.g., Colombia, Costa Rica, El Salvador, Guatemala, Panama, Peru, South Korea, and Venezuela).

b. High individualism, low uncertainty avoidance (e.g., Denmark, Great Britain, Ireland, and Sweden).

tional factors) influencing behavioral intentions, culture factors cannot be overlooked.

Finally, because culture is constantly evolving, studying the evolution of cultures over time and its impact on behavioral intentions may produce fruitful results as well.

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Understanding Service Customers

The Value of Hard and Soft Attributes

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This article describes an exploratory study, based on 259 interviews, examining whether it is meaningful to segment customers by the relative importance they place on the interpersonal and noninterpersonal aspects of service quality, and if so, whether the segments differ in their perceptions of overall service quality. The study shows that customers can have different priorities in terms of interpersonal and noninterpersonal quality, and this can influence their perceptions of service quality. For practitioners, this could provide a useful means of segmenting customers; for researchers, it raises an important issue in the interpretation of service quality research.

Although there has been much debate about the measurement of perceived service quality (e.g., Babakus, Pedrick, and Inhofe 1993; Brown, Churchill, and Peter 1993; Carman 1990; Cronin and Taylor 1992; Finn and Lamb 1991; Johns and Tyas 1997; Parasuraman, Zeithaml, and Berry 1994; Spreng and Singh 1993; Teas 1993), measurement of perceived service quality generally relies on the pooled responses of customer surveys. However, pooling might disguise some quite distinct types of responses. Those who perceive the quality of a particular service to be poor, for example, might be characterized in some way that distinguishes them from those who perceive the quality of that service to be good. The objective of this study is to test one possible characterization: the relative importance of interpersonal quality. The article begins by dis-

cussing an apparent dichotomy among service quality attributes—the interpersonal-noninterpersonal split. It then proposes that customers will differ in the relative importance they place on these two types of service quality, and this will result in their having different perceptions of the same service. A study to test these propositions is described, and finally, the implications of the results and areas for further research are discussed.

INTERPERSONAL AND NONINTERPERSONAL ATTRIBUTES

There is general agreement that a service comprises a complex bundle of explicit and implicit attributes (e.g., Bitner and Hubbert 1994; Grönroos 1984; Parasuraman, Zeithaml, and Berry 1985) and that the 22 items making up the SERVQUAL scale (Parasuraman, Zeithaml, and Berry 1988) are good predictors, but not the only predictors, of service quality (see, e.g., Bitner and Hubbert 1994; Brown, Churchill, and Peter 1993; Cronin and Taylor 1992; Grönroos 1990). A more complete list of attributes and their definitions is provided by Johnston (1995). This is reproduced in the appendix. The different facets of the 18 attributes in that list include all the SERVQUAL items as well as some additional ones.

Dichotomies among these attributes have been highlighted by different authors. For example, Grönroos (1984) distinguished technical quality, *what* the customer gets, and functional quality, *how* the customer gets it.

Johnston (1995) found that positive critical incidents tended to refer to interpersonal attributes, particularly attentiveness/helpfulness, care, friendliness, and commitment, whereas negative incidents tended to refer to systemic attributes, particularly integrity, reliability, availability, functionality, and competence (defined as the skillful execution of the service). Similarly, in a recent study of the emotional content of critical incidents, Van Dolen et al. (1999) found that 65% of the positive emotions reported by customers were evoked by the service employee, whereas 78% of the negative emotions were evoked by the organization or its products. Kang and Bradley (1999), in a study of the perceived service quality provided by an internal IT service, found that responses loaded on two factors: the attributes of the IT *personnel* and the attributes of the IT *service*. These studies seem to indicate that customers distinguish between the interpersonal and noninterpersonal aspects of service quality.

To study the distinction further, we have classified Johnston's (1995) attributes as interpersonal and noninterpersonal according to the definitions in that article and the definition of interpersonal as "between persons, social" (*Oxford Dictionary for the Business World* 1993). From the definitions, it is clear that some attributes are entirely physical and therefore clearly noninterpersonal. These are access, aesthetics, cleanliness/tidiness, comfort, and functionality. Other definitions explicitly mention the behavior of service providers toward customers and are therefore classified as interpersonal. These are attentiveness/helpfulness, care, communication, courtesy, flexibility, and friendliness. The definitions of the remaining attributes are slightly more ambiguous, but of these, only commitment could really be argued to be an attitude of staff that customers might take personally. Commitment was therefore classified as interpersonal. The others—availability, competence, integrity, reliability, responsiveness, and security—refer to the amount, correctness, fairness, consistency, speed, and safety, respectively, of the *service itself* rather than of the service providers and were therefore classified as noninterpersonal. In this article, the terms *soft* and *hard* are used as shorthand for interpersonal and noninterpersonal, respectively. Table 1 summarizes the classifications.

The relative importance of different attributes is likely to differ from service to service and from person to person (Cronin and Taylor 1994; Parasuraman, Zeithaml, and Berry 1994). In their award-winning article, Anderson, Fornell, and Rust (1997) argued that in different situations, satisfaction will be relatively more dependent on standardization quality (freedom from defects) or on customization quality (meeting customers' individual needs). Similarly, we suggest that in different situations, and for different customers, satisfaction will be relatively more dependent

TABLE 1
Soft- and Hard-Quality Attributes

<i>Soft (interpersonal) Attributes</i>	<i>Hard (noninterpersonal) Attributes</i>
Attentiveness/helpfulness	Access
Care	Aesthetics
Commitment	Availability
Communication	Cleanliness/tidiness
Courtesy	Comfort
Flexibility	Competence
Friendliness	Functionality
	Integrity
	Reliability
	Responsiveness
	Security

on hard or soft quality. That is, some customers (we call them the "relaters") will consider soft quality to be relatively more important to service quality than hard quality. Other customers (the "nonrelaters") will consider hard quality to be relatively more important than soft quality.

The notion that individual differences might have a powerful influence on perceptions and evaluations is not new. Jayanti and Jackson (1991), for example, found that three individual-difference variables, that is, perceived risk, involvement, and innovation, exerted a significant influence on satisfaction judgments, at least for those services requiring a substantial input from consumers. Affective disposition, which reflects individual differences in emotional style, has been found to influence affective responses (Warr 1996). Moore, Harris, and Chen (1995) also found that individual differences in "affect intensity" moderate responses to advertisements.

Such variables can be categorized as personality features or traits. Personality influences perceptions, partly because it has an effect on what is considered important during the selective filtering of stimuli, and it influences behavior (MacKenna 2000). However, the use of personality types to predict consumer behavior has not been as successful as it has in predicting behavior at work. Nonetheless, MacKenna (2000) observed, "Personality measures designed for a specific purpose to profile consumers have greater potential to predict the behaviour of consumers with respect to specific products" (p. 45). We would argue that our relater-nonrelater dimension for categorizing customers is similar to, but more relevant than, the extroversion-introversion dimension that captures an individual's comfort level with relationships (Robbins 1998).

Alternatively, being a relater or nonrelater might be considered a value or attitude of individuals rather than a personality trait. A value represents a conviction that a specific mode of conduct is preferable (in a personal or so-

cial sense) to any other and is used to evaluate and judge behaviors. Values, like attitudes, are relatively stable and enduring (Rokeach and Ball-Rokeach 1989). Attitudes are systems of positive or negative evaluations, emotional feelings, and action tendencies with respect to an individual's social world (Krech, Crutchfield, and Ballachey 1962) and are a consequence of adhering to particular values (MacKenna 2000). In the context of cross-cultural issues, Zeithaml and Bitner (1996) noted that values and attitudes help to determine what people think is right, important, and/or desirable, such as the importance of personal relationships in business transactions. More important, attitudes have a crucial direct influence on perceptions (MacKenna 2000). It follows that relaters and nonrelaters will perceive the quality of the same service quite differently. The study aims to test these two propositions:

Proposition 1: For any particular service, there could be two significantly different groups of customers: nonrelaters who consider hard (noninterpersonal) service quality to be more important than soft (interpersonal) service quality and relaters who consider soft service quality to be more important than hard service quality.

Proposition 2: Relaters and nonrelaters will have different perceptions of the quality of the same service.

THE STUDY

Service encounters are defined as episodes in which a customer comes into contact with any aspect of the company, however remote, and thereby has the opportunity to form an impression (Collier 1994). Interpersonal quality in encounters where the contact between the customer and the provider is remote will be evident from, for example, the written or recorded communication, or even from signs, symbols, and artefacts (Bitner 1992). To test whether relaters and nonrelaters differ significantly irrespective of the degree of interpersonal interaction, two encounters were chosen to provide extremes of interaction. They were chosen from one organization, a major U.K. bank. The first site (Case 1) is a telephone call center dealing with customer enquiries and problems over the phone. Each conversation is conducted and customized by operators skilled in technical aspects of the job and also in their ability to deal with customers. This person-to-person service is therefore a high-contact, interpersonal, and customized process. On the other hand, the second site (Case 2) produces and mails welcome packs to customers and is standardized with no direct person-to-person contact.

The survey was conducted via 259 telephone interviews with customers from a sampling plan, who had either telephoned the call center within the last 2 or 3 days

(Case 1, 150 respondents) or received a welcome pack within the last week (Case 2, 109 respondents).

The survey instrument aimed to measure the importance of as many of the 18 attributes as were applicable in each case. Scales of 1 to 7 were used, anchored by *not at all important* (1) and *extremely important* (7). Each question attempted to capture the importance of a particular attribute and only that attribute. In a pilot study, open questions had been used to check the meaning given by respondents to the words used in the questions to reduce ambiguity. The pilot study also showed that some factors, for example, aesthetics and comfort, were not relevant in the phone case, and some, such as access and responsiveness, were not relevant in the mail case.

Scales of 1 to 7 were also used to measure the perceived performance on each attribute. These were anchored by, for example, *not at all reliable* (1) and *extremely reliable* (7). The overall perceived service quality of the encounter was also measured via a question on the overall quality of the service, again on a scale of 1 to 7, anchored by *not at all good* (1) and *extremely good* (7).

Strictly speaking, semantic differential data such as these are ordinal, not interval. With ordinal data, the median, not the mean, should be used and percentile or interquartile range, rather than standard deviation (Fink 1995). However, in research practice, the mean and standard deviation are usually calculated and interpreted for such scales, as in this study. Although controversial, it does give a sense of the general dispersion (Lewis-Beck 1995). The statistical tests used are those appropriate to ordinal data (Kinnear and Gray 1997).

RESULTS AND DISCUSSION

Validity of the Hard- and Soft-Quality Categorization

Factor analysis was performed on the importance ratings to test whether the two factors were confirmed. In each case, the procedure was to measure the coefficient alpha of the importance ratings and remove any items that reduced overall reliability, then perform factor analysis followed by Varimax rotation. The results for the telephone center (Case 1) are shown in Table 2. From this, it can be seen that in Case 1, the factors were confirmed with the exception of flexibility, which loaded more highly on the hard factor, as did communication, to a lesser degree. One possible explanation is that in this case, respondents associated flexibility, and to a lesser extent communication, with the system rather than the individual. Customers were phoning with requests for such things as increased credit limits or for more time to pay. Flexibility was the

TABLE 2
Rotated Factor Matrix (Case 1)

	<i>Factor 1 (hard)</i>	<i>Factor 2 (soft)</i>
Soft attributes		
Attentiveness/helpfulness	.47	.51
Care	.41	.51
Commitment	.16	.74
Communication	.48	.41
Courtesy	.33	.56
Flexibility	.69	.34
Friendliness	.06	.84
Hard attributes		
Availability	.65	.13
Competence	.75	.03
Functionality	.52	.42
Integrity	.67	.27
Reliability	.59	.39
Responsiveness	.63	.27

lowest performing attribute, which might suggest that customers were often unable to get arrangements changed as they wished. The reason given to them may well have had to do with the fixed terms and conditions of the agreement they had previously signed. Inflexibility and the communication of that inflexibility would then be associated with the system rather than the individual.

The results for the mail center (Case 2) are shown in Table 3. From this, it can be seen that the factors were confirmed with the exception of competence and aesthetics, both of which loaded more highly on the soft factor. The questions relating to these two attributes asked how professionally produced and attractively presented the brochure was. It is not clear why respondents might have associated these with the provider's behavior toward themselves rather than associating them with the system. One possibility is that in this case, both are associated with communication.

It is interesting that in Case 1, the exceptions were the two interpersonal attributes rated least important by the raters, and in Case 2, the exceptions were the two noninterpersonal attributes rated least important by the nonrelaters. It appears that generally, the factors are valid, although unimportant attributes might be unstable in some services.

Importance

The importance of hard quality was measured as the mean importance of the noninterpersonal attributes, and the importance of soft quality was measured as the mean importance of the interpersonal attributes. The a priori classification of hard and soft attributes was left unchanged because the factor analysis, although revealing

TABLE 3
Rotated Factor Matrix (Case 2)

	<i>Factor 1 (soft)</i>	<i>Factor 2 (hard)</i>
Soft attributes		
Courtesy	.89	.15
Friendliness	.83	.24
Hard attributes		
Aesthetics	.66	.27
Availability	.03	.73
Comfort	.14	.79
Competence	.88	.22
Functionality	.39	.59
Integrity	.38	.67
Security	.38	.62

some instability, did not reveal any consistent cross loadings. In Case 1, the coefficient alpha was .81 for the soft scale and .79 for the hard scale. In Case 2, it was .86 for the soft scale and .80 for the hard scale.

Only 19% rated the importance of hard and soft quality the same in Case 1 and only 20% in Case 2. The other respondents showed a preference for either hard or soft quality, as follows. In Case 1, the telephone center, 31% of respondents were raters—that is, for each of them, the importance of soft quality was higher than the importance of hard quality—and 49% were nonrelaters, who rated hard quality more important than soft quality. Their attribute importance ratings are compared in Figure 1 to show the remarkable polarization of the two groups. In this case, the raters overall rated the importance of *every* soft attribute higher than did the nonrelaters. Conversely, the nonrelaters rated *every* hard factor higher than did the raters.

In Case 2, the mail center, 51% were raters and 29% were nonrelaters. Again the polarization is striking. The raters overall rated the importance of *every* soft attribute higher than did the nonrelaters. Conversely, the nonrelaters rated the importance of every hard factor higher than did the raters with the single exception of competence (see Figure 2).

Using the Wilcoxon-Mann-Whitney statistic W , it was found that in Case 1, the raters and nonrelaters differed significantly in their importance of soft quality ($p = .00$) and hard quality ($p = .00$). In Case 2, they differed significantly for soft quality ($p = .00$), but not for hard ($p = .18$). This generally supports Proposition 1 in that there are two distinct groups, with opposing views on the relative importance of hard and soft quality, although they differ most in the importance they give to soft quality. Furthermore, it appears that the majority of customers (at least 80% in the cases studied) belong to one of these two groups.

In both cases, those for whom the importance of hard quality was exactly equal to the importance of soft quality

FIGURE 1
Mean Importance Ratings of Relaters and Nonrelaters (Case 1)

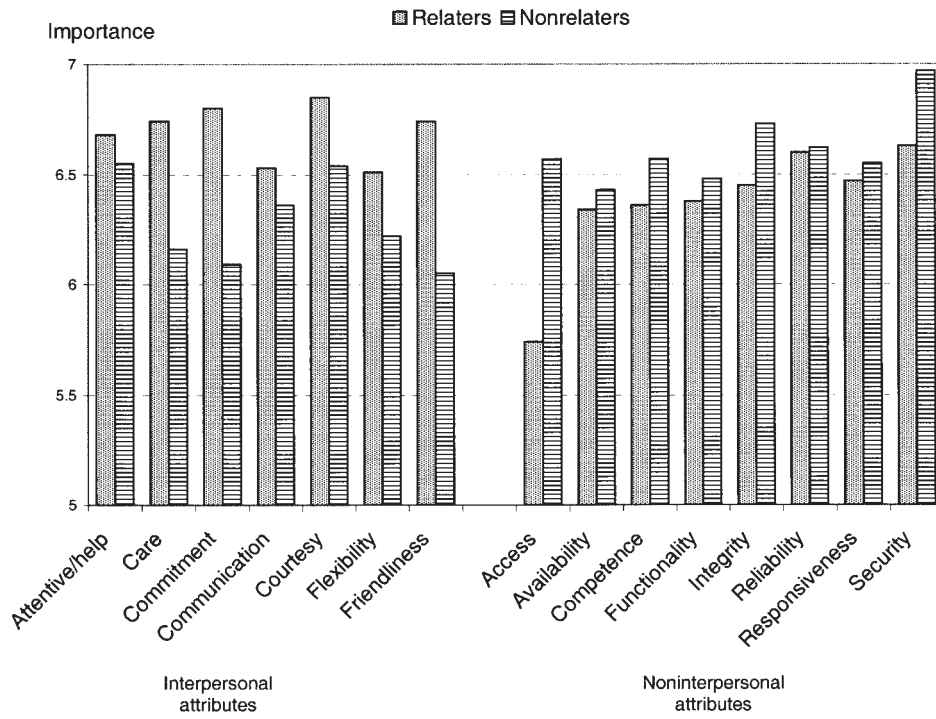


FIGURE 2
Mean Importance Ratings of Relaters and Nonrelaters (Case 2)

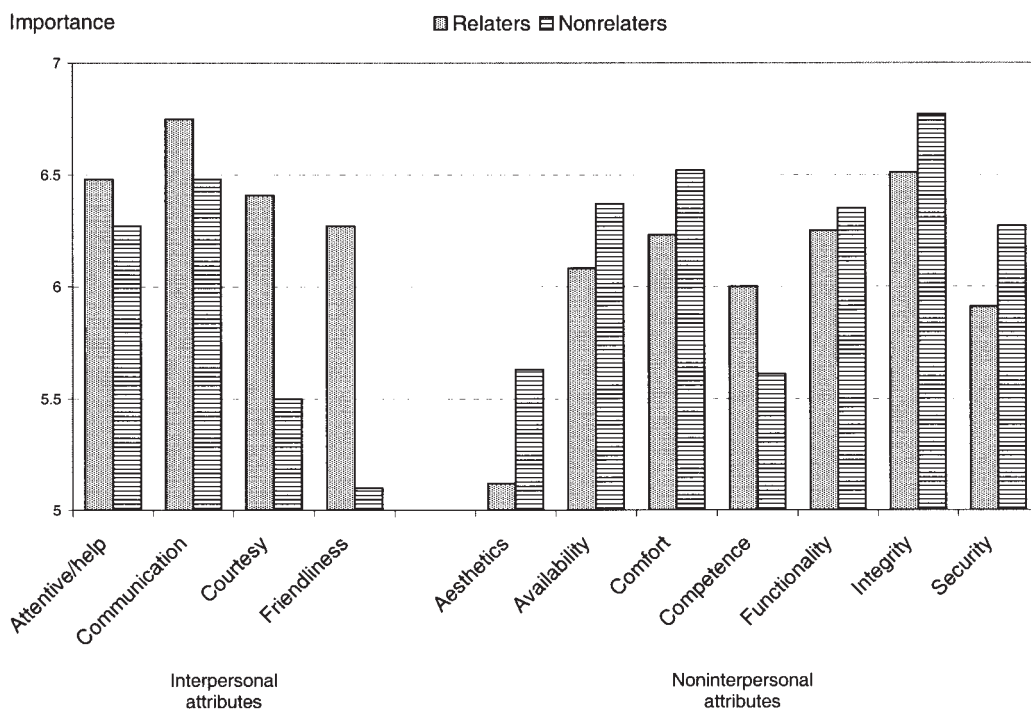
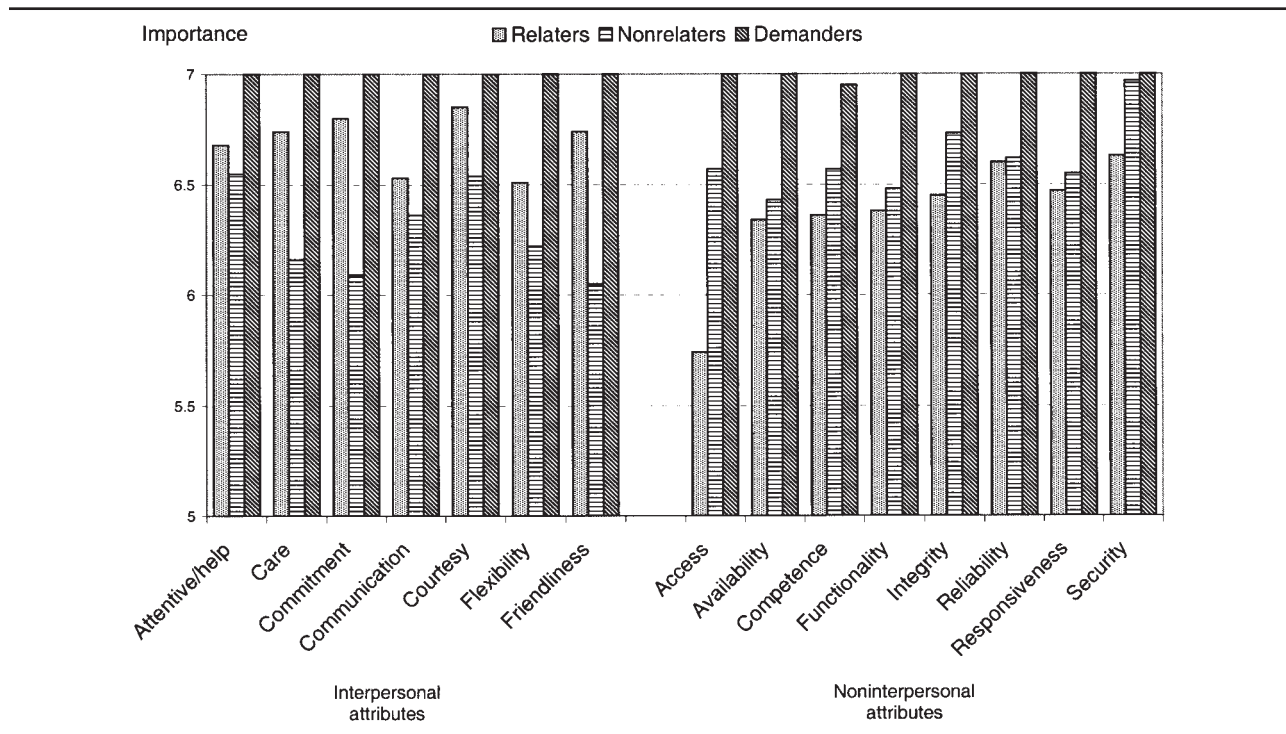


FIGURE 3
Mean Importance Ratings for the Three Groups (Case 1)



gave all attributes top or nearly top importance scores. These were individuals who responded that “everything was important” and could not, or were not prepared to, discriminate, or they were people for whom all the factors really were equally important. The latter seem more likely, because these people tended to be more discriminating when answering questions about perceived performance. That is, for this group, on average, attribute performances had a range of 1.57 (compared with .05 for importance) in Case 1 and .72 (compared with .09 for importance) in Case 2. We therefore labeled this apparently demanding group “demanders.” Figures 3 and 4 compare the importance responses for all three groups.

Some evidence of demographic differences between the groups was found. In Case 1 (the telephone center), there was a significant association between group membership and gender ($\Phi = .21, p = .04$), with 58.9% of nonrelaters being male, 52.2% of relaters being female, and 69% of demanders being female. The proportions in the sample overall were 50% male and 50% female. In the mail center (Case 2), there was a significant association between group membership and age ($\Phi = .40, p = .01$), the most common age for relaters being 18 to 34, for nonrelaters being 35 to 44, and for demanders being 45 to

54 (see Table 4). These findings are discussed further in the next section.

Service Quality

The question remains: Do relaters and nonrelaters have different perceptions of the same service? Figure 5 shows the mean responses to the question on overall quality for Cases 1 and 2.

This suggests that there were differences in perceptions between the three groups, although the difference between relaters and nonrelaters was not found to be statistically significant. Nonetheless, in the telephone center (Case 1), there was a significantly positive correlation between perceived overall quality and the importance of both hard quality ($p = .03$) and soft quality ($p = .00$), using Spearman's rho. And in both cases, there was a statistically significant correlation between mean performance scores and the importance of both hard quality (Cases 1 and 2, $p = .00$) and soft quality (Cases 1 and 2, $p = .00$). Interestingly, it appears that the quality of the mail service appealed more to the nonrelaters than the relaters, and the quality of the phone service appealed more to the relaters than the nonrelaters. This also provides reassurance that

FIGURE 4
Mean Importance Ratings of the Three Groups (Case 2)

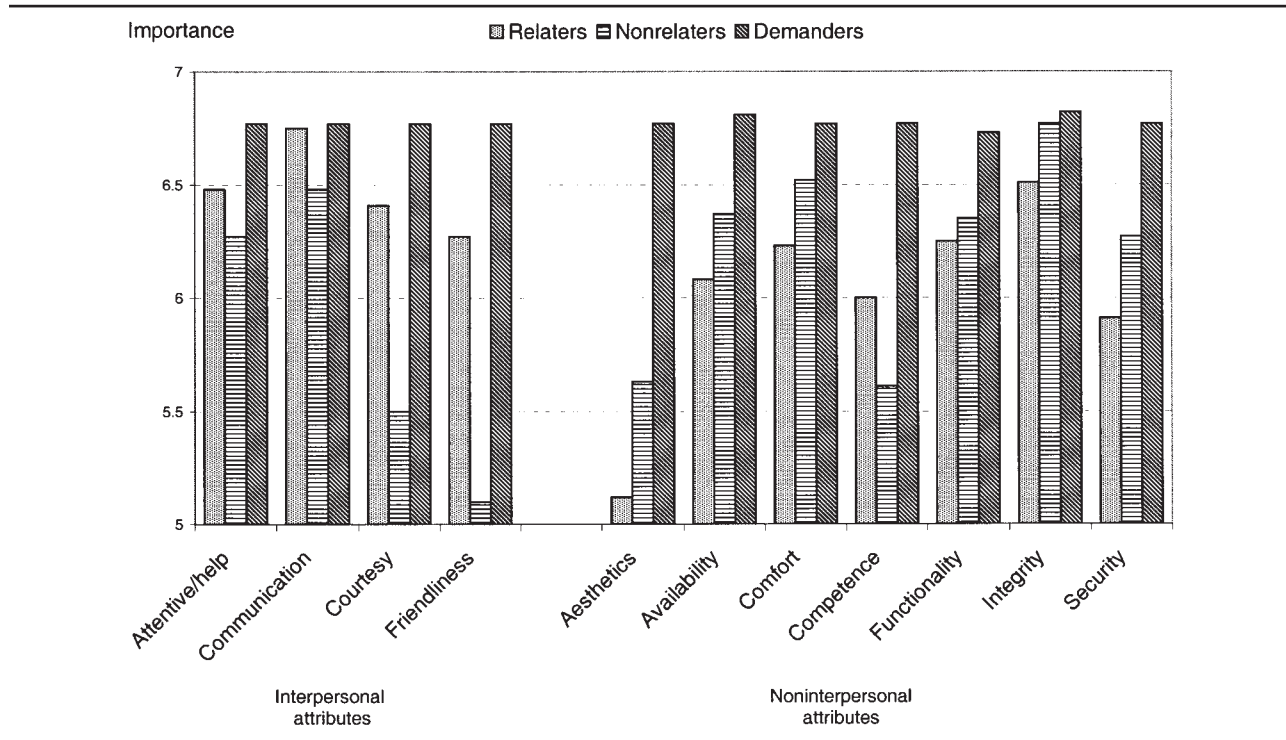


TABLE 4
Ages of Respondents
(Case 2) (in percentages)

	16-34	35-44	45-54	55+	Total
Relaters	51.8	23.2	10.7	14.3	100
Nonrelaters	25.8	32.3	25.8	16.1	100
Demands	13.6	27.3	45.5	13.6	100
Total	36.7	26.6	22.0	14.7	100

the different quality ratings of the relaters and nonrelaters reflect different opinions of a particular service rather than different styles of responding. That is, the differences are not simply due to relaters generally using higher quality ratings than nonrelaters, or vice versa.

CONCLUSIONS

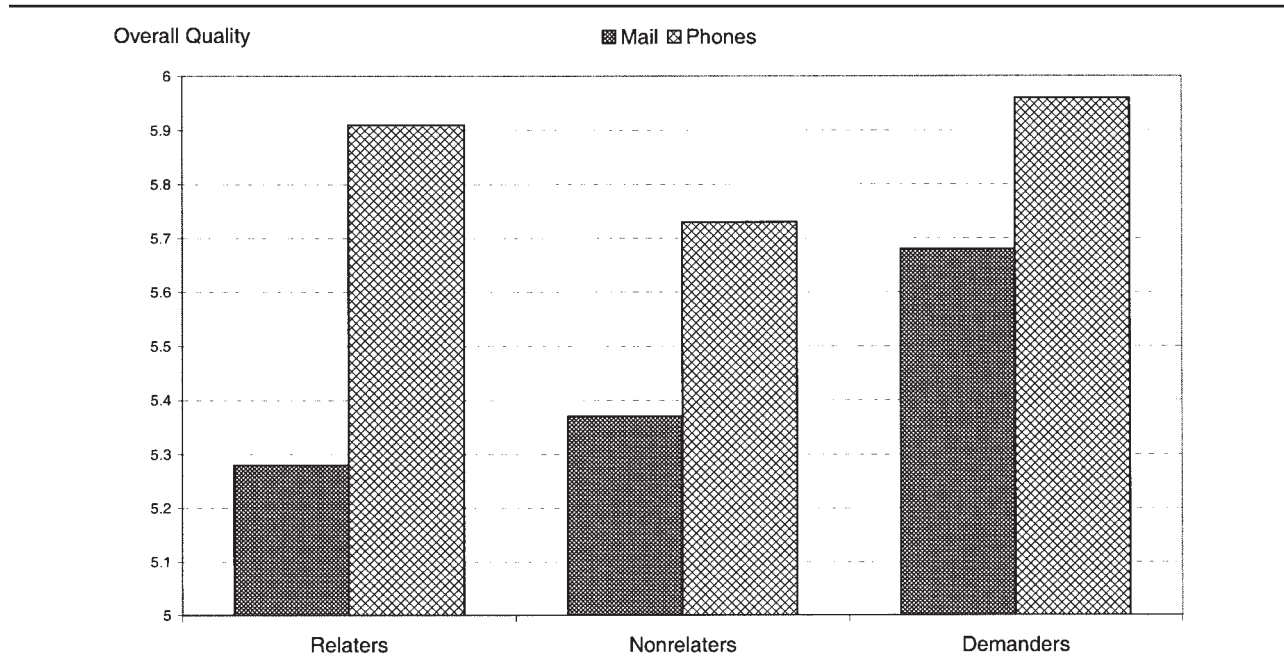
This study has demonstrated that, for particular services at least, customers can have very different priorities in terms of hard and soft quality and that there can be a relationship between the importance of hard and soft quality on one hand and service quality perceptions on the other.

The study provides some evidence to suggest that the concept of hard and soft customers is meaningful. This is an important finding because “the customer” is often assumed to value interpersonal quality. Managers need to be aware that the relative weighting given to interpersonal quality varies between customers, and moreover, this means they perceive the same service quite differently.

The evidence that customers’ “hardness” or “softness” may be related to demographics suggests that more effective targeting through the media might be possible, with advertising messages and communications emphasizing hard or soft aspects of the service as appropriate. It may also be possible to match hardness or softness with other characteristics, such as lifestyle or socioeconomic factors, and develop profiles of the three customer types. Hence, the concept could provide a useful segmentation tool for managers, so that delivery of the service can be made appropriate for the customer type.

As relationship management becomes increasingly important, service managers are increasingly concerned with building the loyalty of their customers. To do this, they need to understand, for instance, their customers’ expectations, perceptions, and repurchase motivations. This study has highlighted that service managers need to determine whether interpersonal or noninterpersonal quality is most

FIGURE 5
Mean Overall Quality Ratings of the Three Groups (Cases 1 and 2)



important to particular customers or segments and ensure this is also the priority of the service delivery to those customers. For example, Web site design increasingly uses strategic content management and database technology. This makes personalized Web site content possible, using knowledge of the customer's background and requirements. With knowledge of whether the customer is a relater, nonrelater, or demander, the nature of the Web site response could focus on interpersonal quality (e.g., being particularly friendly, caring, etc.) or noninterpersonal quality (e.g., being particularly fast, professional, etc.) or try to demonstrate excellence in both, as appropriate.

It also follows that if either interpersonal or noninterpersonal quality is a particular strength of a service process, service marketers need to find ways of increasing the importance of that aspect to customers who might not normally value it. Managers may not be able to change the orientation of customers, but given the correlation between importance and overall perceptions of service quality, increasing its importance to customers may improve overall perceptions.

The study has demonstrated that mean importance ratings and mean service quality evaluations can disguise three quite different types of responses. Development of the concept could therefore prove valuable to researchers in interpreting the results of service quality research. For example, there has been much debate in the literature about whether satisfaction with service, among other

things, leads to perceptions of service quality (e.g., Bitner and Hubbert 1994; Cronin and Taylor 1994; Grönroos, 1990; Parasuraman, Zeithaml, and Berry 1988) or perceptions of service quality, among other things, lead to feelings of satisfaction (e.g., Hallowell 1996; Rust and Oliver 1994; Storbacka, Strandvik, and Grönroos 1994). Bitner and Hubbert's (1994) qualitative analysis of consumers' thoughts revealed some confusion between service encounter satisfaction, overall satisfaction, and perceived service quality. For example, when respondents were asked what led them to rate the quality items as they had, 40% focused on the events of the specific encounter, 36% referred to global information and impressions, and 24% focused on their own personal experience. If the latter respondents were known to be generally relaters, for example, it might have thrown some light on the interpretation of the differences. It is conceivable that the different groups, with their different perspectives on service, consistently interpret these concepts quite differently.

This study does have certain limitations. The two samples were drawn from customers of one organization. The study should be repeated with customers of different organizations to see if the same three groups emerge. Respondents were asked to consider one specific service process. It would be interesting to perform a longitudinal study to determine whether individual customers tend to be relaters, nonrelaters, or demanders on all encounters with a particular service and whether they tend to be consistently

relaters, nonrelaters, or demanders for all services. It would also be interesting to see if the demanders could be separated into those who genuinely find all attributes very important and those who are simply poor survey respondents. Further work to then connect the groups with other segments, such as demographic, socioeconomic, or lifestyle should prove useful to both practitioners and researchers.

APPENDIX

Definitions of the 18 Service Quality Attributes

1. Access: the physical approachability of service location, including finding one's way around the service environment and the clarity of route.
2. Aesthetics: extent to which the components of the service package are agreeable or pleasing to the customer, including both the appearance and the ambience of the service environment, the appearance and presentation of the service facilities, goods and staff.
3. Attentiveness/helpfulness: the extent to which the service, particularly the contact staff, either provides help to the customer or gives the impression of interest in the customer and shows a willingness to serve.
4. Availability: the availability of service facilities, staff and goods to the customer. In the case of contact staff, this means both the staff/customer ratio and the amount of time each staff member has available to spend with each customer. In the case of service goods, availability includes both the quantity and the range of products made available to the customer.
5. Care: the concern, consideration, sympathy and patience shown the customer. This includes the extent to which the customer is put at ease by the service and made to feel emotionally (rather than physically) comfortable.
6. Cleanliness/tidiness: the cleanliness, and the neat and tidy appearance of the tangible components of the service package, including the service environment, facilities, goods and contact staff.
7. Comfort: the physical comfort of the service environment and facilities.
8. Commitment: Staff's apparent commitment to their work, including the pride and satisfaction they apparently take in their job, their diligence and thoroughness.
9. Communication: the ability of the service providers to communicate with the customer in a way he or she will understand. This includes the clarity, completeness and accuracy of both verbal and written information communicated to the customer and the ability of staff to listen to and understand the customer.
10. Competence: the skill, expertise and professionalism with which the service is executed. This includes the carrying out of correct procedures, correct execution of customer instructions, degree of product or service knowledge exhibited by contact staff, the rendering of good, sound advice and the general ability to do a good job.
11. Courtesy: the politeness, respect and propriety shown by the service, usually contact staff, in dealing with the customer and his or her property. This includes the ability of staff to be unobtrusive and uninterfering when appropriate.
12. Flexibility: a willingness and ability on the part of the service worker to amend or alter the nature of the service or product to meet the needs of the customer.
13. Friendliness: the warmth and personal approachability (rather than the physical approachability) of the service providers, particularly of contact staff, including cheerful attitude and the ability to make the customer feel welcome.
14. Functionality: the serviceability and fitness for purpose or "product quality" of service facilities and goods.
15. Integrity: the honesty, justice, fairness and trust with which customers are treated by the service organization.
16. Reliability: the reliability and consistency of performance of service facilities, goods and staff. This includes punctual service delivery and an ability to keep to agreements made with the customer.
17. Responsiveness: speed and timeliness of service delivery. This includes the speed of throughput and the ability of the service providers to respond promptly to service requests, with minimal waiting and queuing time.
18. Security: personal safety of the customer and his or her possessions while participating in or benefiting from the service process. This includes the maintenance of confidentiality.

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The Impact of Quality Context and Market Orientation on Organizational Performance in a Service Environment

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This article examines two major factors that affect the performance of an organization, that is, quality context and market orientation. Quality context comprises the practices and procedures within an organization that enhance the quality of the product and/or service. Market orientation is the process of effectively collecting, disseminating, and responding to information that will enhance the marketing function within the organization. The authors examine the relationships of these constructs with organizational performance within the hospital industry using structural equations modeling. The results confirm the multidimensional nature of all three constructs and show that both market orientation and quality context significantly affect organizational performance. However, whereas market orientation has a direct effect on organizational performance, quality context is only indirectly linked with organizational performance through its effect on market orientation. Implications of these results for the hospital industry and for future research in the area are offered.

Since the 1970s, quality gurus like Crosby (1979), Deming (1986), and Juran (1989) have argued that organi-

zational performance could be improved by focusing on product quality. Although the initial thrust of the quality emphasis was in manufacturing industries, the approach has caught on in the services area as well (Parasuraman, Zeithaml, and Berry 1985; Rust and Oliver 1994; Zeithaml, Parasuraman, and Berry 1990). Hospitals, in particular, seem to have readily embraced the concepts of continuous quality improvement (CQI) and total quality management (TQM) as a means to improving their profitability (Carman et al. 1996; Counte et al. 1995; Shortell et al. 1995). One innovative way of operationalizing the quality emphasis within an organization that has emerged in the quality management literature is through the construct of *quality context* (Benson, Saraph, and Schroeder 1991; Saraph, Benson, and Schroeder 1989). Quality context describes the environment related to quality practices within an organization. It includes factors that encourage a company to give priority to quality practices and produce a quality product or service. Another construct that has gained considerable importance in recent years is *marketing orientation* (Kohli and Jaworski 1990; Kotler and Clarke 1987; Narver and Slater 1990; Shapiro 1988). Market orientation refers to monitoring and responding to the marketing environment effectively. Although this con-

We are very grateful to Mr. Gerald T. Pierce (former executive director, Center for Excellence for Quality, Kentucky State University, Frankfort, KY) and Professor Yash Gupta (dean, School of Business, University of Washington, Seattle) for their help in the data collection phase of this study. The assistance of Mr. Craig Ziegler at the University of Louisville with some of the data analysis is appreciated. We also wish to thank the editor and anonymous referees of the *Journal of Service Research* for very helpful comments on the earlier version of this article. Please address correspondence to P. S. Raju, College of Business and Public Administration, University of Louisville, Louisville, KY 40292-0001; e-mail: psraju@louisville.edu.

struct has been defined and measured in different ways, it generally includes aspects of collecting and disseminating marketing information within the organization and being responsive to both customers and competitors. Studies have shown that marketing orientation is also related to organizational performance in a variety of industries (Han, Kim, and Srivastava 1998; Kumar, Subramanian, and Yauger 1997; Narver and Slater 1990; Raju, Lonial, and Gupta 1995; Raju et al. 2000).

Although both quality context and market orientation seem to be linked with organizational performance, the relationships between the three constructs are not entirely clear. It has become evident in the past two decades, however, that emphasis on quality alone is not sufficient to improve organizational performance. Researchers have recognized that there are many marketing- and customer-related variables, such as customer satisfaction, customer loyalty, and customer retention, that mediate the quality-performance relationship (Johnson and Gustafsson 2000; Rust, Zahorik, and Keiningham 1994). Some have called this the service-profit chain (Heskett et al. 1994). Although these marketing- and customer-related variables are important in their own right and are the subject of numerous studies, on a broader perspective, many of these variables are either encompassed within or closely aligned with the marketing orientation of an organization. Marketing orientation therefore offers us a more parsimonious way to incorporate many of the market- and customer-related variables that are part of the quality-performance framework. In short, the linkages between quality context, market orientation, and performance provide the foundation for the relationships underlying the service-profit chain. Johnson and Gustafsson (2000) argued that in the past, companies have, more often than not, addressed the concepts in the quality-performance causal chain sequentially and independently as opposed to using a systems perspective. For instance, studies have often focused on one concept such as quality or customer satisfaction instead of examining the whole framework of relationships between the various concepts. They propose a framework comprising four general areas: internal quality, external quality and customer satisfaction, customer loyalty and retention, and financial performance. The authors acknowledge that their framework is fairly general and subject to modification in different contexts. An especially interesting aspect of the framework for the present research is the distinction between internal quality and external quality and how each influences organizational performance. On the basis of the manner in which Johnson and Gustafsson (2000) characterized internal and external quality, one can see that these constructs are very similar to quality context and market orientation, respectively. These researchers therefore acknowledge, albeit indirectly, the major roles

that quality context and market orientation play in determining organizational performance.

Given the significance of quality context and marketing orientation for organizational performance, the objective of this article is to examine the relationships between these concepts within the hospital industry. Issues addressed include the causal linkages between the three variables and the strength of the relationships between the variables. Because all three constructs are conceptualized as being multidimensional in nature, we examine the causal relationships using structural equations modeling (SEM). The rest of the article is organized as follows: In the next section, we provide some theoretical background in relation to quality context, market orientation, and organizational performance. Following that, we outline the method and the data analysis in two separate sections. The article concludes with a discussion of the results and the implications of these results for both researchers and practitioners in service industries.

THEORETICAL BACKGROUND

The positive linkage between product/service quality and organizational performance has been recognized in the literature for several decades (see, e.g., Anderson, Fornell, and Lehmann 1994; Peters and Waterman 1982; Phillips, Chang, and Buzzell 1983). Most studies that are based on the PIMS (Profit Impact of Marketing Strategy) database provide support for this relationship, although many of these studies seem to rely on manufacturing industries (Buzzell and Gale 1987). However, managing product or service quality requires a good understanding of how quality influences performance. Benson, Saraph, and Schroeder (1991) suggested that traditional approaches to managing quality are not derived from organizational theory. They proposed a model of quality management in which the quality management actions taken by managers for improving organizational performance are a function of the organizational quality context. Organizational quality context comprises "such things as external quality demands, past quality performance, corporate direction and support in the area of quality, resources available for quality improvement, and the competitive forces that have a bearing on quality" (Benson, Saraph, and Schroeder 1991, p. 1108). In their article, Benson, Saraph, and Schroeder (1991) list eight specific quality context variables and show that there is substantial theoretical justification in the works of leading quality scholars such as Crosby (1979), Deming (1986), and Garvin (1983) for the inclusion of these variables. For purposes of this article, we chose five of these dimensions to represent quality context—managerial knowledge, cor-

porate support for quality, marketplace environment, product/process environment, and past quality performance. Three other variables mentioned by Benson, Saraph, and Schroeder (1991), namely, company size, company type, and manager type, were excluded because they are discrete classification-type variables and relate only indirectly to the quality context within the organization.

Market orientation is another construct that has received considerable attention recently in relation to organizational performance (Kohli and Jaworski 1990; Kotler and Clarke 1987; Narver and Slater 1990; Shapiro 1988). Kohli and Jaworski (1990) have done a considerable amount of the pioneering work in this area and offer the following formal definition of market orientation: "the organizationwide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across departments, and organizationwide responsiveness to it" (p. 6). This definition implies that market orientation is composed of multiple dimensions such as intelligence generation, intelligence dissemination, and responsiveness. Kohli, Jaworski, and Kumar (1993) have also designed an instrument called MARKOR to measure market orientation. We use a modified version of MARKOR in this article because the original instrument was not developed within a health services context.

The relationship between market orientation and organizational performance is well established, in both the general business environment (Han, Kim, and Srivastava 1998; Narver and Slater 1990; Slater and Narver 1994) and in the health care context (Kumar, Subramanian, and Yauger 1997; McDermott, Franzak, and Little 1993; Raju, Lonial, and Gupta 1995; Raju et al. 2000). Narver and Slater (1990) theorized that for an organization to attain above-normal performance consistently, it must create a sustainable competitive advantage (SCA). This SCA comes from creating a superior value for customers, and the desire to create this superior value in turn drives the business to be market oriented. The literature suggests that the improved business performance is also because market orientation provides clarity of focus and vision in an organization's strategy, generates pride in belonging to an organization among employees, and results in higher customer satisfaction and loyalty. We clearly see in these explanations how marketing orientation encompasses many of the other variables that have traditionally been part of the service-profit chain.

The third major construct used in this study, organizational performance, also requires some conceptual clarification. Often executives are mainly interested in the bottom line, and the tendency in the literature has been to focus predominantly on financial performance or profitability for both products and services (Jacobson and Aaker

1987; McDermott, Franzak, and Little 1993; Nelson et al. 1992; Phillips, Chang, and Buzzell 1983; Rust, Zahorik, and Keiningham 1995). However, many researchers have also conceptualized organizational performance as a multidimensional construct (Flood, Shortell, and Scott 1994; Morgan and Piercy 1998; Shortell et al. 1995). In the hospital industry, one proposal has been to measure performance in terms of efficiency (lowering costs) and effectiveness (providing more appropriate services) measures. Counte et al. (1995) suggested that efficiency be assessed in three areas—financial, operations, and human resources—and effectiveness be assessed in four areas—financial, operations, human resources, and market. In this article, we endorse the multidimensional view of performance, but instead of defining the performance dimensions (such as effectiveness and efficiency) a priori, we use multiple variables (encompassing financial, market, operations, and human resources areas) to measure hospital performance and derive the factor structure of performance using exploratory and confirmatory factor analysis.

Although there seems to be enough evidence that quality context and market orientation are independently related to organizational performance, the nature of the relationships between the three constructs is not entirely clear. One recent article suggests that quality context should determine the market orientation of an organization (Morgan and Piercy 1998). Although this study focused on the interfunctional interaction between quality and marketing, the finding was that this interfunctional interaction could be strengthened if management took a lead in strategic quality planning. The logic is that strong quality leadership will ensure that the quality strategies have an external-customer focus rather than an internal-process focus. This will enable the quality and marketing functions to be better coordinated and, in turn, lead to superior performance. This argument clearly implies a causal link from quality to marketing and from marketing to performance. As stated earlier, Johnson and Gustafsson (2000) have provided a framework in which the linkages flow from internal quality to external quality to performance (we omit the customer loyalty and retention link here because it is not the focus of this article). In this framework, internal quality affects performance both directly and indirectly. The indirect effect comes about due to the effect of quality on the external-consumer perceptions of the purchase-consumption experience. The direct effect of internal quality is due to its effect on costs and revenues, that is, internal quality can increase productivity and lower internal costs. This is the traditional quality-is-free argument advanced by quality advocates (Crosby 1979) where any expenditures on quality are offset by the increase in productivity. Interestingly, Johnson and Gustafsson (2000) pointed out that the direct link between internal quality and

performance is likely to be stronger for products than for services. The rationale is that improvements in service quality often require increasing customization and personal service, which raises operating costs, whereas manufacturing processes for products can be made more efficient through standardization or process improvements, which reduces costs. As a result, although the direct effect between internal quality and performance is usually positive for products, it might be nonexistent or even negative in a service context. This distinction between products and services is brought out clearly in the case studies of two organizations, Volvo and Sears, both of which have made great strides recently in improving their performance and profitability. Whereas the framework used by Volvo (a product manufacturer) to become more profitable adopted a broader model of quality that relied on both the direct and indirect effects of internal quality on performance, the framework used by Sears (a retail service) predominantly relied on the indirect effect of internal quality on performance, because internal quality at Sears is mainly a function of its employees and the quality they provide (Rucci, Kirn, and Quinn 1998).

Other researchers have also examined the issue of the difference between products and services in the context of the quality-performance relationship (Anderson, Fornell, and Rust 1997; Huff, Fornell, and Anderson 1996). Anderson, Fornell, and Rust (1997) theorized that customer satisfaction and productivity are not always compatible. In the case of products, it is easier to accomplish these simultaneously because productivity increases and customer satisfaction can both be accomplished through standardization. However, in the case of services, this is more difficult because services often require customization to increase customer satisfaction and this is not always consistent with increasing productivity. Findings from a large Swedish database support these claims. The implication is that in the case of services, any quality improvements directed solely at increasing productivity may not necessarily improve organizational performance because such productivity increases may come mostly at the expense of customer satisfaction. Huff, Fornell, and Anderson (1996) reinforced some of Juran's (1989) earlier ideas and proposed that there are two different dimensions of quality. One dimension relates to meeting customer needs, and the other dimension relates to freedom from deficiencies. Efforts to increase productivity are not always consistent with efforts to improve quality. The first quality dimension is often inconsistent with higher productivity because greater customization is needed to provide customers with the features they need. The second quality dimension is more likely to be consistent with productivity increases because freedom from deficiencies can be accomplished through standardization. This is also the situation where

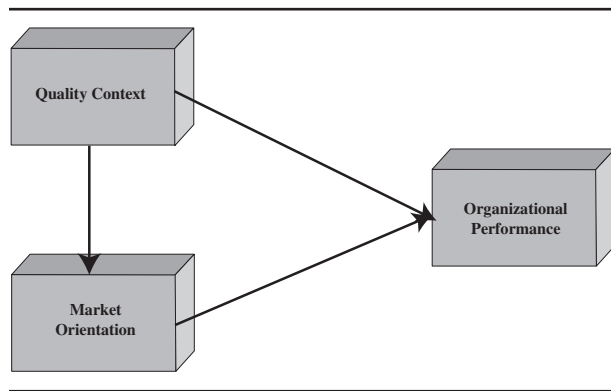
the quality-is-free argument is likely to hold. Because quality improvement in the case of services is often based on customization to meet customer needs better, the direct effect on performance by reducing costs is not as feasible for services. Their analysis also largely confirms these ideas. On the basis of these studies, one could say that there is not much evidence for a large direct effect of quality on performance in the context of services.

Many of the arguments that Johnson and Gustafsson (2000) used to conceptualize the relationships between internal quality, external quality, and performance can also be extended to the relationships between quality context, market orientation, and performance. Johnson and Gustafsson (2000) defined internal quality in a service context as "the service offer, the physical surroundings, and the satisfaction of employees and the resulting service quality they provide" (p.7). The quality context dimensions suggested by Benson, Saraph, and Schroeder (1991), which were outlined earlier, deal with the leadership, environment, and past performance with respect to quality and, in most situations, would encompass internal quality as defined by Johnson and Gustafsson (2000). In that sense, quality context can be visualized as a somewhat broader concept than internal quality and perhaps even as an antecedent of internal quality. The definition of external quality in the Johnson and Gustafsson (2000) framework is "what customers see in the purchase experience: the attributes and benefits that products and services provide and the costs they impose, and the conclusions that consumers draw about the company" (p. 7). Again, market orientation appears to be a broader concept than external quality because it encompasses aspects of monitoring and meeting customer needs, as well as responding effectively to customers and competitors. A major difference between external quality and market orientation, however, is that external quality is defined from the consumers' perspective, whereas market orientation is defined from an organizational perspective. Therefore, just as with quality context and internal quality, one could make an argument for market orientation to be the antecedent of external quality because the actions of the organization would determine the perceptions of the consumer.

On the basis of the above viewpoints, we propose a conceptual framework for the relationships between quality context, market orientation, and organizational performance similar to the Johnson and Gustafsson (2000) framework. This framework is shown in Figure 1.

In this framework, both quality context and market orientation have independent direct effects on organizational performance. In addition, quality context is linked to market orientation because there appears to be considerable support in the literature for this linkage. The framework therefore includes both the direct and indirect effect of

FIGURE 1
Conceptual Model Linking
Quality Context, Market Orientation,
and Organizational Performance



quality context on performance. This enables us to compare the strength of these linkages. Of course, if earlier arguments relating to the distinction between products and services hold true, the indirect effect of quality context on performance will be much greater than its direct effect within the hospital services context.

METHOD

Data for this study were collected using a questionnaire that was mailed to the top executives of 740 hospitals in a five-state region (Kentucky, Minnesota, Mississippi, Ohio, and Tennessee) in the central United States. These five states account for approximately 12% of the hospitals in the nation. Hospitals were not preselected based on ownership or specialty, and therefore, all types of hospitals were represented in the sampled population. Usable responses were obtained from 293 top executives in 175 hospitals. The response rate at the hospital level was 24%. The distribution of hospitals by hospital size in the sample was as follows: less than 100 beds, 26.7%; 100 to 300 beds, 43.75%; 300 or more beds, 29.5%. Although slightly skewed toward the larger hospitals, this distribution still compares favorably with the actual distribution of hospitals in the five-state region.

Four surveys were mailed to the CEO of each hospital. Instructions on the cover letter requested him or her to complete one survey and forward the other three surveys to three other senior executives, preferably vice presidents in the areas of quality, marketing, and operations. Although the diversity of opinions among the top executives of hospitals is perhaps an interesting research topic in itself, this was not the focus of the present study. Multiple responses from each hospital were therefore averaged across the ex-

ecutives who responded from that hospital to come up with an aggregated response for that hospital on each variable. Such aggregation enabled the analysis to be conducted at the hospital level (with each hospital having the same weight) and derive implications for hospital strategy. Because a majority of the hospitals (63%) sent in only a single response, such aggregation did not affect a majority of the hospitals.

The survey instrument had questions relating to quality context, market orientation, and performance, as well as other general questions relating to the hospital industry. Market orientation was measured with the MARKOR instrument (Kohli, Jaworski, and Kumar 1993). However, because the original instrument had been developed within a manufacturing setting, the wording of the 30 original items was modified to make the items more suitable for use in a health care context. Responses to the items were measured using a 5-point Likert-type scale, ranging from 1 (*strongly disagree*) to 5 (*strongly agree*).

Quality context was measured using the instrument designed by Benson, Saraph, and Schroeder (1991). They used 26 items to measure the five dimensions of quality context. The instrument used in the present study is essentially similar to their instrument with a couple of modifications. First, the number of items was pared down to 19, retaining only the most important items within each dimension. Second, some of the items were modified to make them more appropriate for the health care context because the original items had not been generated in a hospital setting. Following Benson, Saraph, and Schroeder (1991), the responses to these items were measured on 5-point scales, ranging from 1 (*very low*) to 5 (*very high*).

Hospital performance was measured using judgmental measures. There is considerable precedent for the use of such measures of organizational performance (Han, Kim, and Srivastava 1998; Jaworski and Kohli, 1993; Kumar, Subramanian, and Yauger 1997; Narver and Slater 1990). The surveyed hospital executives were asked to rate their hospitals on 19 performance variables relative to the competition. A scale of 1 (*much worse than competition*) to 5 (*much better than competition*) was used. The 19 performance variables were generated based on a review of hospital performance-related literature supplemented with interviews of key executives at local hospitals to ensure face validity of the performance measures.

The analysis of the data essentially comprised the following steps:

1. Exploratory factor analysis of the quality context, market orientation, and performance variables separately to extract the dimensions of each construct.
2. Confirmatory factor analysis of the quality context, market orientation, and performance vari-

ables to determine if the extracted dimensions in Step 1 offered a good fit to the data. Measurement models for market orientation, quality context, and performance were tested at the individual factor level, the aggregate level, and the second-order level.

3. Test of the conceptual model outlined in Figure 1 linking quality context, market orientation, and performance using SEM.

These steps are discussed in more detail in the next section.

ANALYSES AND RESULTS

Exploratory Factor Analysis

Exploratory factor analysis with varimax rotation was performed on the market orientation, quality context, and performance variables to extract the dimensions underlying each construct. To conserve space, only summary results are presented here for this preliminary stage of the analysis. The factor analysis of the 30 market orientation items yielded four factors with eigenvalues greater than 1.0 and explaining 60.5% of the total variance. Only 16 of the 30 items loaded on these four factors (see Table 1). Based on the items loading on each factor, the factors were labeled *Intelligence Generation* (Factor 1), *Customer Satisfaction* (Factor 2), *Responsiveness to Customers* (Factor 3), and *Responsiveness to Competition* (Factor 4). Whereas the Intelligence Generation and Responsiveness aspects are very similar to the dimensions postulated by Kohli and Jaworski (1990), the customer- and competitor-oriented dimensions more closely resemble the Narver and Slater (1990) framework. Even though the Customer Satisfaction dimension is not a part of existing frameworks, it is an important element of service marketing and is therefore quite relevant in the hospital context. Thus, the factor structure that emerges in the present study can be seen as a compromise between the two existing frameworks, and any differences from the earlier frameworks are perhaps reflective of the differences between the manufacturing and health care contexts. Cronbach's alpha measures of reliability for the four factors were .82 for Factor 1, .73 for Factor 2, .69 for Factor 3, and .71 for Factor 4. All four values are either above or very close to the traditionally acceptable value of .70 in research (Nunnally 1978).

In the case of the quality context variables, the exploratory factor analysis of the 19 variables revealed that the first five dimensions that emerged were the same as those identified by Benson, Saraph, and Schroeder (1991). These five dimensions all had eigenvalues greater than 1.0 and explained 64.2% of the total variance. Following Benson, Saraph, and Schroeder (1991), the five factors

were labeled *Corporate Support for Quality* (Factor 1), *Manager's Knowledge* (Factor 2), *Product/Process Environment* (Factor 3), *Marketplace Environment* (Factor 4), and *Past Quality Performance* (Factor 5). Because there were only minimal differences between our factor structure and the original factor structure proposed by Benson, Saraph, and Schroeder (1991) (only two items loaded a little differently), we opted to retain the original factor structure instead of modifying it as we did for the market orientation construct. Cronbach's alpha values for the five factors were .88 for Factor 1, .76 for Factor 2, .66 for Factor 3, .62 for Factor 4, and .74 for Factor 5. The 19 items used to measure quality context are shown in Table 2.

The 19 performance measures were factor analyzed in a similar fashion. Three factors were extracted with eigenvalues greater than 1.0 and explaining 69.3% of the total variance. Thirteen of the 19 measures loaded on these factors. These 13 performance variables are shown in Table 3. The factors were labeled *Financial Performance* (Factor 1), *Market/Product Development* (Factor 2), and *Quality Outcomes* (Factor 3). Financial Performance comprised variables such as net profit, profit-to-revenue ratio, return on investment, and cash flow from operations. Market/Product Development included variables such as new product/service development, market development, the capacity to develop a unique competitive profile, and R&D aimed at new innovations. Variables that loaded on the Quality Outcomes dimension were customer perception of the service quality, mortality/morbidity rate, employee turnover, and cost per adjusted discharge. Cronbach's alpha values for the three dimensions of performance were .95 for Financial Performance, .86 for Product/Market Development, and .57 for Quality Outcomes. The reliability value for the Quality Outcomes dimension is somewhat lower than the usual acceptable value of .7, possibly because this dimension is composed of four dissimilar items representing different types of quality outcomes for hospitals. There was also some concern that this dimension, which is part of the dependent variable in the framework, might have some overlap with the independent variable of quality context. One option considered to address these issues was to drop this dimension altogether. However, the factor satisfied the requirement of the eigenvalue being greater than 1.0, and the factor loadings for the four items loading on this factor were all above .6. In addition, the study by Morgan and Piercy (1998) mentioned earlier had used three very similar dimensions (Financial Performance, Market Performance, and Quality Outcomes) of organizational performance. Their operationalization of performance was supported by a multidisciplinary literature review and supplemented with interviews of a panel of six practitioners and eight academic experts. After careful consider-

TABLE 1
Measurement Models—Market Orientation

Description	Individual		Aggregate	
	Regression Weight	t-Value	Regression Weight	t-Value
Intelligence Generation				
1. In our hospital, we meet with customers (i.e., physicians, businesses, insurance companies, and patients) at least once a year to find out what products or services they will need in the future.	.649	6.310	.667	6.413
2. Individuals from our operations interact directly with customers to learn how to serve them better.	.602	5.972	.663	6.388
3. In our hospital, we do a lot of in-house research.	.596	5.984	.603	6.041
4. We survey customers at least once a year to assess the quality of our products and services.	.666	6.443	.632	6.236
5. We often talk with, or survey, those who can influence our patients' choices (e.g., physicians, health maintenance organizations).	.753	6.880	.741	6.861
6. We collect industry information through informal means (e.g., lunch with industry friends).	.595	— ^a	.580	— ^a
Customer Satisfaction				
7. Data on customer satisfaction are disseminated at all levels in this hospital on a regular basis.	.524	6.355	.528	6.522
8. Customer complaints fall on deaf ears in this hospital.	.507	6.143	.513	6.338
9. When we find out that customers are unhappy with the quality of our service, we take corrective action immediately.	.792	— ^a	.772	— ^a
10. When we find that customers would like us to modify a product or service, the departments involved make concerted efforts to do so.	.838	8.499	.853	9.739
Responsiveness to Customers				
11. We are slow to detect changes in our customers' product/service preferences.	.676	5.765	.648	6.689
12. We are slow to detect fundamental shifts in our industry (e.g., competition, technology, regulation).	.659	— ^a	.698	— ^a
13. There is minimal communication between marketing and operations concerning market developments.	.629	5.671	.615	6.450
14. Our business plans are driven more by technological advances than by market research.	.450	4.534	.448	4.945
Responsiveness to Competition				
15. If a major competitor were to launch an intensive campaign targeted at our customers, we would implement a response immediately.	.865	— ^a	.609	— ^a
16. We are quick to respond to significant changes in our competitors' pricing structures.	.528	5.116	.751	5.194

a. Fixed for estimation.

ation, we therefore decided to retain Quality Outcomes as part of performance in the conceptual framework for the present study. However, we also opted to perform our analysis both with and without Quality Outcomes to examine any variation in the results due to the issues surrounding this dimension.

Structural Equations Modeling

The SEM method was employed in two stages. First, we used confirmatory factor analysis to validate the factor structures of quality context, market orientation, and performance as revealed by the exploratory factor analysis. In SEM terminology, these analyses are known as measurement models. Second, we tested our proposed framework of causal relationships (as shown in Figure 1) between quality context, market orientation, and performance. The

program called AMOS, which is part of the Statistical Package for the Social Sciences (SPSS) software (Arbuckle and Wothke 1999), was used for the SEM analysis. Data from all 175 hospitals were used, and occasional missing data on variables were replaced by the corresponding mean value. The percentage of missing data across all 175 hospitals was calculated to be relatively small (1.5%).

Measurement models. Tables 1, 2, and 3 summarize the measurement models for market orientation, quality context, and performance, respectively. The tables show the standardized regression weight for each variable at both the individual factor level as well as the aggregate level. The factor-level analysis includes only the indicators for each factor (i.e., variables loading on that factor). The aggregate measurement model then combines the specific

TABLE 2
Measurement Models—Quality Context

Description	Individual		Aggregate	
	Regression Weight	t-Value	Regression Weight	t-Value
Marketplace Environment				
1. Degree of competition faced by our hospital	.358	— ^a	.442	— ^a
2. Barriers to entry into the health care industry	.256	2.848	.417	2.660
3. Quality demands of our customers and the marketplace in general	.827	3.276	.567	4.150
4. Regulatory and legal requirements of the quality of hospital products and services	.646	3.829	.544	3.715
Corporate Support for Quality				
5. Extent to which senior management has set goals in the area of quality	.883	— ^a	.791	— ^a
6. Extent to which quality is considered as a strategic opportunity by the senior management	.867	14.789	.770	14.829
7. Quality is emphasized throughout the hospital by the senior management	.788	12.719	.867	10.551
8. Overall, in comparison to other similar hospitals, extent to which senior management is committed to quality	.742	11.574	.826	10.918
9. The extent to which our hospital makes available resources (staff, systems, facilities, and funding) to carry out quality improvement programs	.653	9.596	.765	10.251
10. The degree of appropriateness of our current equipment, computer systems, and facilities to carry out quality control and quality improvement programs	.435	5.836	.462	6.116
Manager's Knowledge				
11. My experience with quality and its role in hospital	.739	— ^a	.765	— ^a
12. My participation in professional quality related—organizations such as the American Society for Quality Control and Health Care Forum	.565	6.656	.562	6.766
13. Extent to which I have read books and articles, attended seminars, or sought outside expertise or consultants in the quality area	.727	8.348	.706	8.438
14. Overall, my knowledge of the quality area compared to other hospital executives at similar levels	.798	8.751	.793	9.110
Product/Process Environment				
15. Rate at which our hospital adds and deletes product/services	.743	—	.748	—
16. Rate at which our hospital adds and deletes processes	.845	4.311	.840	6.180
17. Proportion of services our hospital purchases from outside suppliers	.360	4.059	.359	4.160
Past Quality Performance				
18. In general, our hospital's past 3-year quality performance rates	*	*	.792	—
19. Perceived customer satisfaction with quality for past 3 years	*	*	.752	5.943

a. Fixed for estimation.

factors that form a latent variable (such as quality context, market orientation, or performance) and examines the relationships between the factors. The standardized regression weights for all variables in Tables 1, 2, and 3 are highly significant for both levels of analyses. Goodness-of-fit indexes for these analyses are shown in Table 4. Because the significance and interpretation of these indexes are discussed in detail in the SEM literature (see Bollen 1989; Hair et al. 1995), there is no need to elaborate except to state that the measurement models provide good support for the factor structure determined by the exploratory factor analysis. This validates the factor structure for the three constructs and shows that the correlations among the variables in the data are supported by the factor structure. We also tested second-order measurement models for all three constructs. These models examine the relationships of the factors with the latent variables to determine if there is sufficient justification to combine the factors into one latent

variable. To conserve space, the detailed results are not reproduced here. Once again, the Goodness-of-Fit Indexes were quite good, providing additional validation for the factor structure of quality context, $\chi^2/df = 1.571$, Root Mean Square Residual (RMR) = .072, Goodness-of-Fit Index (GFI) = .873, Adjusted Goodness-of-Fit Index (AGFI) = .846, Tucker-Lewis Index (TLI) = .917, Comparative Fit Index (CFI) = .924; market orientation, $\chi^2/df = 1.396$, RMR = .055, GFI = .913, AGFI = .878, TLI = .943, CFI = .954; and performance, $\chi^2/df = 1.794$, RMR = .043, GFI = .914, AGFI = .872, TLI = .957, CFI = .966.

Path model. The final step in the analysis was to test the framework specified in Figure 1. To conserve the degrees of freedom for the analysis (as the sample size was not too large), the factors for each construct were represented by the summated scores of the variables loading on each factor as opposed to using all the individual variables in the

TABLE 3
Measurement Models—Performance

Description	Individual		Aggregate	
	Regression Weight	t-Value	Regression Weight	t-Value
Financial Performance				
1. Net profits	.944	— ^a	.902	— ^a
2. Return on investment	.920	22.210	.879	22.518
3. Cash flow from operations	.824	16.291	.870	16.844
4. Return on assets	.817	16.030	.830	15.223
5. Profit-to-revenue ratio	.883	19.577	.918	18.991
Market/Product Development				
6. New product/service development	.868	— ^a	.788	— ^a
7. Investments in R&D aimed at new innovation	.756	10.943	.680	10.777
8. Capacity to develop a unique competitive profile	.753	10.880	.790	10.659
9. Market development	.762	11.041	.812	10.971
Quality Outcomes				
10. Mortality and morbidity rate	.449	— ^a	.403	— ^a
11. Service quality as perceived by customers	.792	3.805	.785	4.702
12. Cost per adjusted discharge	.292	2.850	.370	3.446
13. Employee turnover	.555	4.235	.544	4.221

a. Fixed for estimation.

TABLE 4
Goodness-of-Fit Statistics (N = 175)

Variable	χ^2	χ^2/df	RMR	GFI	AGFI	TLI	CFI
Quality Context							
Managerial Knowledge	1.04	0.52	.01	.99	.98	1.00	1.00
Corporate Support for Quality	9.54	1.36	.02	.98	.95	.99	.99
Marketplace Environment	0.28	0.28	.01	.99	.99	1.00	1.00
Product/Process Environment	0.00	— ^a	0.00	1.00	— ^a	— ^a	1.00
Past Quality performance	— ^a	— ^a	— ^a	— ^a	— ^a	— ^a	— ^a
Aggregate model	228.65	1.50	.07	.88	.85	.93	.94
Market Orientation							
Intelligence Generation	6.64	0.83	.02	.99	.97	1.00	1.00
Customer Satisfaction	1.66	0.83	.02	.99	.98	1.00	1.00
Responsiveness to Customers	0.71	0.35	.01	.99	.99	1.00	1.00
Responsiveness to Competition	— ^a	— ^a	— ^a	1.00	— ^a	— ^a	1.00
Aggregate model	136.26	1.40	.05	.91	.88	.94	.95
Performance							
Financial Performance	5.98	1.50	.01	.99	.95	.99	1.00
Market Product Development	1.99	0.99	.01	.99	.97	1.00	1.00
Quality Outcomes	3.73	1.86	.02	.99	.95	.93	.98
Aggregate model	98.03	1.63	.04	.92	.88	.97	.97
Path Model 1 (quality outcomes included)	101.21	1.98	.56	.91	.87	.89	.91
Path Model 2 (quality outcomes excluded)	79.54	1.94	.57	.92	.88	.89	.92

NOTE: RMR = Root Mean Square Residual; GFI = Goodness-of-Fit Index; AGFI = Adjusted Goodness-of-Fit Index; TLI = Tucker-Lewis Index; CFI = Comparative Fit Index.

a. Cannot be calculated.

analysis. In terms of the GFIs, the results for this model were quite acceptable, $\chi^2/df = 1.996$, RMR = .498, GFI = .913, AGFI = .864, TLI = .873, CFI = .904. Surprisingly, however, this model also yielded a statistically insignificant path coefficient (.02) for the direct path between quality context and performance. This indicates that quality

context has no direct effect on performance and that its effect on performance is totally indirect, that is, completely mediated by market orientation. Although this result is quite interesting and confirms the findings from other studies reviewed earlier, there was also a concern that the model in Figure 1 might be unidentified because the order

FIGURE 2
Modified Conceptual Model Linking Quality Context, Market Orientation, and Organizational Performance

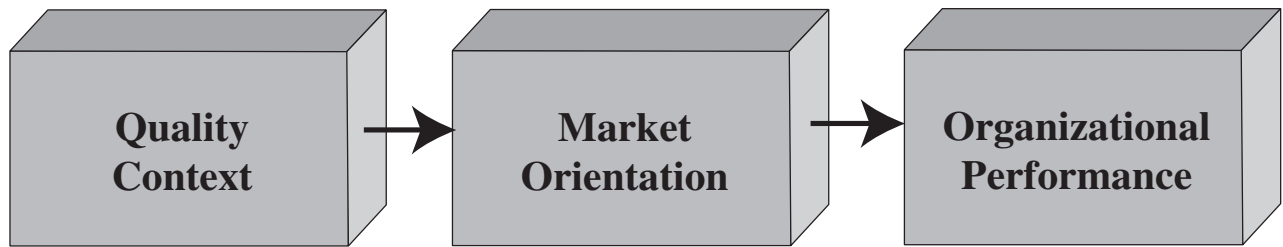
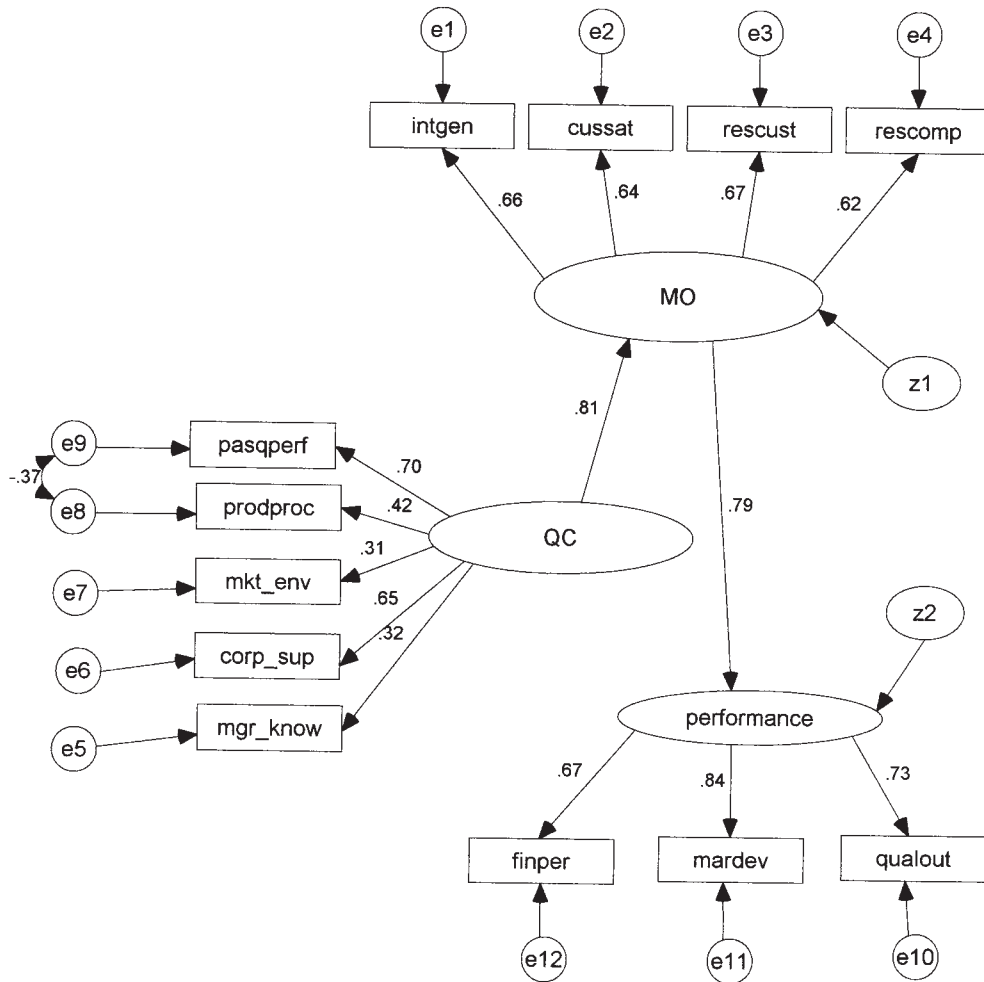


FIGURE 3
Path Model of Quality Context, Market Orientation, and Performance



NOTE: MO = Market Orientation; intgen = Intelligence Generation; cussat = Customer Satisfaction; rescust = Responsiveness to Customers; rescomp = Responsiveness to Competition; QC = Quality Context; pasqperf = Past Quality Performance; prodproc = Product/Process Environment; mkt_env = Marketplace Environment; corp_sup = Corporate Support for Quality; mgr_know = Manager's Knowledge; finper = Financial Performance; mardev = Market/Product Development; qualout = Quality Outcomes. The terms e1, e2, and so on, and z1, z2, and so on are error terms in the equations.

TABLE 5
Path Models of Quality Context,
Market Orientation, and Performance

Construct	Standardized Regression Weights ^a	
	Path Model 1	Path Model 2
	(quality outcomes included)	(quality outcomes excluded)
Quality Context (QC)—Market Orientation (MO)	.807	.805
Manager's Knowledge—QC	.317	.314
Corporate Support for Quality—QC	.650	.657
Marketplace Environment—QC	.310	.316
Product/Process Environment—QC	.424	.431
Past Quality Performance—QC	.696	.682
Market Orientation (MO)—Performance	.787	.751
Intelligence Generation—MO	.656	.668
Customer Satisfaction—MO	.645	.645
Responsiveness to Customers—MO	.673	.675
Responsiveness to Competition—MO	.623	.616
Quality Outcomes—Performance	.725	NA ^b
Financial Performance—Performance	.672	.680
Market Development—Performance	.843	.863

a. *t*-values are significant at $\alpha < .01$ level.

b. Not applicable because the Quality Outcomes dimension was not included as part of performance in this model.

condition would not be satisfied by the two equations for the endogenous variables, that is, market orientation and performance (see Bollen 1989, p. 98). Although Bollen (1989, p. 324) illustrated a model very similar to the model in Figure 1 and showed it to be identified, we decided to validate the insignificant direct effect of quality context on performance in an indirect manner, as will be explained later.

For the moment, however, we assumed that the direct effect of quality context on performance was insignificant and simplified the model in Figure 1 so that the effects flowed sequentially from quality context to market orientation to performance (Figure 2), essentially removing the direct effect of quality context on performance. The path diagram for this model is shown in Figure 3, and the GFIs and the standardized regression weights are shown in Tables 4 and 5, respectively, under the heading Path Model 1. Table 4 shows that all the GFIs are within the acceptable range, except for the RMR value, which has a value of .56. However, the RMR value, by itself, is inconclusive because the residuals can be large for many different reasons, and the residuals also tend to get larger as the sample size gets smaller (Bollen 1989, p. 257). The standardized regression weights (Table 5) are all significant, indicating that all the relationships in the path model (Figure 3) contribute significantly to the conceptual framework.

Table 5 shows that the standardized regression coefficient between market orientation and performance is .79 and that between quality context and market orientation is .81. The coefficient of determination, which is analogous to a squared multiple correlation coefficient and shows the proportion of variance explained in the endogenous variable (performance) accounted for by the exogenous variable (market orientation), can therefore be calculated as .79² or .62 (Hair et al. 1995, p. 703). This means that 62% of the variance in performance is directly explained by market orientation. However, because the standardized regression coefficient between quality context and market orientation is .81, it means that the indirect effect of quality context on performance is .64 (.81 × .79). Quality context therefore explains about 41% (0.64²) of the variance in performance, although its effect is totally mediated by market orientation. Because we now know the indirect effect of quality context on performance, we could determine the direct effect by finding the total effect of quality context on performance and then subtracting out the indirect effect. The total effect was determined through an SEM analysis omitting the marketing orientation construct and linking quality context directly to performance. The standardized regression coefficient between quality context and performance in this analysis was .62. Because this value is very close to the calculated indirect effect of .64 from Figure 3, it can be surmised that the direct effect of quality context on organizational performance is therefore insignificant, as was shown earlier in the analysis for Figure 1. The results show therefore that both market orientation and quality context have a sizable impact on organizational performance, although the nature of the effects is quite different. The practical significance of these results will be addressed in the Implications section.

As we mentioned earlier, there was some concern regarding the lower reliability of the Quality Outcomes dimension of performance as well as a concern about possible overlap with the quality context construct, which is one of the independent variables in our framework. On the basis of our factor analysis and our review of the literature, we feel intuitively that quality context and quality outcomes are distinct variables. The former focuses on aspects of the quality environment and support for quality initiatives within the organization (as outlined in Table 2), whereas the latter pertains to specific results of these quality initiatives (as outlined in Table 3). To address any concerns in this regard, however, we performed two types of analyses. First, using SEM, we tested that discriminant validity of the two concepts. For this analysis, the Quality Outcomes dimension was treated as a separate construct with four indicators, that is, the four variables that loaded on that factor and are shown in Table 3. The chi-square for the model correlating the two constructs was first exam-

ined. The analysis was then repeated with the covariance between the two constructs being constrained to a value of 1.0. The difference in chi-square between these two analyses was 51.225, with a corresponding change of 1 degree of freedom. The fact that this value has high statistical significance shows that the covariance between the two constructs is not equal to 1.0, implying that the two constructs are not essentially two measures of the same construct. This therefore supports the inclusion of quality outcomes as a dimension of performance on the dependent side of the framework. To further examine any change in the results due to the inclusion of the Quality Outcomes dimension in our framework, we reanalyzed the path model in Figure 3 after omitting the Quality Outcomes dimension. The path coefficient from quality context to market orientation dropped slightly from .81 to .80, and the path coefficient from market orientation to performance also dropped slightly from .79 to .75. However, none of the standardized regression weights or GFIs changed by any appreciable degree. For comparison purposes, the results for this model are shown in Tables 4 and 5 under the heading Path Model 2. These results show that the two models (with and without quality outcomes) are not substantively different, which supports the inclusion of quality outcomes in the framework. However, on the basis of the many pro and con arguments put forth earlier, we feel that the role of quality outcomes as a dimension of performance warrants further examination in future research.

IMPLICATIONS

The results of this study have several implications for academic researchers and for practitioners in a general service environment and specifically in the hospital industry setting. These results can be summarized in terms of three general findings. First, this study provides considerable support for the impact of both quality context and market orientation on organizational performance. This is important because these two constructs have not been studied jointly in the past in relation to organizational performance. Second, this study supports the idea that these constructs affect performance in very different ways. Although this study only examined these relationships in a service context, the findings clearly support prior conceptualization relating to the distinction between products and services—that is, quality has a direct effect on performance for products, but it is only likely to have an indirect effect on performance for services. Third, the results of the study support the view that quality context, market orientation, and performance are all multidimensional constructs. Studies that incorporate only a few of the dimensions of any of these constructs may therefore not

provide a complete picture of their relationships with each other. The specific implications of these three findings for researchers and practitioners are outlined below.

Implications for Researchers

Although *quality context* has been recognized in the quality management literature and *market orientation* has garnered considerable attention lately in the marketing management literature, neither of these constructs has been recognized adequately in the mainstream quality literature as part of the service-profit chain. We also are not aware of studies that have used these two constructs jointly in predicting organizational performance. As suggested earlier in this article, it may be reasonable to presume quality context to be the antecedent of internal quality and market orientation to be the antecedent of external quality in relation to the Johnson and Gustafsson (2000) framework. Both of these constructs therefore have a tremendous potential to enrich the conceptual framework by their inclusion in future studies. Because of the differential nature of the relationship between quality and performance in product and service settings, researchers can also gain a better understanding of the framework by applying it to different contexts, including different types of service industries.

Although this study provided considerable support for the multidimensional nature of the three constructs studied, there are also many unresolved issues with respect to the multidimensional nature of these constructs. For instance, we found the factor structure of market orientation to be somewhat different from earlier studies in the manufacturing context. We also found some issues with regard to the factor structure of organizational performance, especially concerning the reliability of the Quality Outcomes dimension. These issues afford researchers the opportunity to continue to study and refine the conceptualization and measurement of these constructs. Substantial work still needs to be done in testing and validating the instruments to measure these constructs. Again, the contextual variation in the operationalization and measurement of these constructs (products vs. services, different types of services, etc.) could also be a fruitful area for research.

Finally, researchers need to continue to work toward a broader framework of relationships to explain the performance and profitability of organizations. This includes the relationships of quality context and market orientation with other internal and external variables, such as internal quality, employee satisfaction, employee retention, customer satisfaction, customer loyalty, and customer retention. An interesting point to consider is that when these additional variables are incorporated, even the effect of market orientation on performance may become more indirect than direct. Because the effect of quality context on

performance seems to be entirely mediated by market orientation in the service context, research also needs to be done on avenues to foster cooperation and reduce conflict among departments, especially between the quality management and marketing functions within the organization (see, e.g., Maltz and Kohli 2000; Morgan and Piercy 1998).

Implications for Practitioners

For practitioners, the significant impact of both quality context and market orientation on performance means that they need to emphasize both constructs within their organizations. Because these two constructs have been individually shown to be related to organizational performance in past studies, there may be a tendency to believe that emphasizing either of these constructs will be sufficient to improve performance. Clearly, the lack of a direct relationship between quality context and performance in the service context should not cause service organizations to stop emphasizing quality because the indirect effect is still quite substantial. Because there has been considerable emphasis on service quality in the literature, such de-emphasis of quality is not a likely scenario. The literature in the health care area, in particular, shows that hospitals are keenly aware of the need to improve quality and have readily embraced TQM and other quality concepts. At the same time, however, because the effect of quality context on performance appears to be totally indirect in a service context, managers should not expect all quality improvements to result in improved performance. On the basis of the framework tested in this article, it is more likely that quality initiatives that affect marketing orientation (and perhaps related aspects such as customer satisfaction and loyalty) will be the ones that have a positive impact on performance. This provides quality managers a procedure to prioritize actions with respect to quality initiatives, especially in times of tight budgets.

Because market orientation has a strong direct effect on performance, it is imperative that service organizations be market oriented. This, however, does not imply that market orientation is more important than quality context, and any tendency to emphasize market orientation more than quality context should therefore be avoided. There might also be a tendency on the part of organizations to assume that market orientation would have a greater effect on performance when the environment is more competitive. Consequently, service organizations in relatively stable industries might not feel the need to spend time and money on improving their market orientation, especially if they are already spending a considerable amount of time and effort on quality initiatives. However, some recent research indicates that this type of thinking is not correct and that it

pays to be market oriented irrespective of the competitive environment (Slater and Narver 1994). Based on their research, Slater and Narver (1994) concluded that "it is better to invest in becoming market oriented while the environment is somewhat munificent than to wait until it has grown hostile" (p. 54).

The multidimensional nature of quality context, market orientation, and performance suggests that strategy decisions that are based on only a few of the dimensions for any of these constructs are likely to be incomplete, ineffective, or sometimes even counterproductive. For example, hospitals have traditionally put considerable emphasis on customer (i.e., patient) satisfaction, but smaller hospitals in particular may not pay attention to some of the other dimensions of market orientation. Similarly, there is a tendency in many hospitals to focus primarily on financial performance to the exclusion of quality outcomes or market/product development aspects. Such misplaced emphasis can, needless to say, be quite disastrous for service organizations and may lead to the incorrect conclusion that market orientation has no impact on performance. Service organizations therefore need to carefully examine the dimensions of the three constructs and determine ways to emphasize each of the dimensions within their organizations.

Because quality context influences performance through its effect on market orientation, top executives in service organizations can also play a vital role in improving the coordination between the quality and marketing functions within their organizations. A systems perspective could be very useful in this regard. Quality managers, in particular, should be aware of how quality initiatives could influence dimensions of market orientation such as intelligence generation, customer satisfaction, and responsiveness to both customers and competitors. Marketing managers, on the other hand, need to be aware of the operations and process considerations and be sensitive to the internal cost and quality ramifications of marketing initiatives. Both quality and marketing managers need to have a greater awareness of the impact of their actions on external marketing and customer-related variables such as customer loyalty and customer retention. Some would perhaps characterize this as strengthening the linkage between internal and external quality for the organization. External perceptions go hand in hand with internal processes and procedures, especially in the services area where there is no tangible product of uniform quality. Service organizations, such as hospitals, are especially likely to revert to paying attention to only one area, such as quality, when there are enormous pressures to cut costs such as tight budgets, managed health care, competitive pressures, and inadequate insurance reimbursements. It is important for such organizations to use a systems approach and em-

phasize multiple areas that have a bearing on performance even in the face of such pressures. Such an approach is consistent with the balanced scorecard perspective of assessing an organization's performance that has evolved recently in the management literature (Kaplan and Norton 1992).

In summary, both quality context and market orientation appear to have an important role in the service-profit chain. We need to incorporate these constructs in our framework for explaining and predicting organizational performance. In this article, we have shed some light on the impact of these constructs on organizational performance in a service environment, namely, the hospital industry. It is clear from the results that a better understanding of the synergistic relationships between quality concepts, marketing variables, and organizational performance can help greatly in making service organizations more successful and profitable.

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A Practitioner's Comment on Aimee L. Drolet and Donald G. Morrison's "Do We Really Need Multiple-Item Measures in Service Research?"

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Ankeny, Iowa

The author responds to issues raised by Drolet and Morrison concerning their 2001 article assessing the use of multiple-item scales in service research. He critiques their arguments on both theoretical and practical grounds, putting forth a case supporting the use of these scales. His primary conclusions are (a) that using multiple-item scales in applied research does not necessarily have to be expensive, (b) that the amount of information contained in a particular item of a multiple-item scale goes beyond simply contributing to the scale's reliability per se, and (c) that multiple-item scales often are needed in service research to measure complex constructs and ensure an appropriate level of measurement validity.

The Drolet and Morrison (2001) article makes many valuable points for the marketing research practitioner. In particular, the authors discuss how seemingly repetitive attributes measuring the same construct can unnecessarily increase questionnaire length, inflate survey costs, induce respondent boredom, and compromise data integrity.

Although I agree with the general substance of their text, the article—especially its title—may cause practitioners to misinterpret the true value that multiple-item scales can play in service research for the following reasons:

- Use of multiple-item scales does not have to be costly.

- The amount of information each additional item provides in a multiple-item scale goes beyond contributing simply to the scale's reliability.
- Service research often measures more complex constructs than is reflected by the examples in their article.
- Their discussion of the "information-reliability trade-off" fails to cover a fundamental concern of measurement theory—validity of survey measures.

THE CASE FOR MULTIPLE-ITEM MEASURES

Cost Issues

Use of multiple-item scales can increase survey length and, concomitantly, survey cost. Increased interviewer and long-distance telephone costs contribute to this problem. Moreover, multiple-item batteries in questionnaires contribute to long and boring interviews, factors that reduce respondent participation in research surveys. The latter were two hot topics at the 2000 annual conference of the Council of American Survey Research Organizations (CASRO).

But there are ways around this problem. For example, a company that is embarking on a service research program can initially conduct a benchmark study that tests a rather lengthy list of attributes. To reduce potential respondent

fatigue, clients can pay respondents for their time and give them an appropriate time period in which to complete the questionnaire. The researcher then uses study findings to identify statistically which attributes in a particular multiple-item scale are redundant or problematic. Moreover, the researcher can use judgment to reduce the number of attributes contained in a multiple-item scale, assuming the scale's reliability and validity are not compromised.

The end result is that all subsequent surveys contain a subset of the attributes examined in the benchmark study, thereby diminishing the problems Drolet and Morrison identify in their article. A second benefit is that the benchmark study serves as a general test of the instrument beyond examining the items that make up potential multiple-item scales.

Information in an Item

"Even with very modest error term correlations between items, the incremental information from each additional item is extremely small," say Drolet and Morrison (p. 196), who are correct in that statement as far as it goes. What is not mentioned, and what is potentially misleading, is that items in surveys are not used solely to develop multiple-item measures of constructs.

Clients are often curious about how their product performs on a certain issue and do not care (assuming the marginal cost is small) if adding an item is redundant. They just want to know. Especially when an organization makes a change in its marketing mix, a client may want to add a new item to an existing multiple-item scale even though that item may be statistically redundant. Moreover, if a multiple-item scale drops in a tracking study, the client wants to know why. Examining a product's image on the items that make up that scale can potentially provide answers.

Service Construct Complexity

The authors' article gives an example of testing advertisements. By their own definition, the 15 questions on their survey reflect only two constructs—attitudes toward a brand measured by a 5-item scale and attitudes toward an advertisement measured by a 10-item scale.

There is a wealth of evidence that many service constructs cannot be validly measured by single items. This is implied in some of the authors' references (e.g., service quality in Parasuraman, Berry, and Zeithaml 1991 and Parasuraman, Zeithaml, and Berry 1988, 1994; and customer satisfaction in Fornell 1992 and Oliver 1993).

Consider financial services marketing. If a bank were interested in obtaining information on its quality of ser-

vice, a global one-item scale could be constructed—"This institution delivers high-quality service"—measured on some kind of *agree-disagree* scale. Alternately, more specific one-item measures could be developed to measure the quality of teller service, personal banker service, and so on.

As shown in Teas and Wong (1991), many service quality constructs are difficult if not impossible to measure with one item, such as the concept of *proactive service*. Proactive service reflects the extent to which a financial institution "leads in interacting with the customer and serving the customer rather than merely responding to requests." Teas developed an eight-item scale to measure this construct, each item measuring a specific "proactive" behavior of the bank. True, this construct likely could be measured just as reliably with somewhat fewer items, but certainly not with one item.

The "Information-Reliability Trade-Off" and Measurement Validity

"Use of multiple-item measures represents, in essence then, the information-reliability trade-off between being able to ask a manager or customer two different questions once (more information) and the same question twice (greater reliability)" (p. 196).

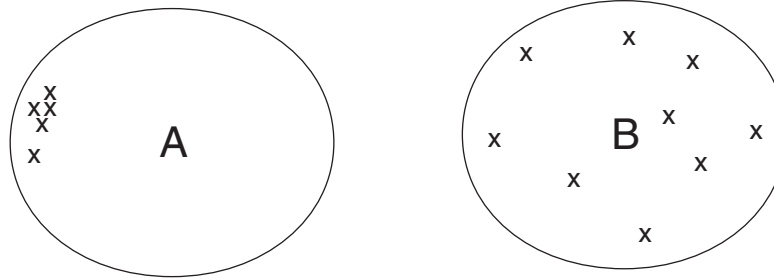
This statement ignores the more fundamental issue of measurement validity. Validity is the "ability of any measurement item or process to measure the concept it is meant to measure" (Nelson 1982, p. 655). "Thus, it is often said that (1) if a measure is valid, it is reliable; (2) if it is not reliable, it cannot be valid" (Churchill 1991, p. 495).

In developing multiple-item scales, the validity issue should be the practitioner's primary and fundamental concern. In this regard, to create a multiple-item measure of a construct that has an acceptable level of validity, one needs to ensure that the items constituting the measure faithfully reflect the various aspects of the construct. This is sometimes referred to as the "domain sampling model."

"The domain sampling model holds that the purpose of any particular measurement is to estimate the score that would be obtained if all the items in the domain were used" (Churchill 1991, p. 497). One major source of measurement error occurs when the sampling of the domain items is inadequate. Clearly, single-item measures are more prone to this problem than are multiple-item measures.

Consider Figure 1. Each oval represents the domain of the same construct. The Xs represent different items sampled from the domain. Oval A samples the items from the same part of the domain. A multiple-item scale based on these items would produce a biased measure of the construct, notwithstanding a high coefficient alpha. In con-

FIGURE 1
Domain Sampling



NOTE: Each oval represents the domain of a given construct. The Xs represent different items sampled from the construct's domain. Items in Oval B are more representative of the construct than are those in Oval A.

trast, oval *B* samples the items more representatively, which would produce a more valid multiple-item measure of that construct.

As an analogy, consider the development of a sixth-grade test designed to measure a student's overall mathematical aptitude. The domain of that construct could include proficiencies in addition, subtraction, multiplication, and division. If the test only covered addition, it would represent a biased sample of the construct's domain, similar to what occurred in Oval A of Figure 1.

I am confident that Drolet and Morrison did not intend for the reader to think that one should automatically use single-item scales and throw validity to the wind. Perhaps a better way to make the "information-reliability trade-off" point is as follows: Always use fewer measures of a construct if it does not significantly affect its reliability and validity, and if the client does not want to know how the company's product performs on an item that could be part of the multiple-item measure.

Other Advantages of Multiple-Item Scales

Single-item measures often possess measurement error. According to Churchill (1979), "they produce unreliable responses in the sense that the same scale position is unlikely to be used by a respondent in successive administrations of an instrument" (p. 66), *ceteris paribus*. When multiple-item scales are used, the summation process results in a portion of the random error associated with each item in the multiple-item scale "canceling out across items."

Single-item scales categorize people into a relatively small number of groups (Grapentine 1995). For example, a 5-point scale can at most distinguish between five levels of

an attribute (i.e., the 5 points of the scale). A four-item scale, each measured via a 5-point rating scale, contains 20 categories:

$$(1 + 1 + 1 + 1) / 4 = 1.00$$

$$(1 + 1 + 1 + 2) / 4 = 1.25$$

$$(1 + 1 + 2 + 2) / 4 = 1.50$$

↓

↓

↓

$$(5 + 5 + 5 + 5) / 4 = 4.00$$

Finally, having management focus on the constructs underlying the multiple-item scales can reveal underlying consumer perceptions or "latent variables" that are important in understanding consumer behavior. For example, the bank research example discussed above could not have uncovered the proactive service dimension by using single-item measures.

CONCLUSION

"Do We Really Need Multiple-Item Measures in Service Research?" My answer is "yes." But in recognition of Drolet's and Morrison's contribution, let us not go overboard. As shown in their *A_{ad}* multiple-item scale, research-

ers do not need to ask consumers 10 questions to discover if they like an advertisement. One likely will do. Yet, we still need to be cognizant of measurement validity issues—and of our clients' needs. Therefore, it is important to find the optimal number of items to address all of these issues.

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REJOINDER TO GRAPENTINE

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Donald G. Morrison

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The authors respond to Grapentine's comment. The authors agree with several of Grapentine's points but have a few important points of disagreement. In particular, the authors disagree that the cost issue of using multi-item measures can be sidestepped and that high measurement reliability translates into high measurement validity.

We are extremely pleased that our article, "Do We Really Need Multiple-Item Measures in Service Research?" has generated interest, especially among practitioners. We sincerely hope that both our article and Grapentine's response cause researchers to think both more often and more clearly about measurement issues in general and the issue of reliability in particular.

In his response to our article, Grapentine argues for the usefulness of multiple items from the practitioner's standpoint. He makes several valuable points, many with which we wholeheartedly agree and view as commonsense additions to our own argument. Indeed, in response, we have only a few comments, mostly comments clarifying our reasoning in the original article. We have only a few points of disagreement.

OUR OBJECTIVE

The main objective of our article was to show how correlated error terms of items in a scale can greatly reduce the incremental information value of additional items.

There are two important assumptions made in our article. First, we assume that the survey items are *unbiased* (p. 198). We do not address the case of biased items and measurement error. Second, we assume that measurement is of a *single* construct. In our article, we used examples of the construct of liking for a brand or an advertisement. It is clear that in the case of multidimensional constructs, multiple items are unavoidable and, of course, necessary. As both Grapentine and we (in our original article) point out, service research often involves the use of multidimensional constructs where single-item measures would clearly be inappropriate.

Furthermore, our article provides empirical evidence that increases in the number of items for single-construct scales can lead to appreciable differences in respondents' patterns of answers. Thus, in addition to the patently (we think) higher cost of asking two questions rather than one question—more questionnaire space, more respondent time, more printer ink—our results suggest that asking too many similar questions adversely affects data quality. This represents a more hidden cost of using multiple-item measures. Accordingly, to some extent, we disagree with Grapentine's argument that researchers can get around this element of cost by, for example, "clients can pay respondents for their time and give them an appropriate time period in which to complete the questionnaire." Yet, a difference in overall cost remains.

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Journal of Service Research, Volume 4, No. 2, November 2001 159-160
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MEASUREMENT RELIABILITY VERSUS MEASUREMENT VALIDITY

We fully appreciate Grapentine's concerns about measurement validity. We echo Grapentine's sentiment that when researchers consider the issue of measurement reliability, they consider the issue of measurement validity. We do not address the issue of validity in our article.

Nevertheless, we disagree with Grapentine's logic that high reliability means high validity. For example, across all test takers, the SAT is a highly reliable measurement. Everyone will agree to this fact. Witness, however, the large constituencies who say that the SAT is not a valid measure (predictor) of college performance in general and certain subgroups in particular.

Notwithstanding, it is true that a valid measure must have "reasonable" reliability. Our own approach to the issue of assessing reliability was outlined in the discussion of our article. In particular, we mentioned how other ways of assessing reliability, such as test-retest methods, might be preferable (in terms of the potential negative effects of too many questions on respondent behavior). In brief, we argued against the "reliability police" and their Cronbach alpha "stick."

CONCLUDING REMARKS

It is perhaps ironic that, here, it is the practitioner who is arguing for the use of more items and two academics arguing for the use of fewer items. We thank Grapentine for his interest in our article and for his thoughtful response.

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