The Antecedents of Customer Satisfaction in a Financial Institution,

a Qualitative Study.

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By

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Abstract

The following is a case study report on the Cape Town business unit of Standard Bank Properties. The research project falls within the ambit of services marketing which introduces several unique management challenges for service businesses that sell services as a core offering.

The principal aim of the case study is to gain an understanding of why customers bank at the business unit and to discover what aspects are critical to customer satisfaction.

A further goal of the research is to examine how the business unit could improve customer satisfaction and to highlight any impediments to further improving customer satisfaction at the business unit.

It is generally regarded that quality customer service is essential to building customer relationships and hence the research project emphasis on services marketing and customer satisfaction within a financial services context.

The paper commences with an overview of the South African Banking Sector and its unique challenges such as the Financial Service Charter and newly introduced legislation such as Financial Intelligence Centre Act. The case study will specifically investigate the property finance industry and a detailed analysis of the business unit's operations and process flow will also be undertaken. The reason for this background information is to assist the reader to understand how the business unit operates.

The research project will investigate four unique differences between goods marketing and services marketing whereafter three theoretical propositions are introduced, namely the dyadic interaction and service encounter, the Service Profit Chain and finally Relationship Marketing.

Evidence in the form of a narrative will be led from insights obtained from interviews conducted with customers and staff at the business unit against these propositions with support (or otherwise) from independent surveys and documents from the business unit. The result of this analysis is the identification of several areas of concern specifically:

- New employees and the service encounter,
- Problems with FICA,
- Lack of a customer complaint handling system,
- Empowerment issues,
- Turnaround times,
- Reliance on key staff

These insights together with the evidence from the literature review will be analysed and several recommendations made to improve customer service and ultimately customer satisfaction at the business unit.

Several recommendations for further research are offered as well as the identification of limitations including but not limited to the specificity of the case study report.

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Chapter 1: Introduction

1.1 Introduction

The importance of having satisfied customers in any business is paramount to its continued survival and as such business needs to realise that the customer, and a happy and satisfied one at that, is the core reason for its continued existence.

In most industries providing quality service is no longer simply an option. The rapid pace of developing technologies and increasing competition make it difficult to gain a strategic competitive advantage through physical products alone. In addition, customers are becoming more demanding, wanting not only quality goods, but also expecting high levels of service.

This research project falls within the ambit of services marketing which introduces several unique management challenges for service businesses that sell services as a core offering. In addition to these unique challenges, it is generally regarded that quality customer service is essential to building customer relationships and hence the research project emphasis on services marketing and customer satisfaction within a financial services context.

According to Wong and Perry (1991), attracting a new customer to replace a lost one takes five times as much effort, time and money as it would have taken to keep the existing one. The effort then of identifying the drivers and impediments of customer satisfaction makes good business sense and hence the willingness of the Bank to sponsor such research.

1.2 Problem statement and objectives of case study

This research project is a case study of the Standard Bank Properties Cape Town office where the primary aim is to understand why customers bank at Standard Bank Properties and to discover what aspects are critical to customer satisfaction at the business unit.

A further goal of the research is to examine how the business unit could improve customer satisfaction and to highlight any impediments to further improving customer satisfaction at the business unit.

1.3 The structure of the Case Study Report

The thesis is broken down into three sections, namely: -

- Introduction and Overview
- Literature Review
- Results and Discussion

1.3.1 Introduction and overview

This section covers the introductory chapter one which outlines the basis of the paper and essentially provides the reader with a footprint through the case study.

It serves essentially the same function as the case study protocol served for the investigator where according to Yin (1994:63), the "case study protocol is a major tactic in increasing the reliability of case study research and is intended to guide the investigator in carrying out the case study".

1.3.2 Literature Review

Section two is broken down into three chapters. Chapter two deals with a literature review of the South African Banking Industry, Chapter 3 with a literature review of customer satisfaction and Chapter four covers Research Methodology.

1.3.2.1 The South African Banking Industry

Aspects covered in this chapter include an overview of the banking industry in South Africa together with its associated challenges – many of which are unique to South Africa such as the Financial Services Charter and Black Economic Empowerment and legislation including inter alia Employment Equity and the National Credit Act.

The chapter then narrows the discussion down from a general banking perspective to the finance of commercial and industrial property in South Africa with the chapter concluding with an analysis of how the current business unit operates from a process flow perspective. The purpose of this is to provide the reader with a critical understanding of the way the business unit operates in order for the recommendations made in chapter six to have any logical sense.

1.3.2.2 Customer Satisfaction

This chapter commenced with an investigation into a definition of customer satisfaction.

It followed this with a discussion that the financial services sector and the case study in question falls within the domain of services marketing where Zeithaml and Bitner (2003:3) define a service to "include all economic activities whose output is not a physical product or construction, is generally consumed at the time it is produced and provides added value".

This introduced the inherent differences between goods marketing and services marketing which are the concepts of intangibility, heterogeneity, simultaneous production and consumption and finally perishability.

The chapter then introduced three central themes – or alternatively what one could call theoretical propositions – namely dyadic interactions and the service encounter, the Service Profit Chain and finally the theme of Relationship Marketing.

1.3.2.2.1 Dyadic interactions and the service encounter

In pure service situations where no tangible object is exchanged, and the service quality itself is difficult to measure (for example, financial services), customer satisfaction and repeat patronage may be determined solely by the quality of the personal encounter. The theory emanating from this became what was called theme 1 throughout the case study report.

This theme covered areas including role theory, a model of the service encounter as proposed by Bitner (1990) and the expectancy-disconfirmation paradigm (Anderson and Sullivan, 1993). The empowerment of service workers was investigated and an investigation into why clients defected was examined from the client and employees perspective.

1.3.2.2.2 The Service Profit Chain

The second theme of the paper revolved around the concepts of the Service Profit Chain which served to establish the relationships between profitability, customer loyalty and employee satisfaction, loyalty and productivity (Heskett, Jones, Loveman and Sasser, 1994).

The seven links in the Service Profit Chain were identified and discussed and an analysis of the Service Profit Chain was undertaken as well as a critical examination of its shortcomings.

1.3.2.2.3 Relationship Marketing

The final theme in the paper was an examination of the principles of relationship marketing and its growth and development during the past two decades.

Bitner's (1994) three pronged promise concept was introduced as well as a relationship formation model by Beatty, Mayer, Coleman, Reynolds and Lee (1996).

The final chapter in the literature review section was a discussion on the Research Methodology that this research project adopted.

1.3.2.3 Research Methodology

Chapter four commenced formally stating the research aims and goals of the paper, the paradigm and the appropriateness of the case study as a research strategy versus alternative and more scientifically established strategies.

The chapter continued with a discussion of the six sources of evidence available to an investigator and the appropriate sources used in this case study were identified namely documentation, archival records, participant-observation and interviews.

The chapter also covered areas where case study research has been criticised, namely in its procedure and its output as measured by quality and rigour of the case study.

As in all research papers, an essential section on ethics was included and the decision of the investigator to keep the identities of the participants (being staff members and customers alike) anonymous was made. However, as a compromise, it was decided to reveal the identity of the case study itself, namely Standard Bank Properties.

1.3.3 Results and Discussion

Section three covers the remaining two chapters being an analysis and interpretation of the data (Chapter five) with the final chapter containing recommendations and limitations of the research project.

1.3.3.1 Analysis and interpretation of the data

In Chapter five - which took the form of a narrative - evidence was led from customers, staff and the independent surveys and documents produced in the paper against the three theoretical propositions or themes as introduced in chapter three, namely dyadic interactions and the service encounter, concepts pertaining to the Service Profit Chain and the final theme of Relationship Marketing.

1.3.3.2 Recommendations

From Chapter five above, several shortfalls in service excellence were identified by customers and staff. Several of these problem areas were supported by independent research in the form of the Research Surveys (2005) and the Synovate South African Satisfaction Index Banking Study (Barnhoorn, 2005).

The concluding chapter discussed these problem areas introduced in Chapter five in-depth which included:

- New employees and the service encounter,
- Problems with FICA,
- Lack of a customer complaint handling system,
- Empowerment issues,
- Turnaround times,
- Reliance on key staff

The chapter furthermore recommended ways of possibly correcting these problem areas by radically changing the structure of the business unit and the way it processes loan applications and maintains existing customers.

The chapter concluded with suggestions for possible further research and a discussion on the limitations of this case study report.

Section 2: Literature Review

Chapter 2: The South African Banking Industry

2.1 Introduction

The South African banking system is well developed and effectively regulated and comprises a central bank, financially strong commercial banks and investment institutions, and a number of smaller local and foreign banks. During the course of 2005 there were according to a KPMG (2005): -

1. fifty five locally controlled banks,
2. five mutual banks,
3. twelve foreign-controlled banks,
4. nine branches and sixty representative offices of foreign banks in South Africa

South Africa's financial service sector provides a full range of services from commercial, retail and merchant banking, mortgage lending, insurance and investment and compares favourably with those of developed countries. The Banks Act of 1990 (Act no 94 of 1990) is the central Act governing the Banking Industry and is based on similar legislation in the United Kingdom, Australia and Canada.

2.2 Industry Structure

Five major banking groups, Standard Bank, Nedcor, Absa Bank, FirstRand and Investec Bank continue to dominate the South African banking sector and collectively control approximately 89.4% of total banking assets in the country (South African Reserve Bank, 2005). Table 2.1 below shows that Standard Bank is the largest Bank as measured by assets in South Africa.

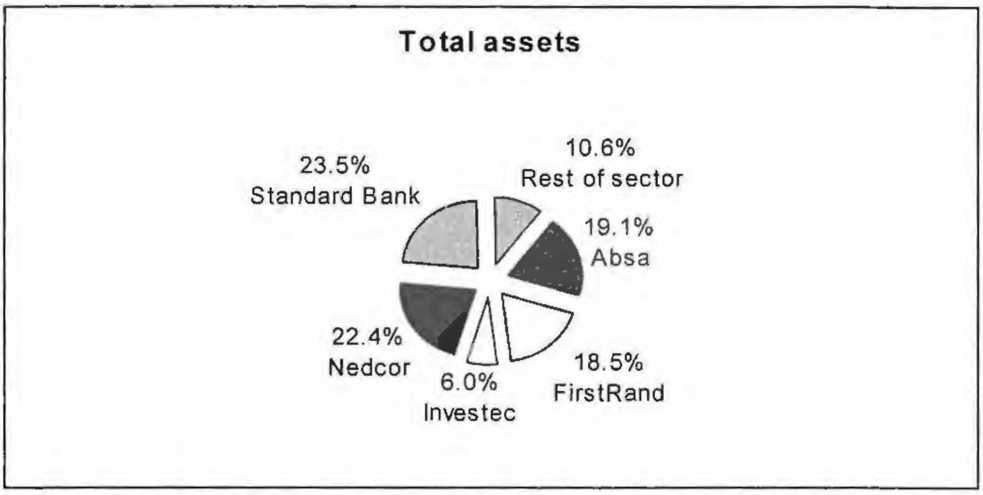


Table 2.1: Total assets as at December 2003 (South African Reserve Bank, 2005)

The partial disappearance since 2002 of second-tier banks such as Regal Bank, Saambou Bank, Unifer and BOE has strengthened the "Big Five's" position, but it has also made it more attractive for foreign banks to hone in on certain niches.

For instance, Barclays PLC during the course of 2003 moved its African Head Office from London to South Africa and during late 2003 entered an alliance with Standard Bank by launching the Manchester United Barclaycard. Its aim was to capture a client base of 3.8million South Africans with Standard Bank providing the infrastructure and the platform and Barclays driving the sales. Barclays PLC has since ended this relationship with its majority purchase of the shareholding in Absa Bank during the course of 2005.

2.3 The 1990's and beyond

Since the beginning of the 1990's, the South African banking industry has undergone substantial changes. New bank legislation and regulatory requirements have been introduced, including The Financial Advisory and Intermediary Services Act, 2002 ("FAIS"), Financial Intelligence Centre Act, 2001 ("FICA"), Money Laundering and BASEL II Capital Accord. In addition, foreign banks have entered the domestic market, competition from non-bank entities such as Pick n' Pay Go-Banking has intensified and international scrutiny has increased. In addition, customers are now demanding more sophisticated products and quality of service.

The following table gives a snap shot of the market share of the local dominant banks with the rest of sector including foreign banks.

Bank	Instalment Finance	Mortgages	Credit Cards	Corporate overdrafts	Individual overdrafts	Other
Absa	24.0%	30.7%	25.0%	17.5%	29.2%	8.9%
FirstRand	30.4%	15.6%	23.3%	19.6%	22.0%	10.8%
Investec	1.4%	3.7%	3.3%	10.6%	1.3%	8.7%
Nedcor	18.9%	26.3%	18.9%	26.0%	12.8%	17.2%
Standard	22.3%	23.0%	28.8%	16.2%	14.8%	23.9%
Rest of sector	3.0%	0.7%	0.7%	10.1%	19.8%	30.4%
	100%	**100%**	**100%**	**100%**	**100%**	**100%**

Table 2.2: Market Share: Overdraft and Loans as at December 2003 (KPMG, 2004)

In view of the fact that Africa has approximately 30% of the World's mineral resources and is relatively under-exploited and under-employed, South Africa is increasingly seen as an important emerging market destination for foreign banking institutions wishing to have a presence in the African Continent.

South Africa's attraction is further based on its well-established banking system and regulatory frameworks with some of the more important role players including: -

2.3.1 The South African Reserve Bank ("SARB")

In 1985 a department for bank supervision was created in the SARB to monitor the foreign activities of South African banking institutions. Following recommendations in the same year by the De Kock commission of inquiry into the monetary system and monetary policy in South Africa, the functions of this department were expanded to include supervision of the domestic activities of all banks – a task previously performed by the Registrar of Financial Institutions.

An office headed by the Registrar of Banks, operating as part of the SARB, is responsible for registering institutions as banks or mutual banks as well as enforcing all the requirements of the Acts, such as entailing the establishment of certain Capital and Liquidity requirements and the continuos monitoring of institutions' adherence to legal requirements and other guidelines. The performance of an individual institution is also monitored on an ongoing basis against developments in the relevant sector as a whole.

Consumer activism during the 1990's placed pressure on the Banks to improve their reputation and image and thus during the course of the late 1990's, the Bank's established the Office of the Banking Adjudicator. The intention was to provide individual and small business bank customers with a fair, quick and effective dispute resolution process, free of charge.

2.3.2 The Ombudsman for Banking Services

The banking industry set up this office in 1997 (Pillay, 2007) because of: -

- The need to improve the public image of the banks
- The fact that the industry was being criticised by government and consumer body representatives
- The fact that the industry was out of step with overseas developments
- Possible Government regulation should the industry not regulate itself.

The only two requirements that need to be met are that the complaint must be within the jurisdiction of the Ombudsman for Banking Services ("OBS") and that the customer must have followed the Bank's complaint handling procedures before approaching the scheme for assistance.

The OBS can assist if a complaint: -

- Relates to products or services provided by the Bank
- Involves a claim of R800 000-00 or less
- Arose within the past 3 years
- The bank concerned is a member of the Banking Council

The ombudsman has a critical role in the service recovery process and thus plays a role in potentially improving customer satisfaction in the Banking Industry. Other than the challenges presented via the Ombudsman, the South African Banking Industry has numerous challenges going forward.

2.4 Challenges facing the South African Banking Industry

According to a survey conducted by KPMG (2005), the major challenges facing the Banking Industry include: -

- The Financial Services Charter must be effectively implemented such that it is in the interest of all stakeholders
- Slow pace of transformation embracing BEE in business
- Banks find it increasingly difficult to lengthen and grow their deposits.
- One of the characteristics of the South African banking sector is the high concentration of corporate credit exposures, due to a lack of diversification within the market
- Interest margins remain under pressure, exacerbated by the role of competition, non-banking institutions and low interest rates
- Banks continue to find it very difficult to grow assets with the main reasons for this being the increase in the availability of cash and higher disposable income of individuals as a result of better economic conditions, as well as the increase in alternative funding sources available
- New legislation and the expected implementation of the Basel II Capital Accord in 2007 which will have notable capital, cost and administration implications.
- The National Credit Act (NCA) due to be implemented on 1 June 2007 will have a material impact on the way that Financial Institutions lend money to certain types of borrowers.

The Synovate South African Satisfaction Index Banking Study (Barnhoorn, 2005) found that for the year ending 2005 there had been an overall decline in satisfaction in the Banking industry from 81.3% to 77.1%. The survey notes that it is possible that extraneous factors caused the negative effect, as it is possible that frustration with the

Financial Intelligence Centre Act of 2001 ("FICA") identification requirements had an adverse effect on public perception of banks in general. The report further states that although the impact of these laws is not direct, negative sentiment caused by these laws could have spilled over to all aspects of the relationship with the Bank. The frustration of the FICA identification process was identified in the qualitative interviews as a potential factor contributing to dissatisfaction.

2.5 Critical factors used to determine success in the banking industry

A banking survey (KPMG, 2005) asked participants (included the Big Five, locally controlled banks and mutual banks, foreign controlled banks and registered branches) to rank critical factors that they used to rank their success within the industry. Some of their findings included: -

- The Big Five, locally controlled banks and mutual banks, and foreign controlled banks regard return on equity as the most important factor as a measurement of profitability with other profitability measurements including cost to income ratio being equally important.

- Innovation and customer satisfaction are the main benchmarks used by the Big Five to measure success, whilst locally controlled banks and mutual banks consider trust and transparency as critical with customer satisfaction also rated highly.

- Foreign controlled banks concentrate on customer satisfaction as a measurement of their success with public perception also ranking highly.

- Registered branches regard the breadth of product or service offering, market share, customer satisfaction and public perception as measurements of their success.

It would therefore appear that the common denominators from this extensive survey of the Banking Sector was a focus on the return on equity as a financial indicator and a focus on customer satisfaction / public perception as a benchmark to measure success.

The immediate question raised then from the foregoing is whether there is a link between profitability of an organisation and its customer satisfaction ratings?

Before these and other factors can be considered it is deemed appropriate to consider the property market in South Africa and in particular the business practice of Standard Bank Properties.

2.6 The Property Market in South Africa

Property, together with equities and gilts, represents one of the three primary investment asset classes available to institutional and private investors.

Property is a subject that has received much attention in the media of late albeit with more commentary on the residential housing market. The focus of this paper is on the property finance industry that facilitates the acquisition and financing of commercial, industrial, retail and residential developments. The paper does not focus on the financing of single purpose residential homes which are financed via the typical Home Loans Divisions of the major Banks.

Thirty-five years ago, in 1968, there were 32 property developers listed on the Johannesburg Stock Exchange with the heads of these listed property developers becoming household names in view of the widespread media coverage of this asset class at the time. Then came the 1969 stock exchange crash, the oil crises of 1974, rocketing interest rates and inflation, the 1976 Soweto uprising and 18 years of political turmoil. Property as an investment asset class lost its allure and all advertising stopped and with it the media coverage. Today there is one listed property developer listed on the Johannesburg Stock Exchange (Financial Mail, 2003).

The outlook for property since the advent of democracy in South Africa and particular since 2003 has seen this investment asset class on a long-term upswing triggered by (relative) political and economic stability and low digit inflation rates and stable interest rates.

2.7 The Property Financiers in South Africa

The property finance industry has traditionally been dominated by the "Big-Five", namely Absa Bank, Nedcor (which includes the former BOE, Syfrets and Cape of Good Hope), FirstRand, Standard Bank and Investec Bank. The Cape based Imperial Bank is effectively a subsidiary of Nedcor.

Other financial institutions are 'casual participants' in the market and are considered to be fringe players.

Up until 1996/1997, most traditional financiers of commercial and industrial property offered financing terms that included loan periods of up to 20years with interest rates of up to Prime less 2%. It was also not unheard of for these financiers to pay for the bond registration costs in an attempt to increase market share.

The market has changed in accordance with changes in the cost of capital and the Basel II Capital Accord with financiers no longer paying these bond switching costs nor do they extend payment terms beyond 10years (for commercial property finance).

Alternative financing options have become available especially for the larger listed property sector (i.e. the property loan stocks and the property unit trusts) with the most prominent being a new phenomenon in banking circles known as securitisation.

Securitisation is a funding mechanism whereby these large funds finance the acquisition of property via the Capital market (through the Johannesburg Stock Exchange) as opposed to the traditional route of raising finance via the commercial banks. The Securitisation route is a significantly cheaper financing option for these funds as the cost of capital is significantly reduced with an average net interest margin of 1% versus the 1.5% to 2.5% margin charged by the Commercial banks.

The securitisation market is a serious threat to the commercial banks and the only defensive mechanism available to the Banks is to decrease their interest rate margins to that of the effective capital market rate of 1% to 1.5% (Mason, 2006). This has reduced the profitability of the Banks who responded by improving their non-interest revenue margins with bank raising fees and administration fees becoming the norm.

In view of the fact that Securitisation is only possible with the large listed property funds which is but one part of the client base of financiers, this paper will focus instead on the traditional property financiers namely the commercial banks and in particular Standard Bank Properties.

It is difficult to accurately estimate the market share of the property financiers in view of the fact that Property Finance is not listed as a separate line item in the DI 900 returns submitted to the SARB. For instance the only property financier that lists property finance separately in these returns is the property focused Imperial Bank. All other Institutions consolidate their property financing activities into their Retail, Commercial, Business Banking or Corporate Banking returns.

According to an interview conducted with a Director of Standard Bank Properties (Mason, 2006), Standard Bank believes in terms of commercial and industrial property finance that it has a market share of 20%, whilst Absa Bank is considered to have a market share in the vicinity of 28%, Investec Bank of 15%, Nedcor of 20% and FirstRand of 12% - balance held by fringe players.

2.8 Standard Bank Properties

Standard Bank Properties is a Division of the Standard Bank of South Africa Limited ("the Bank") and has physical representation in Johannesburg, Cape Town, Durban and Port Elizabeth. Financing activities cover a wide range of commercial, industrial and residential property developments. Standard Bank Properties is not involved in typical residential home loans as this falls under the domain of Standard Bank Home Loans Division.

Standard Bank Properties divides its operations into two distinct units, namely: -

1. The long-term finance unit, which facilitates 'ordinary' or vanilla based property transactions and focuses primarily on the retail, commercial and owner-occupier market, and
2. The structured finance unit, which facilitates 'extraordinary' or structured property transactions and focuses primarily on institutional borrowers and corporate property developers.

The Bank segments its markets into what is known as a retail market, commercial market and a corporate market.

Although Standard Bank Properties has representation in the major centres of South Africa, the focus is concentrated on the Western Cape.

2.8.1 The Structure of the Western Cape Office

The business unit in the Western Cape has seen dramatic growth in both the size of its loan book and more recently the number of its employee. For instance in 2000, the number of employees totalled 13 whereas in 2005/2006 it had grown to 27 with a further 4 posts in the process of being filled.

2.8.2 The source of business

Ii is estimated that approximately 60% of the Western Cape's business is generated through repeat business as a direct result of the relationships that it has created through the years with various stakeholders including property developers, property investors and more recently mortgage originators (Mason, 2006). The balance of business is generated through the Bank's various business units including Retail, Business Banking and Corporate Banking who refer business to the business unit. A small but growing source of business is through walk in business which is largely attributed to the corporate reputation of the Bank.

2.8.3 Process flow

Whether the deal is sourced directly from developers / property investors or existing clients or via one of the business units, the Property Finance Consultant will contact the client and structure the most suitably deal after taking into careful consideration the nature of the underlying property to be financed as well as the financial position of the borrower and ultimately the cash flows generated by the subject property.

The property finance consultants are essentially external marketers focused on sourcing and writing business. All property finance consultants either have a property background including the qualifications of Quantity Surveyors, Architects and Valuers or a business background including BCom or Masters in Business Administration.

The property finance consultants are assisted by account analysts who need to ensure that the numerous legislative requirements of FICA amongst others have been adhered to. Once these legislative conditions have been met the analysts assist the property finance consultants in preparing a credit application which is presented to the local credit manager in Cape Town. Any loan application in excess of R20 000 000 has to be sent to the National Credit Manager in Johannesburg for approval and any application in excess of R75 000 000 needs co-approval with a Director of the Bank in Johannesburg.

Turnaround times from a credit approval and facility letter (letter of grant) perspective are a potential source of frustration for both the client and the property finance consultants and hence have an impact on customer satisfaction. Loan applications that need approval at Head Office (in excess of R20 000 000) typically take longer to be approved as the physical file needs to be couriered to Johannesburg and these deals are generally more complex. The fact that there is no one individual driving these loans through the credit decision making process in Johannesburg on behalf of the Western Cape Region lengthens turnaround times.

Once credit approval is obtained the physical file needs to be returned to the Region and only then can the formal offer letter be prepared by the account analyst. Once prepared and provisionally checked by the credit department in Cape Town, the physical file together with the formal offer letter is re-sent to Johannesburg where it is signed off by the legal department. If the legal department are not happy with the offer letter then the process is repeated as the file is re-sent back to the Region for corrections to be made. This process has also led to frustration with frequent delays and as a result of pressure by the Western Cape office a legal position has been created in the Cape Town office, which once filled should hopefully streamline and expedite this process significantly.

If the client accepts the formal offer letter, the file together with the offer letter is handed over to the administration manager in Cape Town for the particular transaction to be allocated to one of the bond administration officers. The bond administration officer will then instruct one of the attorneys on the Bank's panel to proceed with the registration process whilst simultaneously instructing one of the 3rd party valuers on the Bank's panel to commence with the formal valuation of the property to be bonded.

In addition to driving the bond registration process, the administration department would also typically attend to the majority of back office functions revolving around customer statements, interest rate adjustments, audit certificates and any non-sale or marketing related query.

Once the client has signed all the relevant paperwork at the attorneys and the formal valuation has been received from the 3rd party valuers, the documents are checked by the bond administration officers and if correct are forwarded to the legal department in Johannesburg for final sign off. Permission to lodge the bond in the Deeds Office and effect registration and payout will be the final step in this process.

The above process flow has been in place since the Divisions formation twenty odd years ago and is a process with many cross checks as is the norm in the Banking industry. Nevertheless, there are many areas that are prone to bottlenecks, which ultimately cause delays either in the decision making process or once approval is obtained, the bond registration process. The situation is exacerbated by the use of 3rd party service providers (i.e. the attorneys and valuers) although their service is monitored and enforced by service level agreements.

Chapter 3:

Customer Satisfaction

3.1 Introduction:
The field of customer satisfaction is large and traverses many disciplines. In this chapter, a review of the published literature upon which this study rests will be presented. The search for a suitable definition of customer satisfaction will be explored and the concepts regarding the theoretical nature of customer satisfaction will be investigated. The Chapter will revolve around three central themes, namely: the dyadic interaction / service encounter, followed by a discussion of the Service Profit Chain with the final theme being the concept of Relationship Marketing.

3.2 What is Customer Satisfaction?
The respected expert and long-time writer and researcher on the topic of customer satisfaction, Richard L. Oliver offered the following take on customer satisfaction: "Everyone knows what satisfaction is, until asked to give a definition. Then it seems, nobody knows" (Zeithaml *et al.,* 2003:86).

Currently the constructs of customer satisfaction are built upon concepts such as individual wants, needs and expectations. These concepts emerged from theories about consumer choice for goods and services, which are sought to meet needs and wants. Issues such as prices, convenience, appeal and quality were seen as moderating the choices.

The concept of satisfaction needs to be defined. The Oxford English Dictionary (2001: 744) defined "satisfaction" as: -

- The state of being satisfied
- The payment of a debt or fulfilment of a duty or claim

It (2001: 744) defines "satisfy" as: -

- Please (someone) by doing or giving them what they want or need
- Meet (a demand, desire or need)

It (2001: 202) defines "Customer" is defined as: -

- A person who buys goods or services from a shop or business.

It thus follows from this formal definition that customer satisfaction can be thought of as a user or purchaser having their needs and expectations fulfilled with the purchase of a product or the consumption of a service. In order for an exchange to take place, it follows that some form of interaction between a seller and a buyer would typically take place.

The definition of "customer" above also raises an important issue that needs to be clarified and that is whether a person buys a product or uses a service.

According to Krishan, Ramaswamy, Meyer and Damien (1999), an interesting aspect of financial services companies is that they do not fully fit into the mould of full service industries such as hotel and travel agencies. They argue that they fall somewhere in between manufacturing industries, which offer tangible products and full-service industries. They further advocate that the notion of quality in financial services firms is quite different from that in manufacturing companies as the nature of the financial services industry is such that its products are mostly intangible.

The distinction between goods marketing (i.e. a typical consumable goods store) and services marketing (i.e. financial services) will now be discussed together with its associated implications for marketing.

3.3 The distinction between goods and services

Table 3.1 highlights the salient differences between these two concepts and the unique characteristics of services, namely: intangibility, heterogeneity, simultaneous production and consumption and finally perishability.

Goods	Services	Resulting Implications
Tangible	Intangible	Services cannot be inventoried Services cannot be patented Services cannot be readily displayed or communicated Pricing is difficult
Standardised	Heterogeneous	Service delivery and customer satisfaction depend on employee actions Service quality depends on many uncontrollable factors There is no sure knowledge that the service delivered matches what was planned and promoted
Production separate from consumption	Simultaneous production and consumption	Customers participate in and affect the transaction Customers affect each other Employees affect the service outcome Decentralisation may be essential Mass production is difficult
Non-perishable	Perishable	Difficult to synchronise supply and demand with services Services cannot be returned or resold

Table 3.1: Difference between services and goods (Zeithaml, Parasuraman and Berry, 1985:35)

There is general consensus that inherent differences between goods and services exist and that they result in unique or at least different management challenges for service businesses and for manufacturers that sell services as a core offering.

Each of these unique characteristics of services has an implication on marketing with the following considered the most important.

3.3.1 Intangibility

The most basic and universally cited difference between goods and services is intangibility in view of the fact that because services are performances or actions rather than objects, they cannot be seen, felt, tasted or touched in the same manner that we can sense tangible goods.

Berry (1980, in Smith, 1990) states that although the performance of most services is supported by tangibles, the essence of what is being bought is a performance rendered by one party for another.

Shostack (1977, in Smith, 1990) argues that it is wrong to imply that services are just like products except for intangibility, and that there are very few if any "pure" products or services. She postulates that market entities are, in reality, combinations of discrete elements, which are linked, together in molecular-like wholes.

The question of whether financial services is a pure service or not has been widely debated. If it is accepted that financial services products are mainly intangible as supported by Krishan *et al.* (1999), then clients may well place reliance on peripheral tangible cues such as the physical environment and image to differentiate between financial institutions.

Sunter (1993, in van Heerden and Puth, 1995) claims that the only way consumers will be able to differentiate financial institutions is through image and brands and therefore it is of utmost importance to have a well defined identity.

In a further study on bank branches, albeit in the United Kingdom, Smith (1990) found that there was little evidence that the cosmetic elements for example, branch décor and appearance of staff are indicators of quality service. In fact, many respondents took the view that they were paying for such peripherals via higher bank charges. Conversely, features of the physical environment, which were highly regarded by customers, were facilities for privacy, which reflected the importance of confidentiality (the most highly rated service factor).

The sacrosanct issue of confidentiality or trust was regarded as one of the central pillars of the concept of Relationship Marketing as first espoused by Berry (1983, in Berry, 2000). This was supported by Crosby, Evans and Cowles, (1990, in Berry 2000) who added that Relationship Marketing is built on the foundation of trust and that it is critical to the formation of service-based relationships because of the intangibility of services.

Upah (1983, in Smith, 1990) suggested because services are intangible that impressions should be created in the mind of clients and stressed the need for customers of banking services to be comfortable or reassured by service firms which share or are sensitive to their values and personal goals.

The following table offers marketing strategies to overcome the problems stemming from the unique service features as identified above.

Unique service feature	**Marketing strategies to solve problems**
Intangibility	1. Stress tangible cues 2. Use personal resources more than non-personal resources 3. Simulate or stimulate word-of-mouth communications 4. Create strong organisational image 5. Use cost accounting to help set prices 6. Engage in post-purchase communications

Table 3.2: Overcoming unique service features of intangibility (Zeithaml *et al.*, 1985:35)

3.3.2 Heterogeneity

Services cannot be subject to quality control procedures to the same extent as goods. Two employees similar in training and experience and receiving the same salary may differ greatly in their effectiveness in dealing with customers.

Additionally, non-standardisation in terms of service delivery implies an increase in perceived risk on the part of the buyer.

Zeithaml (1981, in Smith, 1990) states that consumers perceive greater risks when buying services than when buying products. Banks are accordingly adapting many principles of production-oriented quality management in terms of "getting things right the first time" and the standardisation of routine tasks, e.g. speed of answering the telephone.

The following table offers marketing strategies to overcome the problems stemming from the unique service features as identified above.

Heterogeneity	1. Industrialise service 2. Customise service

Table 3.3: Overcoming unique service features of heterogeneity (Zeithaml *et al.*, 1985:35)

3.3.3 Simultaneous production and consumption

The third unique differentiating characteristic between goods and services marketing is that the creation or the performance of the service may occur at the same time as full or partial consumption of it. Implicit in this is therefore the importance of the service process itself.

Berry (1980, in Smith, 1990) stated that "quality of service is inseparable from the quality of the service provider" and emphasised the need for internal marketing within service organisations, so that the best possible people can be employed and retained. Berry adds that by satisfying the needs of its internal customers, an organisation upgrades its capability for satisfying the needs of its external customers.

This is supported by Gronroos (1993) who stated that in relationship marketing, the customer interface is broader with the firm having many opportunities to provide its customers with added value and hence the quality dimension of how the interaction process is perceived grows in importance. He adds that external marketing, both the traditional parts of it and interactive marketing performance, starts from within the organisation and that a thorough and on-going internal marketing process is required to make relationship marketing successful.

The importance of a consistent interface is supported by Rayport and Kaworski (2004) who regard a customer interface as any place at which a company seeks to manage a relationship with a customer, whether through people, technology or some combination.

They argue that unless you manage it, that portfolio of interfaces is going to become ones biggest liability as too many people and too many machines operating with insufficient co-ordination will mean rising complexity, costs and customer dissatisfaction. In this respect the interface system is ultimately the face a company presents to customers and markets. They conclude from their study that interactions with customers and the customer experiences that result from those interactions are for many businesses the sole remaining frontier of competitive advantage.

The following table offers marketing strategies to overcome the problems stemming from the unique service features as identified above.

Inseparability	1. Emphasise selection and training of public contact personnel 2. Manage consumers 3. Use multi-site locations

Table 3.4: Overcoming unique service features of inseparability (Zeithaml *et al.*, 1985:35)

3.3.4 Perishability

Sasser (1984, in Smith, 1990) argues that there are characteristics of a service delivery system that do not apply to a manufacturing one. Perishability leaves the manager without an important buffer that is available to manufacturing managers. Additionally, the consumer's role in the production process creates uncertainty about the process' time, product's quality and the facility's accommodation of consumer needs.

In Smith's (1990) study, speed in all aspects of service – decision making, dealing with transaction and telephone queries, resolution of problems etc - was rated as highly as reliability was rated.

The following table offers marketing strategies to overcome the problems stemming from perishability.

Perishability	1. Use strategies to cope with fluctuating demand. For instance, strategies for coping in peak demand periods include hiring extra part-time employees, overtime work and cross training employees. 2. Make simultaneous adjustments in demand and capacity to achieve a closer match between the two

Table 3.5: Overcoming unique service features of perishability (Zeithaml *et al.*, 1985:35)

It follows from the formal definition described above that apart from the unique characteristics of services and their resultant implications on marketing, that the actual encounter between the customer and the many interfaces of the service provider play a crucial role in contributing to overall customer satisfaction.

This sets the scene for the first of three central themes, namely the service encounter itself.

3.4 Dyadic interactions and service encounters (theme 1)

3.4.1 The service encounter

In pure service situations where no tangible object is exchanged, and the service quality itself is difficult to measure (for example, financial services), customer satisfaction and repeat patronage may be determined solely by the quality of the personal encounter. Solomon, Suprenant, Czepiel and Gutman (1985) refer to this as the service encounter and consider it of critical importance in view of its impact on customer satisfaction.

Service encounters are human interactions and integral to human interaction is the need and ability to communicate. The communication process between a service provider and a customer is interactive and is a reciprocal process rather than a linear one as each party apart from having a role to play in the transaction has an economic benefit to extract from the transaction.

Hartline and Ferrel (1996) argue that many service firms are subject to failures in service delivery because they must depend on customer-contact employees to deliver the service to their customers. They therefore believe that service firms must find ways to effectively manage their customer-contact employees to help ensure that their attributes and behaviours are conducive to the delivery of quality service.

Since the success of a particular service provider rests on the quality of the subjective experience, the nature of this experience is the critical determinant of long run market success. So, even though the premises may be spotless and the actual service delivered on time, if the customer leaves with a negative impression from the attitude of an employee, other efforts may be overlooked.

3.4.2 Service encounters are role performances

Role theory is based on a dramaturgical metaphor where the study of a role is the study of the conduct associated with certain socially defined positions rather than of the particular individuals who occupy these positions (Solomon *et al.*, 1985). Role theory is therefore the study of the degree to which a particular part is acted appropriately as determined by the reactions of fellow actors and observers.

Although the actors in a service setting may be very different individuals in their leisure time, they must adopt a relatively standardised set of behaviours (i.e. read from a common scrip) when they come to work or enter the marketplace. Similarities in how customers and employees view service encounters are most likely when the two parties share common role expectations and the service script is well defined. Abelson (1976, in Solomon *et al.,* 1985) defines script as a coherent sequence of events expected by the individual, involving him either as a participant or as an observer. It is thus argued that the root cause of many provider / client interface problems is the failure of participants to read from a common script (Solomon *et al.,* 1985).

Early studies by Schneider (1990, in Hartline *et al.,* 1996) further reveal that employees role stress (conflict and ambiguity) and employee dissatisfaction are major contributors to their inability to deliver good service – this is because of the importance of attitudinal and behavioural responses of customer-contact employees in the interactive nature of service delivery.

It is also clear that differences in perspective may arise when roles are less defined, a participant is unfamiliar with expected behaviours, or interferences require the enactment of complex or less routine subscripts.

The successful enactment of even the most basic service scenarios involves the mastery of a wide range of behaviours. On the provider side (i.e. the Bank), this learning process is often explicit and may take the form of training programs or apprenticeship. Such training may be done on an informal basis through mentoring type arrangements or via training programs using 3rd party vendors.

The client's burden on the other hand is at times explicit and recently this has taken the form of their obligations in terms of FICA together with the exhaustive forms that need to be completed and documents that need to be provided. Regardless of whether these obligations are explicit or implicit, there are always actions that come naturally to a client of long standing or to one that has been exposed to the workings of financial institutions before but which demand great cognitive activity by the novice.

Thus, a financial institution's target market may influence the competence of its client's in fulfilling their particular role requirements. For instance, if a Bank is aggressively targeting clients that do not currently bank with it, it could come across potential problems where these new clients do not know what specific roles they play with regard to completing forms, providing information etc. On the other hand, if a Bank is aggressively marketing its existing customer base (organic growth), there would be a higher probability that these existing customers would fulfil their respective roles.

Group effectiveness depends upon each member understanding the role expectations of the other members so that each is clear about his / her own role expectations. According to Solomon *et al.* (1985), it seems likely that accurate mutual comprehension of role expectations is a prerequisite for a satisfying experience with this joint assignment of roles probably occurring during the initial encounter and persisting throughout subsequent encounters in the service environment. The first impression is a pervasive one and therefore the outcome of this initial labelling process drastically affects the subsequent tone and content of the interaction.

Satisfaction with a service encounter then is seen as a function of the congruence between perceived behaviour and the behaviour expected by role players (Solomon *et al.*, 1985).

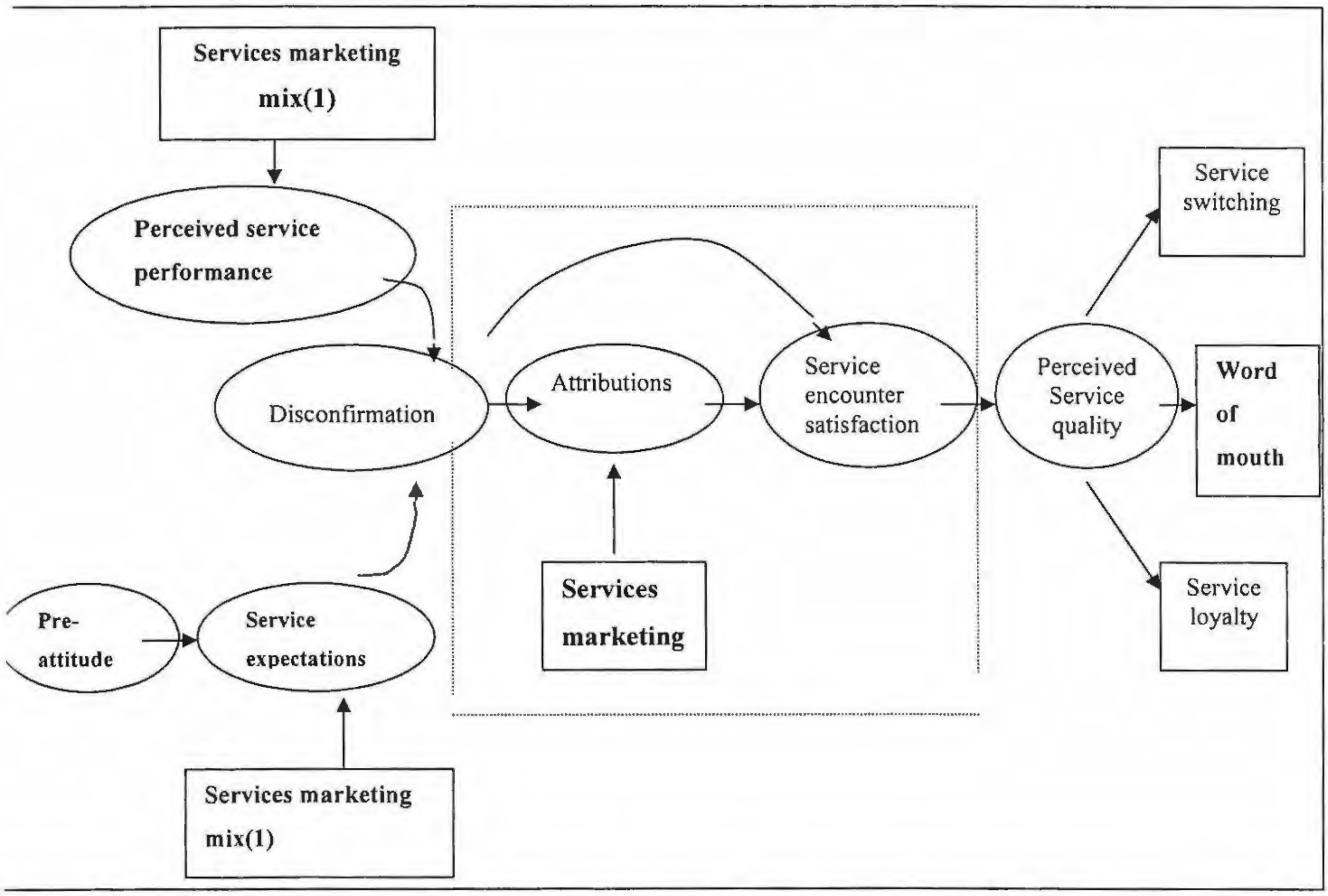
3.4.3 Evaluating service encounters

It is argued by Parasuraman, Zeithaml and Berry (1985) that customer satisfaction depends directly and most immediately on the management and monitoring of individual service encounters as this point of interaction between the firm and its customers may influence customer evaluations, and ultimately affect perceptions of service quality and repeat purchase behaviour.

3.4.4 A model of service encounter evaluation

Bitner (1990) attempted to present a model for understanding service encounter evaluation that synthesis consumer satisfaction, services marketing and attribution theories the focus of which was to draw attention to controllable elements at the point of interaction between the firm and its customers that may influence customer evaluations, and ultimately affect perceptions of service quality and repeat purchase behaviour.

Figure 3.1 below represents a general model of the antecedents and outcomes of customer satisfaction in service encounters as presented in the Bitner (1990) study.



Notes:
(1) Product, place, price, promotion, physical evidence, participants and process – the expanded marketing mix as proposed by Booms and Bitner (1981, in Bitner, 1990).
(2) Anderson et al. (1993) define disconfirmation as the extent to which perceived quality fails to match prepurchase expectations.
(3) Attributions according to Bitner (1990) are what people perceive to be the causes behind their own behaviour, the behaviour of others, or the events they observe.

Figure 3.1: - A model of service encounter evaluation (Bitner 1990:71)

The first part of the model suggests that a consumer's pre-attitude will influence expectations about the outcome of a particular service encounter (Oliver 1980, in Bitner, 1990).

The second stage suggests that the customer's immediate reaction after consumption depends on a comparison of prior expectations and perceived performance, resulting in confirmation of expectations or in positive / negative disconfirmation when expectations and performance do not match.

The third part of the model implies that causal attributions for disconfirmation will mediate customer satisfaction – that is before a customer determines his level of dis/satisfaction, he will diagnose the causes of disconfirmation and, depending on the perceived nature of the causes, the level of dis/satisfaction and subsequent behaviours may be modified. This positioning of the attribution construct is consistent with the recent work in both consumer behaviour (Oliver and DeSarbo, 1988) and psychology.

The final part of the model shows service encounter satisfaction as an input into the more general construct, perceived service quality (or attitude), which in turn leads to later behaviours toward the service firm.

The results of Bitner's (1990) study suggest controllable variables such as employee explanations, offers to compensate and the appearance of the physical environment can influence how customers perceive the causes of service failure and these then confirm the importance of understanding the customer's attributions and how they are formed.

3.4.5 Implications of Bitner's (1990) findings

First, it is implied that it is very important to manage and control every individual service encounter to enhance overall perceptions of service quality and that even when the experience is not what the customer expects, there may be an opportunity to turn the encounter into a more satisfying one through understanding the customer's attribution processes.

Attributions are what people perceive to be the causes behind their own behaviour, the behaviours of others, or the events they observe. For instance, in cases of service failure, when customers perceive that the firm has control over the cause, they are more dissatisfied than when they believe the firm has no control. Alternatively, in cases of service failure when customers perceive the cause likely to recur, they are more dissatisfied than when they believe the failure is a rare event.

The results of Bitner's (1990) study show therefore that providing customers with logical explanations for service failures and compensating them in some way can mitigate dissatisfaction. Bitner, Booms and Tetreault's research (1990, in Bitner 1990) suggests that such actions may even turn a dissatisfying event into a memorable one.

Subsequent to the findings by Bitner (1990) above and despite general consensus that disconfirmation is an important antecedent of satisfaction, there is mixed empirical evidence as to whether expectations directly affect satisfaction (Yi 1991, in Anderson *et al.*, 1993). For example, Churchill and Suprenant (1982) find that perceived quality rather than expectations directly affects satisfaction for durables. Oliver *et al.* (1988) find disconfirmation and perceived quality to have a stronger impact on satisfaction than expectations.

Hence, there is reason to believe that perceived quality might play a more direct role in determining satisfaction than accounted for by expectancy-disconfirmation.

3.4.6 Antecedents and consequences of customer satisfaction

Anderson *et al.* (1993) then introduced an analytical framework in which satisfaction is a function of perceived quality and disconfirmation. This is reflected in Figure 3.2.

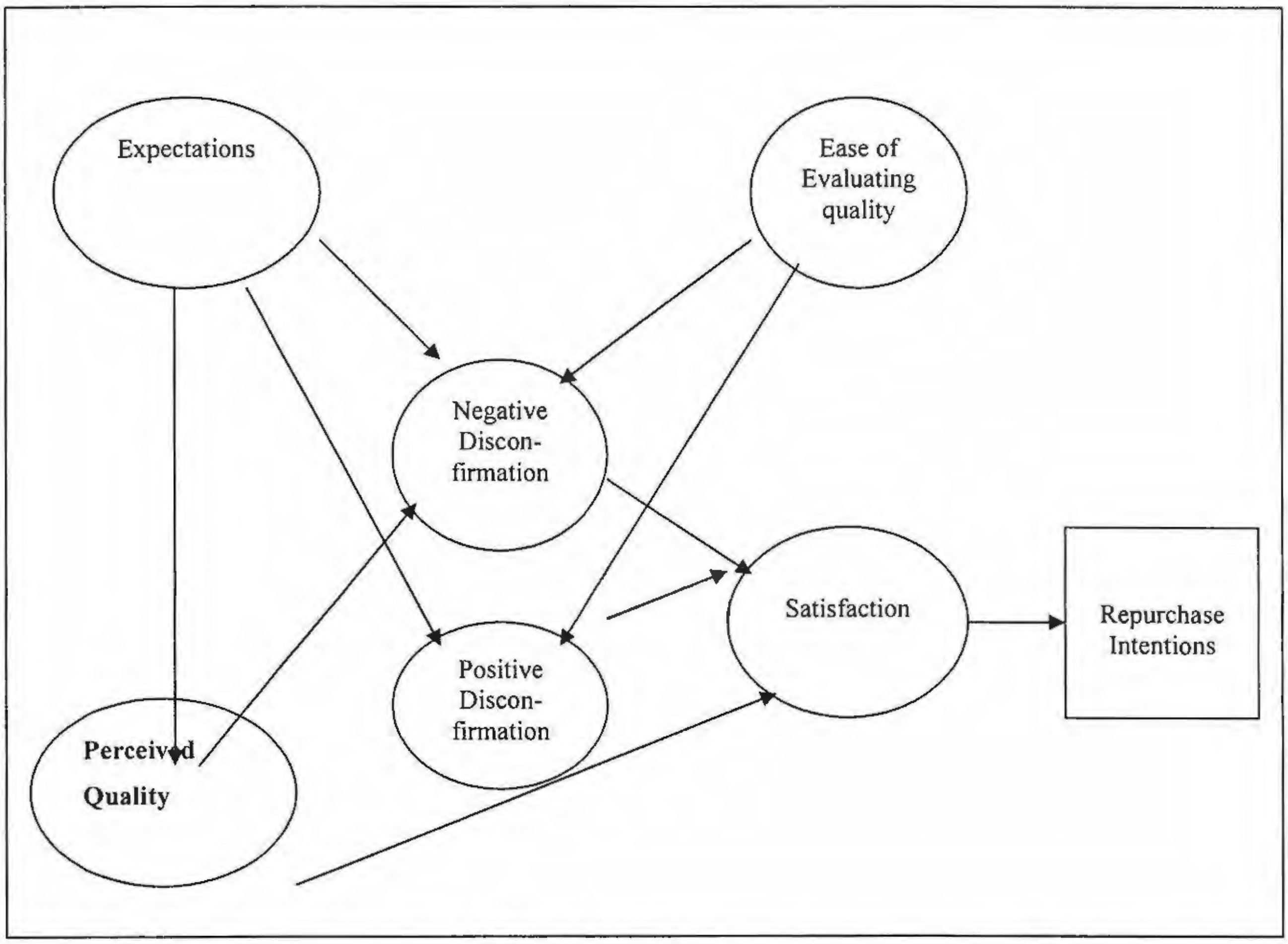


Figure 3.2: - Antecedents and consequences of customer satisfaction (Anderson *et al.*, 1993:127)

As in the expectancy-disconfirmation paradigm (as highlighted in Bitner 1990 above), expectations are expected to have a direct positive effect on perceived quality. However, expectations affect satisfaction only via perceived quality and disconfirmation. In addition, the model proposes an asymmetric gain-loss framework for understanding the effect of disconfirmation on satisfaction. As shown in Figure 3.2, the disconfirmation construct has been redefined as having both a negative and positive component with separate effects on satisfaction with the implication that satisfaction should be more sensitive to negative disconfirmation than positive disconfirmation.

Typically, negative disconfirmation can occur when the perceived quality fails to match prepurchase expectations through fault of the service provider. In these instances, the service provider can manage satisfaction through efficient complaint handling and effective customer service thereby possibly turning such event into an improvement in customer satisfaction.

On the other hand, positive disconfirmation can occur when the fault lies not with the service provider but the service provider recovers by compensating and thereby recovering and improving customer service. As an illustration, say a coat that needed to be dry-cleaned was sent to another Branch but the vehicle was hijacked. This is an event outside the control of the service provider. If the service provider had to recover by either retrieving the lost coat or replacing with a new one, this initial disconfirmation would be replaced with a service recovery and ultimately an improvement in customer satisfaction.

Moreover, Anderson *et al.* (1993) proposed the ease of evaluating quality as an important moderating influence on the extent of disconfirmation and also expected satisfaction to have a positive impact on repurchase intentions.

A key finding of the Anderson *et al.* (1993) model linking explicitly the antecendents and consequences of satisfaction in a utility-orientated framework, was that satisfaction was found to increase with both perceived quality and positive disconfirmation. This is an important finding given the strong focus of satisfaction research on expectations and disconfirmation as the antecedents of satisfaction. In addition, satisfaction was found to have a positive impact on repurchase intentions.

Moreover, both positive and negative disconfirmation was found to increase with the ease of evaluating quality. Hence, it may be more important to manage customer satisfaction and the service encounter when customers are very familiar with a product or the product is not complex. When quality is ambiguous or difficult to evaluate, then expectations will play a greater role in determining satisfaction.

In addition, quality that falls short of expectations was found to have a greater impact on satisfaction and retention than quality, which exceeds expectations.

The implications of Anderson *et al.* (1993) findings above are firstly that firms which consistently provide high-quality products, should have a more satisfied customer base and one that is more likely to be retained. If it is more costly to add new customers (than to maintain), then such firms should enjoy greater profitability.

Secondly, an important component of managing satisfaction is the ability to control the impact of negative disconfirmation through complaint handling and effective customer service. This supports the earlier findings of Bitner (1990) above.

Thirdly, according to the findings of the Anderson *et al.* (1993) study, since negative disconfirmation hurts the firm more than positive disconfirmation helps it, firms should take measures to maintain reliability when improving quality.

Fourthly, according to the findings of the Anderson *et al.* (1993) study, the firm's future profitability depends on satisfying customers in the present. If consistently providing high satisfaction leads to higher repurchase intentions, then the expected number of times a buyer will repurchase should rise accordingly. Moreover, if acquisition costs for new customers are high, then such firms should be more efficient in generating revenue.

In light of this, it is easier to understand why many firms' compensation plans now include satisfaction measures, as well as quality measures based on accounting numbers.

It is clear that a service marketer has a dilemma: How does one provide efficient, standardised service at some acceptable quality level with this service encounter in mind whilst treating each customer as a unique person?

A possible way to achieve this is to follow or adopt an empowerment approach giving individuals or teams the power to be able to make the service encounter a rich, rewarding and interactive one.

3.4.7 The empowerment of service workers

During the course of the mid 1970's, the production line approach to service was the darling child of service gurus who advocated facing the customer with standardised and procedurally driven operations.

The above dilemma for service industries poses an interesting question of whether one should now abandon this production line approach in favour of empowerment?

3.4.7.1 The Production line approach

Theodore Levitt (1972, in Bowen and Lawler III, 1992) described how service operations could be made more efficient by applying manufacturing logic and tactics. Levitt posited that manufacturing thinks technocratically whilst and in contrast, service looks for solutions in the performer of the task. He argued that thinking in humanistic rather than technocratic terms would ensure that the service sector would forever be inefficient and therefore satisfaction would be forever marginal.

Based on the foregoing, Levitt recommended: -

(1) simplification of tasks
(2) clear division of labour
(3) substitution of equipment and systems for employees and
(4) little decision making discretion afforded to employees.

What this effectively means is that management designs the systems and employees execute them. McDonalds is a good example of this paradigm where workers are taught to greet, ask for their order, including a script for suggesting additional items. There is furthermore a script and a procedure for collecting money and for saying thank you.

This production line approach makes customer-service interactions uniform and gives organisations control over them. Moreover it is easily learned and workers can be quickly trained which is an effective way of bringing relatively un-skilled employees into the mainstream economy in countries such as South Africa. If this production line approach were implemented successfully, the advantages could be an efficient, low-cost, high volume service operation, with potentially satisfied customers.

3.4.7.2 The empowerment approach

Zemke and Schaaf (1989, in Bowen *et al.*, 1992) in their research titled 'the service edge: 101 companies that profit from customer care' note that empowerment is a common theme running through most of their excellent service businesses including the likes of Marriott and Federal Express. To Zemke *et al.* (1989, in Bowen *et al.*, 1992), empowerment means "turning the front line loose" thereby encouraging and rewarding employees to exercise initiative and imagination.

Thus, in contrast to the industrialisation of service, empowerment looks to the 'performer of the tasks' for solutions to service problems (Bowen *et al.*, 1992).

In order to understand the distinction between these two different paradigms, it is critical to have an understanding of what it really means to empower employees? Bowen *et al.* (1992) define empowerment as sharing: -

(1) Information about the organisation's performance
(2) Rewards based on the organisation's performance
(3) Knowledge that enables employees to understand and contribute to organisational performance.
(4) Power to make decisions that influence organisational direction and performance

From the above, it is evident that with the production line approach such features are concentrated in the hands of senior management and the executive whilst with the empowerment approach, these features tend to be 'pushed' downwards to the ranks of the frontline staff.

With the distinction between the industrialisation of services and empowerment approach made, which is the better approach? From the study conducted by Bowen *et al.* (1992), it is apparent that there is no clear cut answer.

The Banking industry and its systems and processes has evolved through centuries and although phenomenon such as computers and more recent spin-offs such as Internet Banking make banking easier for the consumer, the basic procedures and principles such as division of duty remain as relevant today as they did centuries ago.

For instance, the Property Finance Consultants act as marketers where they have budgets (new business targets) to meet and accordingly they could not have a credit mandate as they could then simply approve their own loan applications. It follows that in banking as in any service organisation, employees in certain areas can be more empowered than others because of the nature of the work and industry.

3.4.8 Empowering service employees

Empowering service employees is less understood than industrialising service delivery and this is largely because the production-line approach is an example of the well-developed control model of organisation design, whereas empowerment is part of the still evolving "commitment" or "involvement" model (Bowen *et al.*, 1992).

There are three suggested empowerment options available for firms wishing to move away from the traditional production line approach.

1) Suggestion involvement

This represents a small shift away from the control model where employees are encouraged to contribute ideas through formal suggestion programs, but their day-to-day work activities do not really change. In effect, these employees are only empowered to recommend. Suggestion involvement can thus produce some empowerment without altering the basic production-line approach.

2) Job involvement

This represents a significant departure from the control model. Here, jobs are redesigned so that employees use a variety of skills that typically exhibit considerable freedom in deciding how to do the work, get more feedback, and they handle a whole or identifiable piece of work. This is accomplished through extensive use of teams. The job involvement approach however does not change higher-level strategic decisions concerning organisation structure, power and the allocation of rewards.

3) High-involvement

This approach gives the lowest level employees a sense of involvement not in just how they do their jobs but in the total organisations' performance with virtually every aspect of the organisation being different from that of a control-orientated organisation. For instance, performance information is shared, teamwork and problem solving skills are developed and there is evidence of profit sharing and employee ownership. The trouble however according to Bowen *et al.* (1992) is that these management techniques are relatively undeveloped and untested.

It is clear that in banking, because of various legislative and traditional "division of duty" considerations, that empowerment is not always practical or possible – despite there being a case for it.

When considerations or circumstances do call for empowerment Bowen *et al.* (1992) found that empowerment is the best approach when service delivery involves managing a relationship, as opposed to simply performing a transaction. These firms may want to establish relationships to build loyalty or to get ideas for improving the service delivery system and a flexible customised approach can help. This is evidenced in banking where relationships are established and built on and is particularly appropriate in the property finance industry which is characterised by employees having specialised knowledge and who may build rapport with a client on a professional and social basis based on their common 'specialised' knowledge.

The relationship itself can be the principal valued commodity that is delivered in many services. When no tangibles are delivered, the service provider often is the service to the customer, and empowerment allows the employee to customise the service to fit the customer's needs. The more enduring the relationship and the more important it is in the service package, the stronger the case for empowerment. It follows from this that while Standard Bank Properties business model may call for the case of the empowerment of service workers but the adoption of this approach is restricted by the nature of the banking industry.

On the other hand, it is not always possible or desirable to have lasting and enduring relationships with all clients as there will always be a natural switching behavior from one service provider to another irrespective of whether the traditional or empowerment approach is subscribed to.

3.4.9 Why do supposedly "satisfied" customers defect?

This was the research question investigated by Jones and Sasser (1995) where they discovered a number of beliefs widely held by managers including: -

Firstly, it is sufficient merely to satisfy a customer. In other words, a level of satisfaction below complete or total satisfaction is acceptable.

Secondly, investment required to change customers from satisfied to completely satisfied will not provide an attractive financial return and therefore is probably not a wise use of resources.

Finally, a company should focus on the customers in its lowest-satisfaction categories because striving to understand the causes of their dissatisfaction and concentrating efforts on addressing them is the best use of resources.

The extensive research conducted by Jones *et al.* (1995) shows that these assumptions are deeply flawed. Jones *et al.* (1995) contend that these assumptions either ignore or do not accord enough importance to the following aspects of the relationship (between company and customer):

(i) Except in a few rare instances, complete customer satisfaction is the key to securing customer loyalty and generating superior long term financial performance.

What most do not realise is just how important the level of customer satisfaction is in the market such as financial services for here there is a tremendous difference between the loyalty of merely satisfied and completely satisfied customers. Jones *et al.* (1995) further argues that attempts to create complete customer satisfaction in commodity industries will often raise the product or service out of the commodity category

(ii) Even in markets with relatively little competition, providing customers with outstanding value may be the only reliable way to achieve sustained customer satisfaction and loyalty.

According to Jones *et al.* (1995) there are two types of loyalty: true long term loyalty and false loyalty.

A variety of factors can create false loyalty including: government regulations, high switching costs and strong loyalty-promotion programs. But Jones *et al.* (1995) made a startling discovery about customers in such markets. Whenever these customers have choices and feel free to make a choice, they act like customers in markets with intense competition: they will only remain rock-solid loyal if they are completely satisfied – this is why seemingly loyal customers defect when they exhaust their frequent-flier miles, for example..

(iii) Very poor service is not the only cause – and may not even be the main cause – of high dissatisfaction.

Jones *et al.* (1995) also argued that customers fall into two categories: the right customers whom the company should be able to serve well and profitably and the wrong customers, whose needs it cannot profitably serve. A company that retains difficult-to-serve, chronically unhappy customers is making an expensive long-term mistake. This is supported by Reinatz and Kumar (2002:93) who advocated that for the customers who have no loyalty and bring in no profits, their so-called "strangers", the answer is 'to identify early and not to invest anything in them'.

But what of losing valued customers? What actions of service firms, or their employees, cause customers to switch from one service provider to another? The findings of Keaveney's (1995) grounded model of customer switching in service industries are illustrated in Addendum 1 and reflects eight contributing factors to customer switching behaviour, namely:

(1) Pricing
(2) Inconvenience
(3) Core Service failures
(4) Service Encounter Failures
(5) Response to service failures
(6) Competition
(7) Ethical problems
(8) Involuntary switching

Keaveney's (1995) model of customer switching proposes that the consequences of these factors extend beyond cognitive and affective evaluations to actual behaviour and that customers not only experience dissatisfaction but may actually take action to switch service providers. Keaveney contends that an important implication for managers is that 6 of the 8 service switching factors are controllable from a service firm's point of view. For example: -

1. If core service failures cause a switch, then a "zero defects" philosophy to deliver a technically correct service every time should be effective in reducing customer defections;
2. The proposition that failed responses to service breakdowns may cause a switch suggests the importance of developing policies for effective service recovery;
3. The proposition that switching may be caused by inconvenience implies that timely delivery of service might reduce defections;
4. Unsatisfactory employee-customer interactions might be reduced by teaching employees to listen to customers, return calls promptly, keep customers informed and explaining procedures (which goes back to the importance of the dyadic interaction and role script theory as espoused by Solomon *et al.*, 1985);
5. The proposition that customers may switch services for price related reasons implies a need for careful management of pricing policies;
6. The evidence of ethical problems suggests that service firms might develop behaviour based control systems to reward ethical conduct and discourage unethical conduct among service contact employees

The evidence of complex switching incidents suggests that service firm managers might benefit from the use of cross-functional teams to solve complex switching problems. For instance marketing managers might be joined by managers from operations to improve core service delivery.

The notion however of a "dyadic interaction" and "customer interface" means that a customer or the service provider will see switching behaviour from their own particular paradigm. What about the view then from the contact employee's perspective?

3.4.9.1 Customer Switching – from the employees perspective

A study conducted by Bitner, Booms and Mohr (1994) identified the sources of satisfaction and dissatisfaction from the contact employee's point of view. Drawing on insights from role, script and attribution theories, 774 critical service encounters were investigated.

An observation of this study was that frontline personnel are a critical source of information about customers and that such information is used by the contact employees themselves to facilitate their interactions with customers and furthermore used by the firm in making decisions.

Schneider (1980, in Bitner *et al.,* 1994) further argues that contact personnel can be expected to look for frequent cues that tell them how their service is received by customers and that they also serve a boundary-spanning role and as a result they have a better understanding of customer's needs and problems than others in the firm.

In the industries studied in the Bitner *et al.* (1994) study, problem customers were the source of 22% of the events that caused dissatisfaction and may be even larger in industries in which the customer has greater input into the service delivery process.

What are the implications suggested by the problem customer group in this study?

First, managers must acknowledge that the customer is not always right, nor will he or she always behave in acceptable ways. Employees thus need appropriate coping and problem-solving skills to handle (problem) customers as well as their own personal feelings in these situations. It is equally important that the organisation clarify its position regarding such customers. A basic problem customer strategy might be conceptualised as ranging along a continuum from "refuse to serve them" to "satisfy at all costs".

3.4.9.2 The service encounter – from the customer's perspective

In any service encounter, the perception is reality and what really matters is how the customer interprets the encounter. According to Chase and Dasu (2001) behavioural science can help the Bank understand how people react to the sequence and duration of events, and how they rationalise experiences after they occur.

Several operating principles for service-encounter management emerge from these behavioural-science findings, namely: -

Principle 1: Finish strong

Those that believe that the beginning and end of an encounter are equally weighted are according to Chase *et al.* (2001) wrong as the end is far more important because it's what remains in the customer's recollections.

Principle 2: Get the bad experiences out of the way

In a sequence of events involving good and bad, people prefer to have undesirable events come first – so they can avoid dread – and to have desirable events come at the end of a sequence – so they can savour them.

In professional services, unpleasantness often comes in the form of bad news. Service providers dread delivering bad news, so they delay it until the last possible moment which is exactly the wrong thing to do.

Principle 3: Segment the pleasure, combine the pain

Companies should break pleasant experiences into multiple stages and combine unpleasant ones into a single stage.

Principle 4: Build commitment through choice

A fascinating study which revealed that blood donors perceived significantly less discomfort when they were allowed to select the arm from which the blood would be drawn. The lesson is that people are happier and more comfortable when they believe thy have some control over a process, particularly an uncomfortable one. Many companies have learned to apply this principle with some banks having moved away from snake line configuration back to individual lines so that customers can work with their favourite teller.

Principle 5: Give People Rituals, and stick to them

Most service-encounter designers don't realise just how ritualistic people are as they tend to find comfort, order and meaning in repetitive, familiar activities.

Behavioural researchers have observed that these rituals provide an implicit standard for evaluating service encounters and that deviation from them is often cited as the cause of a failure – particularly in professional services. For instance, the consultant wearing the string tie was off the forecast by 10% (the dress code violation had nothing to do with the consultant's abilities).

Behavioural science clearly shows how critical rituals are in long term relationships. Ultimately, only one thing really matters and that is the customer's perceptions of what occurred.

The position is well set then for the second theme, namely to investigate the possible effects that a higher customer retention rate (a probable result of customer satisfaction) has on a firms profitability as first published by Dawkins and Reichheld (1990, in Ahmad and Buttle, 2002) and the theory underlying the well documented service profit chain concept as initially introduced by Heskett *et al.* (1994).

3.5 Customer satisfaction and loyalty (theme 2)

The literature pertaining to relationships among customer satisfaction, customer loyalty and profitability can be divided into two groups.

The first, service management literature, proposes that customer satisfaction influences customer loyalty, which in turn affects profitability. Proponents of this theory include researches such as:

- Reicheld and Sasser (1990)
- Zeithaml, Parasuraman, and Berry (1990, in Hallowell, 1996)
- Gummesson (1993, in Hallowell, 1996)
- Anderson and Fornel (1994, in Hallowell, 1996)
- Heskett *et al.* (1994)
- Storbacka, Strandvik and Gronroos (1994)

The service management literature argues that customer satisfaction is the result of a customer's perception of the value received in a transaction or relationship - where value equals perceived service quality relative to price and customer acquisition costs - relative to the value expected from transactions or relationships with competing vendors (Hallowell 1996).

Loyalty behaviours, including relationship continuance, increased scope of relationship and recommendation (word of mouth advertising) result from customers' beliefs that the quantity of value received from one supplier is greater than that from other suppliers.

Loyalty in one of the forms noted above, creates increased profit through enhanced revenues, reduced costs to acquire customers, lower customer-price sensitivity, and decreased costs to serve customers familiar with a firm's delivery system (Hallowell 1996).

The second relevant literature is found in the marketing domain. Yi's (1990:104) critical review of customer satisfaction concludes, "many studies found that customer satisfaction, influences purchase intentions as well as post-purchase attitude".

The marketing literature suggests that customer loyalty can be defined in two distinct ways (Jacoby and Kyner, 1973). The first defines loyalty as an attitude where feelings define the individual's (purely cognitive) degree of loyalty. The second is behavioural where examples of loyalty behaviour include continuing to purchase services from same supplier, increasing the scope of a relationship, or the act of recommendation (Yi 1990).

The behavioural view of loyalty in the marketing literature is similar to loyalty as defined in the service management literature.

3.5.1 The Service Profit Chain

Top-level executives of outstanding service organisations understand that in the new economies of service, frontline workers and customers need to be the centre of management concern.

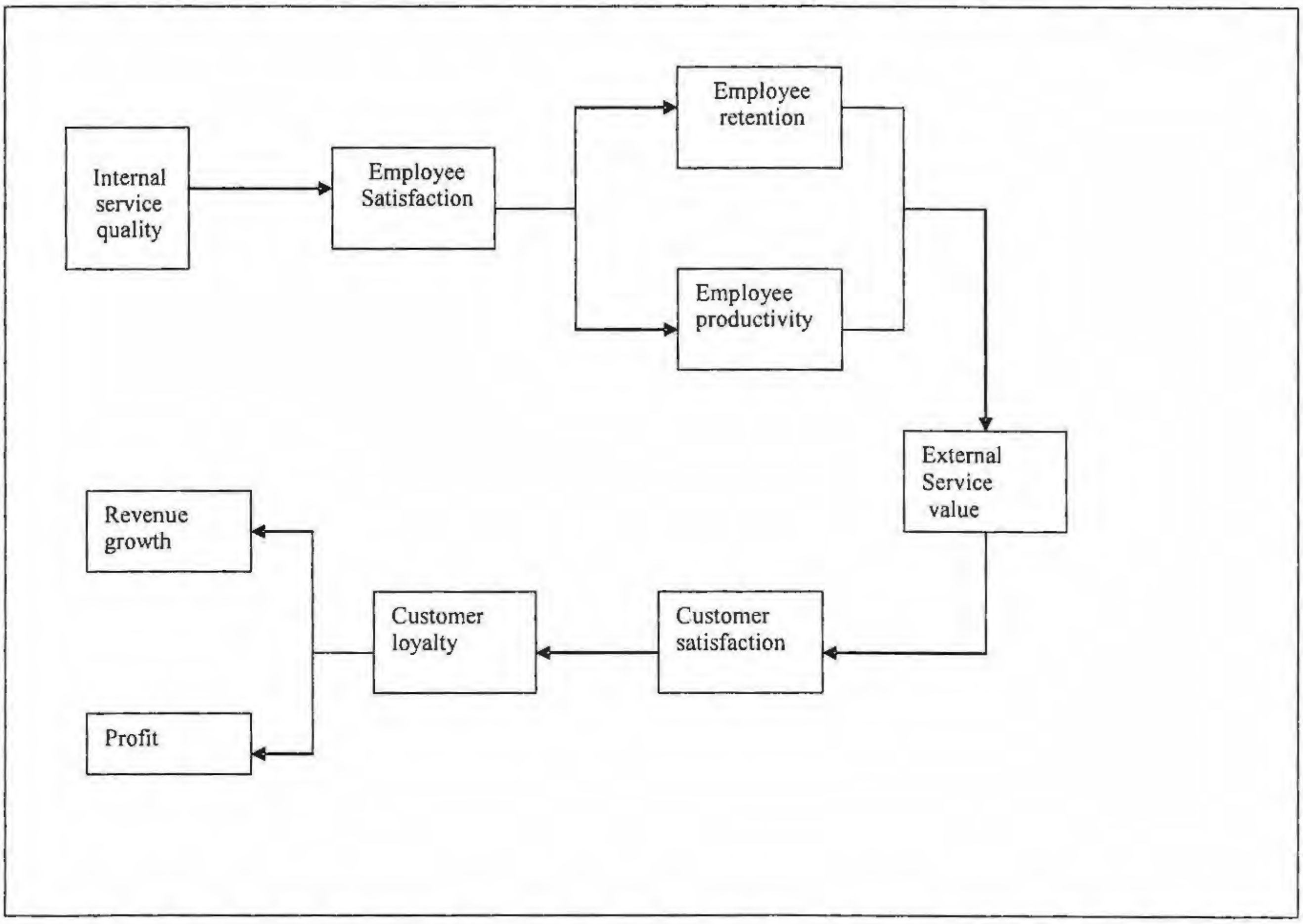
In the 4 P's marketing theory of the early 1960's, customers were under this traditional approach seen as groups of homogenous potential buyers with the same needs. Marketers predicted what customers needed, produced the products and pushed them to their customers through their distributors or drew the customers towards the points of sale by manipulating the 4P's marketing mix: price, place, promotion and product (Ahmad *et al.*, 2002).

Researchers began to realise the inadequacy of this classical approach and began to favour the maintenance of long term relationships – for example Lever Brothers began to restructure their marketing departments and appoint managers to give attention to their customers.

If customer retention leads to higher profitability, as Dawkins *et al.* (1990) claimed, do companies proactively retain their customers? How do companies, in practice, keep their customers and what is the impact on the company's bottom line?

The service profit chain developed from an analysis of successful service organizations by Heskett *et al.* (1994) puts "hard" values on "soft" measures and helps managers target new investments to develop service and satisfaction levels for maximum competitive impact.

The service profit chain establishes relationships between profitability, customer loyalty and employee satisfaction, loyalty and productivity and is graphically illustrated in Figure 3.3 below.



<u>Figure 3.3: Conceptual Linkages in the Service Profit Chain (Heskett *et al.*,1994:166)</u>

The links in the service profit chain are as follows: -

(i) Customer loyalty drives profit and growth
(ii) Customer satisfaction drives customer loyalty
(iii) Value drives customer satisfaction
(iv) Employee productivity drives value
(v) Employee loyalty drives productivity
(vi) Employee satisfaction drives loyalty
(vii) Internal quality drives employee satisfaction

A closer look at each link reveals how the Service Profit Chain functions as a whole.

(i) Customer loyalty drives profit and growth

According to Heskett *et al.* (1994), in order to maximise profit, managers have been pursuing becoming number-one or two in their industries for the past two decades. Recently, however, new measures of service industries like banking suggests that customer loyalty is a more important determinant of profit than industry position.

For instance, Reichheld *et al.* (1990) estimate that a 5% increase in customer loyalty can produce profit increases from 25% to 85% and they concluded that the quality of market share, measured in terms of customer loyalty, deserves as much attention as quantity of market share.

(ii) Customer satisfaction drives customer loyalty

Leading service companies are currently trying to quantify customer satisfaction. For example Xerox for several years has polled 480 000 customers per year regarding product and service satisfaction. Xerox's goal was to achieve 100% satisfied (4) and very satisfied (5) customers with a range ranking from 1 (lowest) to 5 (highest).

In 1991, however, an analysis of customers who gave Xerox 4s and 5s on satisfaction found that the relationships between these two scores and actual loyalty differed greatly depending on whether the customers were very satisfied or satisfied. It was found that customers giving Xerox 5s were six times more likely to repurchase Xerox equipment than those giving 4s (Heskett *et al.*, 1994).

The result of this analysis drove Xerox to try and achieve Apostles or 100% 5s by 1996 where Apostles was a term coined by the Chief Executive Officer of Intuit Corporation describing customers so satisfied that they convert the uninitiated to a product or service (Heskett *et al.*, 1994).

(iii) Value drives customer satisfaction

According to Heskett *et al.* (1994), customers today are strongly value orientated with their definition of value referring to the results they receive in relation to the total costs (both the price and other costs to customers incurred in acquiring the service).

In terms of this value orientation and its importance to the customers, prior research undertaken by Franco (1990) found that customers value such things as dedication and account guidance more highly than the tangible factors of price, product performance and quality. In Franco's study of 210 buyers from Fortune 1300 and Canadian 450 firms, the values of business expertise and image, dedication to customers and account sensitivity and guidance jointly contributed to 77% of overall customer satisfaction.

Franco concluded that these three factors relate directly to the performance of the salespeople and that these factors are all intangible and contribute significantly to value creation.

This is further supported by an Ernest and Young survey of banking customers (Sellers 1990) that found that these customers considered the "personal touch" – which includes how committed a company representative is to a client and whether he remembers a customers name – to be the most importance element of service. In the survey this aspect even ranked ahead in importance to convenience, speed of delivery and how well the product works.

(iv) Employee productivity drives value

At Southwest Airlines, customer perceptions of value are very high, even though the airline does not assign seats, offer meals, or integrate its reservation systems with other airlines. What customers place a high value on are frequent departures, on time service, friendly employees and very low fares. Heskett *et al.* (1994) found that when combined with Southwest's low fares per seatmile, these indicators show the higher value delivered by Southwest's employees compared with most domestic competitors and has contributed to Southwest being profitable for 21 consecutive years.

(v) Employee loyalty drives productivity

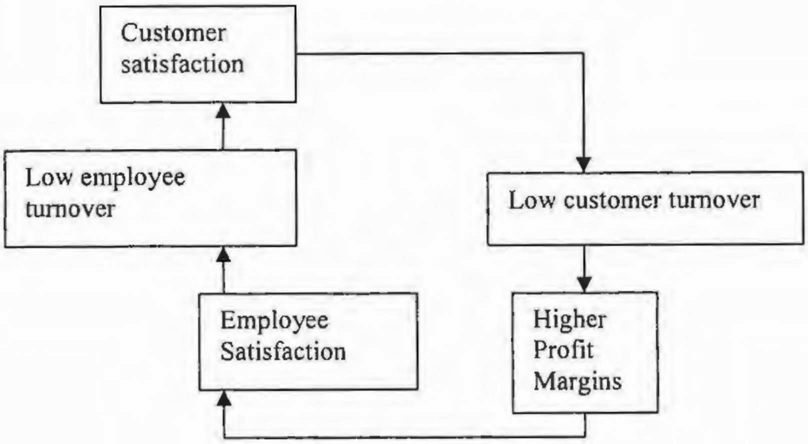
Traditional measures of the losses incurred by employee turnover concentrate only on the cost of recruiting, hiring and training replacements. According to Heskett *et al.* (1994) in most service jobs, the real cost is the loss of productivity and decreased customer satisfaction. They estimated conservatively that after losing a broker at a securities firm it takes nearly 5 years for a broker to rebuild relationships with customers that can return $1 million per year in commission to the brokerage house – a cumulative loss of at least $2.5 million in commissions.

This is supported by Prof L Schlesinger who describes high labour turnover as "a cycle of failure" because it results, at least temporarily, in low productivity, poor service, angry customers and even more discontented workers (Sellers 1990).

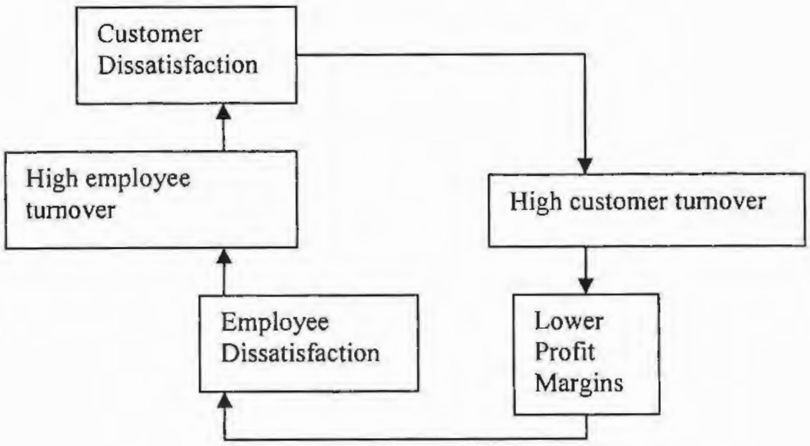
(vi) Employee satisfaction drives loyalty

According to Heskett *et al.* (1994), in one 1991 study of a property and casualty insurance company's employees, 30% of all dissatisfied employees registered an intention to leave, a potential turnover rate three times higher than that for satisfied employees. In this same case, low employee turnover was found to be linked closely to high customer satisfaction.

Customer retention and employee retention feed each other which means satisfying ones customer's pays two big advantages in higher profits and secondly the ability to keep good workers at a time when new ones are increasingly difficult to find. This is graphically illustrated by Sellers (1990) in the figure 3.4 below.



The Cycle of good service



The Cycle of poor service

Figure 3.4: - Adaption from "breakiug the cycle of failure in services" (Sellers 1990:63)

(vii) Internal quality drives employee satisfaction

The last link in the Service Profit Chain revolves around what drives employee satisfaction? Is it compensation, perks or plush workplaces?

Heskett *et al.* (1994) held that internal quality was the main driver of employee satisfaction where internal quality is measured by the feelings that employees have toward their jobs, colleagues and companies.

"What do service employee's value most on the job?" was a question posed by Heskett *et al.* (1994) and their data although described as preliminary pointed out increasingly to the ability and authority of service workers to achieve results for customers whilst internal quality is also characterised by the attitudes that people have toward one another and the way people serve each other inside the organisation.

Subsequent to this research question, Lau (2000) explored the direct linkage between performance in growth and profitability and quality of work life, which is a proxy for internal service quality in the service profit chain model.

Lau's research applied an ad hoc test for the service profit chain by comparing the differences of four growth and profitability measures between companies with a reputation of quality of work life and a control group of companies.

Lau's study proposed the following hypothesis: -

H1: Quality of work life companies have a higher sales growth than the control group

H2: Quality of work life companies have a higher asset growth than the control group

H3: Quality of work life have a higher return on asset growth than the control group

H4: Quality of work life companies have a high profit margin than the control group

The findings of Lau's research indicated that quality of work life companies did enjoy higher growth rates than those of the S&P 500 companies in terms of the first 2 hypothesis but mixed results were obtained for the remaining two hypothesis pertaining to profitability.

The implication of this research is that front line employees who are competent and helpful are key to success and quality of work life is an important issue because it determines how an organization can attract and retain prospective employees. The connection then between employee satisfaction and customer satisfaction is conceptually strong because of the many interactions between them.

Lau concluded that the observed performance growth relationship with quality of work life are consistent with the Service Profit Chain model's expectation of "increased employee loyalty" and "share of wallet". From a banking perspective, "share of wallet" refers to effectively cross-selling various products to a client such as a cheque account, credit card, home loan, savings account etc.

3.5.2 What makes the Service Profit Chain successful?

According to Heskett *et al.* (1994), leaders who understand the Service Profit Chain develop and maintain a corporate culture centred around service to customers and fellow employees. They furthermore typically display a willingness and ability to listen.

Successful Chief Executive Officers furthermore typically spend a great deal of time with customers and employees, experiencing their company's service processes while listening to employees. They care about their employees, spend time selecting, tracking and recognising them.

Heskett *et al.* (1994) study of a 1991 proprietary study of a property and casualty insurance company not only identified the links between employee satisfaction and loyalty but also established that a primary source of job satisfaction was the service workers' perceptions of their ability to meet customer needs. In this study it was found that when a service worker left the company, customer satisfaction levels dropped sharply from 75% to 55%.

This is supported by a study conducted by Bendapudi and Leone (2001) where it was found that when a key contact employee leaves, there are three consistent customer concerns, namely: -

(i) "I'm losing my most important point of contact with the company"

(ii) "the replacement employee won't be as good as my previous contact"

(iii) "I'll have to start all over again, and something's bound to fall through the cracks"

The result is that management is trying to reduce turnover among customer-contact employees and to enhance their job skills. Furthermore both customers and companies in Bendapudi *et al.* (2001) study mentioned using teams as another way to show customers that expertise does not reside solely with a single employee.

The Service Profit Chain is widely acclaimed and it is accepted that the best customers are supposedly the loyal ones, cost less to serve, usually willing to pay more than other customers and often act as word-of-mouth marketers thus perpetuating the loyalty and downstream profits argument.

However, there are several studies and researchers that question the relative strengths of the links in the Chain and those that also identify shortcomings.

Reinartz *et al.* (2002) research of a high technology company, a large US mail order company, a French retail food business and a German direct brokerage house found that the relationship between loyalty and profitability is much weaker than the proponents of loyalty programs claimed.

They found little or no evidence to suggest that customers who purchase steadily from a company over time are necessarily cheaper to serve, less price sensitive or particularly effective at bringing in new business which is damaging to the service profit chain argument.

Reinartz *et al.* (2002) argue that instead of focusing on loyalty alone, companies have to find ways to measure the relationship between loyalty and profitability so that they can better identify which customers to focus on and which to ignore.

3.5.3 Is loyalty profitable as argued by the Ser vice Profit Chain?

To answer this, Reinartz *et al.* (2002) looked at the relationship between customer longevity and companies' profits expecting to find a positive correlation. The results of their findings were hardly a ringing endorsement as the association was weak to moderate in all four companies they studied.

However, did the weakness of the overall correlation between profitability and longevity conceal any truth in the specific claims about the benefits of loyal customers? To find out, Reinartz *et al.* (2002) tested three claims: -

(1) That loyal customers cost less to serve
(2) Are willing to pay more for a given bundle of goods, and
(3) That they act as effective marketers for a company's products.

Claim 1: It costs less to serve loyal customers

Many argue that loyal customers pay their way because up-front costs of acquiring them are amortised over a large number of transactions. But of course the argument presupposes that the customers are profitable in those transactions. A more plausible argument for the link between loyalty and decreased costs can be built on the idea that loyal customers will be more familiar with a company's transaction processes and thus the company should find it cheaper to deal with them.

Their analysis, however, offered no evidence to back that argument.

In none of the 4 companies they tracked were long-standing customers consistently cheaper to manage than short-term customers. In fact, the only strong correlation between customer longevity and costs found (in the high-tech corporate service provider) suggested that loyal and presumably experienced customers were actually more expensive to serve - the last finding is according to Reinartz *et al.* (2002) not without precedent.

What surprised the researchers more was the weakness of the correlation between customer loyalty and lower costs in the other three companies, where they had expected to find service costs falling over time.

The findings then of Reinartz *et al.* (2002) suggest that, at the very least, the link between loyalty and lower costs is industry specific. There are no doubt there are industries in which the oldest customers are the cheapest to serve, but as the researchers demonstrated there are also others in which they are more expensive to satisfy.

Claim 2: Loyal customers pay higher prices for the same bundle of goods

If loyalty does not necessarily lower costs, then perhaps it generates revenue. Many argue that customers who stick to one company do so because the cost of switching to another supplier is too high and will therefore be willing to pay higher prices up to a point to avoid making the switch.

The argument sounds reasonable, but the logical conclusion is less obviously so – namely that if loyal customers are worth pursuing because they'll pay higher prices, then companies will charge them higher prices.

In general then it seems from Reinartz *et al.* (2002) findings that a loyal customer is actually more price sensitive than an occasional one. A number of theories explain this. Firstly, loyal customers generally are more knowledgeable about product offerings and can better assess their quality. They are then in a better position to develop solid reference prices and to make better judgements about value.

However, what Reinartz *et al.* (2002) found to be more fundamental is the fact that customers seem to strongly resent companies that try to profit from loyalty. Surveys consistently report that consumers believe loyal customers deserve lower prices.

Claim 3: Loyal customers market the company

The idea that the more frequent customers are also the strongest advocates for your company holds a great deal of attraction for marketers. However again the research findings of Reinartz *et al.* (2002) of the link between customer longevity and the propensity to market by word-of-mouth was not that strong.

The conclusion then from Reinartz *et al.* (2002) research based on their empirical findings are clear that the link between loyalty and profits is weaker than expected, and none of the usual justifications for investing in loyalty stands up.

Other studies questioning the strengths of the SPC links include Ahmad *et al.* (2002) and Jones *et al.* (1995).

For example Ahmad *et al.* (2002) in their study of customer retention management, argue that the proposition that high retention rates lead to higher customer value and firms' profitability is too simplistic and that it is potentially misleading to suggest that firms should aim to increase their customer retention rate in order to increase their profitability.

They argue that the relationship between retention rate and profitability may only be a positive correlation rather than cause and effect. This is supported by Storbacka *et al.* (1994) who acknowledge that the antecedents of customer relationship profitability are complex and not as "straightforward" as to suggest service quality leads to customer satisfaction and satisfaction leads to customer relationship profitability.

Ahmad *et al.* (2002) focused their case study analysis on the application of one theoretical position, namely Reichheld's (1996) whose proposition rests on the notion that loyal employees and loyal investors are likely able to build an inventory of loyal customer's, and that customers will only stay if they have a good value proposition. Ahmad *et al.* (2002) argued that retention strategies based on such theoretical underpinnings gained recognition for their simplicity and their potential. Ahmad *et al.* (2002) pointed out however that there have been other studies which suggest the connections between customer retention and firm's profitability is tenuous and there are dangers in accepting a generalised customer retention solution.

Further research questioning the Service Profit Chain link was that of Jones *et al.* (1995). According to conventional wisdom, the link between satisfaction and loyalty in markets where customers have choices is a simple, linear relationship: as satisfaction goes up, so does loyalty. However according to Jones *et al.* (1995), they discovered that this relationship was neither linear nor simple.

In markets where competition is intense, they found a tremendous difference between the loyalty of satisfied and completely satisfied customers with even a slight drop from complete satisfaction creating an enormous drop in loyalty. In his study of the loyalty of retail banking depositors, Larson found that completely satisfied customers were nearly 42% more likely to be loyal than merely satisfied customers (Jones *et al.*, 1995).

Notwithstanding the above critiques there has been an undeniable increase in focus by companies during the 1990's on the financial implications (on the bottom line) of their customer satisfaction and quality improvement programs. The financial justification for these programs rested on the belief that higher levels of satisfaction or quality increase retention rates, stimulate consumption levels, allow firms to charge a premium for their products / services, and / or decrease costs.

It is thus arguable that understanding the link between a customer's satisfaction and the duration and strength of this relationship with a service provider is becoming increasingly important to predict future customer preferences and behaviour on the basis of past preferences.

However, according to Bolton (1998) there has been surprisingly little empirical evidence concerning the link between a customer's satisfaction and the duration of his relationship. It is argued that this omission is particularly striking for continuously provided services, such as financial services, in which the duration of the provider-customer relationship is closely tied to revenue streams.

Bolton's (1998) study developed and estimated a dynamic model of the duration of provider-customer relationship with the research issue being important to understand how customers' experiences with services and their assessments of these services influence their subsequent behaviour.

Bolton's (1998) study showed that satisfaction levels explained a substantial portion (26%) of explained variance in the durations of service provider-customer relationships across customers.

It was accordingly the author's argument that it is a popular misconception that service organisations that focus on customer satisfaction are failing to manage customer retention and that managers may have underestimated the importance of the link between customer satisfaction and retention because the relationship between satisfaction and duration times is very complex and difficult to detect without using advanced statistical techniques.

Bolton (1998) consequently argued, instead of 'learning from defections' (Reichheld 1996), that service organisations should be proactive and learn from customers before they defect by understanding their current satisfaction levels.

Bolton (1998) further stated that service encounters are potential relationship "landmines" because customers seem to be highly sensitive to the costs/losses arising from interactions with service organisations. Thus, service encounters are early indicators of whether an organisation's relationship with a customer is flourishing or in jeopardy. According to Bolton's (1998) model, customers form expectations about the value of the service anchored by their prior cumulative satisfaction and updated by new experiences.

According to Bolton (1998), their calculations show that changes in customer satisfaction can have important financial implications for the organisation because lifetime revenues from an individual customer depend on the duration of his / her relationship with the firm.

The concepts of 'lifetime revenue' and 'relationships' sets the scene for the final theme and that is the concept of relationship marketing.

3.6 Relationship Marketing (theme 3)

Until recently, marketing's focus was on acquiring customers. Formally marketing to existing customers to secure their loyalty was neither a top priority of most businesses nor a research interest of marketing academics.

The phrase 'relationship marketing' appeared for the first time in 1983 when Berry (1983:25, in Berry, 2000) defined it as "attracting, maintaining - in multi-service organisations – enhancing customer relationships".

He stressed that the attraction of new customers should be viewed only as an intermediate step and that solidifying the relationship, transforming indifferent customers into loyal ones, and serving customers as clients should also be considered as marketing.

Building on Berry's (1983) definition of relationship marketing as attracting, maintaining, and enhancing customer relationships, Gronroos (1994:9) added the perspectives of non-customer partnerships, mutual benefit, promise keeping, and profitability:

> "Marketing is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involves are met... achieved by a mutual exchange and fulfilment of promises"

This is supported by Mary Jo Bitner who suggested that service relationships are built on promises the service organisation makes to its customers. Bitner (1995) defines three types of promise-related actions that will strengthen customer relationships, namely: -

(1) The act of making promises to customers. This is based largely on the organisational philosophy of the company. While mission statements communicate the philosophy of the company internally, external marketing (such as advertising or the personal selling techniques of staff) ensures that the promise is communicated to the customer. Such promises to the customer can

be made through tangible items such as equipment or décor of a bank lobby. These tangible items indicate a promise to serve customers with up-to-date technology and professional looking offices.

Promises can also be made through pricing. The challenge of making promises is determining the appropriate level of the promise. Promises that either are unattractive or only marginally more attractive than the competitors are largely ignored whilst on the other hand unrealistic promises tend to elevate customers' expectations making it difficult for the bank to meet, much less exceed, the expectations. It is thus important to have a strong connection between making promises and enabling the staff so they can deliver those promises.

(2) Act of enabling promises. This is largely under the control of management who set standards for recruiting front-line staff and their training. Both procedural and interpersonal training involve communication and instilling the company's values in personnel, such as fairness in dealing with customers.

(3) Act of keeping promises. This is supported by the company's service strategy and kept through interactive marketing with the customer, through personal delivery of services, giving the customer ways to effectively communicate, providing timely access of information or ensuring satisfactory recovery from a service failure.

3.6.1 The Marketing Continuum

It is useful to think about possible marketing approaches or strategies along a marketing strategy continuum.

Relationship marketing is placed at one end with a general focus on building relationships whilst on the other end is transaction marketing where the focus of marketing is on one transaction at a time.

Service firms would normally but probably not always be better off by applying a relationship-type strategy where the marketer does not plan primarily for short-term results. The objective here is to create results in the long run through enduring and profitable relationships with customers.

Because of the lack of personal contacts and their focus on mass markets, firms pursuing a transaction-type strategy will probably benefit most from a traditional marketing mix approach where the 4P model will give guidance in most cases.

For a firm applying a relationship strategy, the marketing mix often becomes too restrictive as the most important customer contacts from a marketing success point of view are the ones outside the realm of the marketing mix and the marketing specialists. The customer has contacts with people, technology and systems and the overall contact will determine whether he will continue doing business with a given firm or not.

In transaction marketing, there is not much more than the core product, sometimes image or its brands, which keeps the customer attached to the seller. When a competitor introduces a similar product, price usually becomes an issue. Accordingly a firm that offers a lower price or better terms is a dangerous competitor, because in transaction marketing the price sensitivity of customers is often high.

A firm pursuing a relationship marketing strategy has created more value for its customers than that which is provided by the core product alone and thus develops tighter ties with its customers. These ties may be technological, knowledge related or information related or social in nature and if well handled provide customers with added value. Thus relationship marketing makes customers less price sensitive.

In a study to establish whether relationship marketing was working in a Private Banking environment in South Africa, Abratt and Russel (1999) identified several major themes emerging in the Relationship Marketing literature.

Firstly, there is an emphasis on a relationship rather than a transactional approach to marketing. This change in approach to relationship marketing may have resulted primarily in an effort to understand its clients better (possible by-product of segmentation) with a view to optimising the relationship with its client base in an effort to cross-sell various products offered by the Bank to the client. Other than from a purely business sense, this change to a relationship marketing approach may also be partly explained by the introduction of various legislative acts (such as FICA, Money Laundering and more recently the National Credit Act) which are forcing banks to know its client base better.

Second, is the understanding of the economics of customer retention to ensure the appropriate allocation of resources. This involves targeting certain profitable customers through a process known as segmentation.

Third, recognising that quality, customer service and marketing need to be integrated in a much closer manner than previously thought.

Fourth, it illustrates that the traditional marketing mix concept of the 4P's does not adequately capture all the key elements which must be addressed in building and sustaining long-term relationships (Gronroos 1989, in Gronroos, 1994). The formation of relationships is dependant on the appropriate facilitating conditions, for example, trust in the Banks consultant and other employees.

Fifth, is ensuring that marketing is considered in a broad cross functional context.

Sixth, is concerned with "internal marketing" incorporating a framework for internal staff relationships, external relationships with customers, suppliers, referral sources, influence markets and recruitment markets (Berry 1995, in Abratt *et al.,* 1999).

Given that the private banking industry in SA is increasingly competitive, it would appear that Relationship marketing may be a means of differentiation and gaining competitive advantage. This is supported by Keltner and Finegold (1996) who contend that banks in general are moving towards a relationship model of service delivery to gain a competitive advantage.

3.6.2 A Relationship Model

Beatty et al. (1996) developed a relationship formation model which outlined four major steps in the relationship formation process – figure 3.5 below.

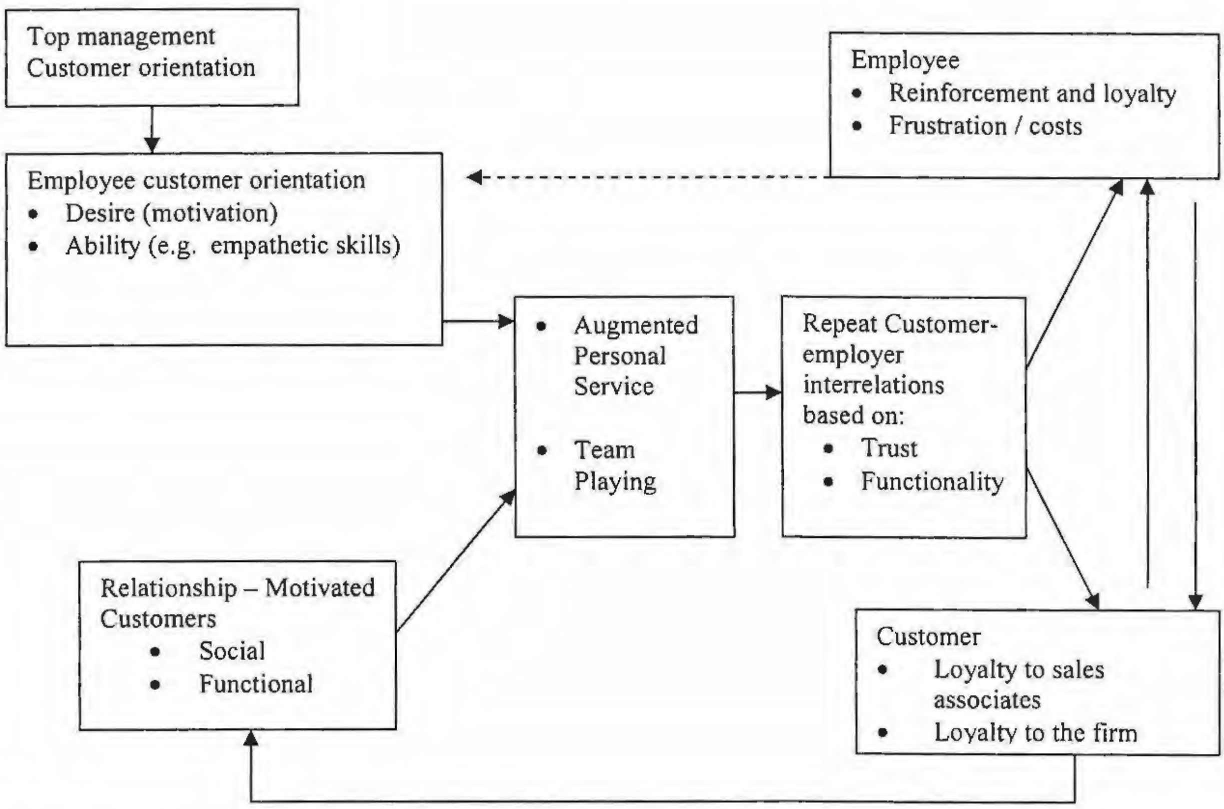


FIGURE 3.5: Relationship Formation Model - (Beatty *et al.*, 1996:8)

The four steps are as follows: -

1. Facilitating conditions

Top management, employee customer orientation and relationship-motivated customers were three factors identified by Beatty *et al.* (1996) which facilitate the development of long-term customer relationships whilst management who care deeply for their customers and encourage staff to satisfy customer needs was an essential element for relationship development. It also follows that customers would want to develop a relationship with the sales associate for the formation to commence.

2. Relationship formation

In the early stages of the relationship, service which exceeded the customer's expectations affected the relationship development process positively. Team work between sales associates and various departments enhanced the relationships with clients.

3. Relationship enhancement

This occurs when customers perceive trust, friendship and functionality on a sustained basis throughout the relationship.

4. Relationship outcomes

The customer becomes pleased with and committed to a relationship and increases pressure on the employee to be even more committed to the client than ever. The implication is that relationship selling entails ongoing one-on-one client-consultant relationships and this works better in a service environment in which customers want personalised service. It thus follows that both parties must perceive that the benefits of entering into a relationship outweigh the costs.

According to Abratt *et al.* (1999), there is still place for transactional marketing within the overall marketing plan for the Private Banking industry in South Africa as relationship marketing does not operate in a vacuum but rather the two approaches should be moulded together.

There may be different stages in the relationship when a stronger relationship approach is preferred and other times when a transactional approach is more feasible. However, by building relationships with clients, banks can get to know the needs of their clients better and then fulfil (or exceed) their expectations.

According to the findings of the Abratt *et al.* (1999) study, price prevails as the most important criteria in the selection of a private bank and is moderated by trust, service quality and the bank being available at a time of crisis. Furthermore results show that relationships are an important criteria in the selection of a private bank and also shows that the Beatty *et al.* (1996) model, originally developed for the retail industry, can also be applied to the private banking environment.

The Standard Bank Group has its own Private Banking Business Unit which has a comparable structure and client base (i.e. repeat customers and relationship based as opposed to transactional type banking) to the Structured Finance Unit at Standard Bank Properties.

It would be interesting to see how Abratt *et al.* (1999) findings support the findings from the qualitative interviews discussed in more detail in Chapter 5.

Chapter 4: Research Methodology

4.1 Aim and goals of research

The primary aim of the thesis is to understand why customers bank at Standard Bank Properties and to discover what aspects are critical to customer satisfaction at the business unit.

A further goal of the research is to examine how the business unit could improve customer satisfaction and to highlight any impediments to further improving customer satisfaction at the business unit.

4.2 Paradigm

The research was conducted in the constructivist paradigm with the research being qualitative in nature (Denzin and Lincoln, 1994). This paradigm is believed to be the most appropriate as the aim of the research is to understand the researcher's interpretations of the role of customer satisfaction in the property market within the financial services sector and specifically at Standard Bank Properties.

4.3 Case Study Research Method

There are several methodologies for undertaking social science research other than a case study and these include experiments, surveys, histories and the analysis of archival information.

Each of the above represents a different way of collecting and analysing empirical evidence and each has its own advantages and disadvantages. Furthermore, according to Yin (1994) each strategy can be exploratory, descriptive or explanatory.

In order to assist the researcher in choosing an appropriate methodology, Yin (1994) in figure 4.1 below, suggests that the following three criteria should be addressed: -

- The type of research question
- The extent of control an investigator has over actual behavioural events
- The degree of focus on contemporary as opposed to historical events

Strategy	Form of research question	Requires control over behavioural events	Focus on contemporary events
Experiment	How, why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes / no
History	How, why	No	No
Case study	How, why	No	Yes

Figure 4.1 Relevant situations for different research strategies (Yin, 1994:6)

4.3.1 Assessing the appropriateness of the Case Study

The first criteria as per Yin (1994) above, covers the type of research question.

The research questions posed in this research project included several "why", "what" and "how" questions. According to Yin (1994) if a research question focuses on "what" questions, an exploratory study using any of the five research strategies mentioned above could be used whilst the use of "why" and "how" questions are more explanatory and likely to the use of case studies, histories and experiments as the preferred research strategy.

With respect to the second and third criteria of behavioural control and contemporary versus historical events, Yin (1994) argued that the case study is the preferred research strategy where contemporary events are examined and when the relevant behaviours cannot be manipulated. In addition, although the case study relies on many of the same techniques as a history, it adds two further sources of evidence, direct observation and systematic interviewing.

A common misconception according to Yin (1994) is that the various research strategies should be arranged hierarchically.

He counters for instance that experiments with an exploratory motive have always existed, and that case studies are from being only an exploratory strategy. Yin (1994) contends that some of the best and most famous case studies have been both descriptive and explanatory.

According to Stake (1994:245, in Smith, 2004) "the purpose of case study is not to represent the world, but to represent the case".

4.3.2 Prejudices against the Case Study Strategy

As a research strategy, case studies have been viewed as a less desirable form of inquiry than either experiments or surveys. According to Yin (1994) there are three reasons for this negative sentiment.

Firstly, the greatest concern is the supposed lack of rigour of case study research. It has been argued that in many instances, the case study investigator has allowed biased views to influence the direction of the findings and conclusions. Yin (1994) points out, however, that such bias also enters into the conduct of experiments and surveys. The issue of quality and rigour is discussed further in section 4.7 below.

Secondly, there is an argument that case studies provide little basis for scientific generalisation with an often placed question "how can you generalise from a single case?' However according to Yin (1994) case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes. He goes on to argue that the case study, like the experiment, does not represent a "sample" and the investigator's goal is to expand and generalise theories (analytic generalisation) and not to enumerate frequencies (statistical generalisation). This is supported by Stake and Trumbell (1982, in Smith, 2004) who refer to this as "naturalistic generalisation" as opposed to "scientific or statistical generalisation".

Thirdly, it is argued that case studies take a long time to produce and result in massive and unreadable documents. It is however argued by Yin (1994) that case studies need not take a long time to complete as this type of research is often incorrectly confused with a specific method of data collection, such as ethnography or participant-observation. Both the latter data collection methods require a considerable investment of time in the "field" whereas he argues that one could complete a valid and high-quality case study without leaving the library and telephone – depending on the topic being studied.

4.4 Data Collection

The reader will be guided through the research project by following three central themes based on theoretical propositions, namely dyadic interactions and the service encounter, concepts emanating from the Service Profit Chain and finally an investigation of the themes revolving around Relationship Marketing.

In this way, the case study inquiry benefits from the prior development of theoretical propositions to guide data collection and analysis.

The evidence and theoretical propositions for case studies may come from six different sources, namely documents, archival records, interviews, direct observation, participant-observation and physical artifacts.

Figure 4.2 below provides a useful illustration of their strengths and weaknesses.

Source of evidence	Strengths	Weaknesses
Documentation	• Stable – can be reviewed repeatedly • Unobtrusive – not created as a result of the case study • Exact – contains exact names, references, and details of an event • Broad coverage – long span of time, many events, and many settings	• Retrievability – can be low • Biased selectivity, if collection is incomplete • Reporting bias – reflects (unknown) bias of author • Access – may be deliberately blocked
Archival records	• Same as above for documentation • Precise and quantitative	• Same as above (documentation) • Accessibility due to privacy reasons
Interviews	• Targeted – focuses directly on case study topic • Insightful – provides perceived causal inferences	• Bias due to poorly constructed questions • Response bias • Inaccuracies due to poor recall • Reflexivity – interviewee gives what interviewer wants to hear
Direct observations	• Reality – covers events in real time • Contextual – covers context of event	• Time consuming • Selectivity – unless broad coverage • Reflexivity – event may proceed differently because it is being observed • Cost – hours needed by human observers
Participant -observation	• Same as above for direct observations • Insightful into interpersonal behaviour and motives	• Same as above (direct observations) • Bias due to investigator's manipulation of events
Physical artifacts	• Insightful into cultural features • Insightful into technical operations	• Selectivity • Availability

Figure 4.2 Sources of evidence: strengths and weaknesses (Yin, 1994:80)

It is prudent to note that no single source has a complete advantage over all others but that the various sources are highly complementary and a good case study will therefore want to use as many sources as possible (Yin, 1994).

For the purposes of this paper, the sources of evidence used included documentation, archival records, participant-observation and interviews.

4.4.1 Documentation

Documentary information is likely to be relevant to every case study topic (Yin, 1994).

The collection of evidence for this research project commenced with a comprehensive review of numerous overseas and local journals as well as newspaper clippings from the South African media.

According to Yin (1994) the usefulness of these and other types of documents is not based on their necessary accuracy or lack of bias but in the case of case studies, rather to corroborate and augment evidence from other sources.

4.4.2 Archival records

Only limited archival information from the Bank was obtained in view of the sensitive nature of the information. However, the information obtained was significant in that it supported and corroborated the evidenced produced from other sources and contributed to the rigour of the case study.

4.4.3 Participant-observation

Participant-observation is a special mode of observation in which the researcher is not a passive observer but where one may assume a variety of roles within a case study situation and may actually participate in the events being studied. According to Yin (1994) the technique is also used in everyday settings such as in organisations where the method provides unique opportunities for the researcher.

Opportunities include gaining access to events or groups that are otherwise inaccessible to scientific investigation, the ability to perceive reality from the viewpoint of someone "inside" the case study rather than external to it and finally the opportunity to manipulate minor events like scheduling a meeting with person(s) participating in the case study.

The major problems relating to participant-observation have to do with the potential biases produced. Firstly, the investigator has less ability to work as an external observer and secondly the participant role may require too much attention relative to the observer role.

Cognisance of the pitfalls of this method was taken into account which mainly revolved around potential bias reporting by using multiple sources of evidence, creating a case study database and maintaining a chain of evidence.

The advantages in collating evidence from this source outweighed the negatives as it was deemed important to use this "inside information" to best advantage which is in line with the following quote from Stake (1994:245, in Smith, 2004) "the purpose of case study is not to represent the world, but to represent the case".

It is acknowledged however that participant-observation was not "used" in the true sense but is acknowledged for its contribution in providing insight into the daily operations of Standard Bank Properties and the ability of the researcher to call meetings and to undertake the requisite staff interviews.

4.4.4 Interviews

The interview as a source of evidence is regarded as one of the most important sources for a case study. According to Yin (1994) the interview format can take several forms namely:

- Open-ended interviews
- Structured interviews
- Focused interviews

4.4.4.1 Open-ended interviews

This form of interview is based on asking key respondents for the facts of a matter as well as for the respondents' opinions about events and to possibly provide their own insights into certain events and occurrences.

The shortfall of this approach is an over-reliance on a key respondent but could be overcome by relying on other sources of information to corroborate any insights provided.

4.4.4.2 Structured interviews

This type of format is more structured with the respondent only having the opportunity to respond to the questions – in a similar approach to that of a survey.

4.4.4.3 Focused interviews

The third type of format is the focused interview (Merton, Fiske and Kendall, 1990 in Yin, 1994) and is the approach adopted in this research project.

Through a series of interactive semi-structured interviews it was planned to corroborate these theoretical propositions established in the write up of the literature review. The use of semi-structured interviews allowed the interviewer the opportunity to clear vague responses by asking probing and open ended questions thus allowing the respondents to speak their mind (Welman and Kruger, 2001). This is supported by Judd, Smith and Kidder (1991) who argued that interviews have been shown to be much more effective than a standard questionnaire in studying perceptions, attitudes and motivations.

Interviews are an essential source of case study evidence because most case studies are about human affairs and these should be reported and interpreted through the eyes of specific interviewees. In addition, informed respondents can provide important insights into a situation.

Yin (1994) warns of the dangers of bias, poor recall and poor and inaccurate articulation. These shortcomings were addressed as follows: -

- Bias reporting was addressed by corroborating interview data with information from the other three sources of data namely documentation, archival records and to a lesser extent participant-observation.
- The issue of bias was further addressed through the use of supporting evidence and the theoretical propositions that underpinned the paper.
- Poor recall by the interviewer was mitigated through the use of tape recordings.

The interviews were conducted with five structured finance customers who bank with Standard Bank Properties. The population (referred to as structured finance customers) from which the sample of customers was selected, was the corporate property developers (that is, developers of developments with a cost in excess of R10 000 000) and property investors in the Western Cape who were existing customers of Standard Bank Properties. The sample selected therefore specifically excluded smaller operations (developments of less than R10 000 000) such as "one-man shows" or smaller start-up operations.

Of the five customers selected, three of these were customers with developments typically ranging from R10 000 000 to R30 000 000 whilst the remaining two customers were typically involved in developments ranging in excess of R30 000 000.

In addition to the interviews conducted with customers, six interviews were undertaken amongst staff members with one conducted with a property finance consultant, one with the Structured Finance Team leader, two with account offices, one with a bond administration officer and the final interview conducted with the local director of the business unit.

According to Smith (2004) there are two sampling methods. The first is the probability sample where everyone in effect has an equal chance of being selected and the second a non-probability sample where not everybody has the opportunity of participating.

In this research project, a non-probability purposive approach was adopted where a relatively large number of structured finance customers were identified and from which five were randomly selected. This was specifically done to avoid the risk of the representation of the sample being questioned as this is a potential shortfall of a non-probability sample.

The reason for this approach is that in this particular study it is appropriate for the researcher to select the sample on the basis of his knowledge of the population, its elements and the nature of the research aims. It would not have been any use to include for instance a customer or staff member who was new to the business unit and who could not provide insights and contribute to the case study. It would further have not served the interests of the case study if, for instance, customers who were unhappy with Standard Bank Properties for say service failure caused by other divisions of the banking group, to be included in the case study.

4.5 Data analysis

Data analysis consists of examining, categorising, tabulating or otherwise recombining the evidence to address the initial propositions of a study (Yin, 1994).

Unlike statistical analysis, there are very few formulae to guide the case study researcher. Instead much depends on an investigator's own style of rigorous thinking, along with the sufficient presentation of evidence and careful consideration of alternative interpretations.

Yin (1994) recommends that every case study should start with the use of either two general analytic strategies, namely the general strategy relying on theoretical propositions or the second general analytical strategy of developing a descriptive framework for organising the case study. The latter strategy is less preferable than the use of theoretical propositions but serves as an alternative when theoretical propositions are absent.

This research project has followed the former strategy in view of the theoretical propositions that exist and which guide the research project

4.5.1 Relying on theoretical propositions

As stated above, the research project was based on several theoretical propositions and it was these propositions that shaped the data collection plan and helped to organise the entire case study.

Once the literature review had been undertaken and the theoretical propositions established, the interviews were then undertaken.

The resultant data was analysed by firstly identifying the essential substantive points. In order to achieve this, Wolcott (1990:41) recommends commencing with sorting basic data into very broad categories, which adequately cover all the data and to then ask the question, "what is going on here?" to discover recurring themes across different categories. The critical task according to Wolcott is not to become overwhelmed by trying to include everything that might possibly be described (Wolcott, 1990).

Once the resultant data's substantive points have been identified, the data needs to be placed into exhaustive and exclusive categories. This is broadly in line with Agar's (1980:104) so-called pencil and scissors procedure where recurring themes from various sources of evidence are identified and placed into these categories.

4.6 Research procedure

The chapters, sections, subtopics and other components of a report must be organised in some way and this constitutes the report's structure.

According to Yin (1994), there are six recommended structures for composing a case study namely: linear-analytic structures, comparative structures, chronological structures, theory building structures, "suspense" structures and unsequenced structures.

4.6.1 Linear-analytic structure

The linear-analytic structure is the standard approach for composing research reports for a single-case study and is applicable to descriptive, exploratory and explanatory case studies (Yin, 1994).

It has become the standard approach for composing reports as it follows a logical pattern of identifying the issue or problem being studied (i.e. the research questions), reviewing the relevant prior literature (i.e. the literature review chapters two and three), outlining the methods used (i.e. the research methodology chapter four), discussing the findings from the data collected (i.e. the analysis and interpretation chapter 5) and drawing the conclusions and implications from these findings (i.e. the recommendations chapter 6).

Most journal articles in experimental science reflect this type of structure, as do many case studies.

Furthermore, the structure is familiar to most investigators and probably is the most advantageous when a thesis or dissertation committee constitutes the main audience for a case study.

4.7 Quality and rigour

One of the criticisms of case study research is its lack of rigour and in particular its tendency to produce biased research. It was however argued by Yin (1994) that such bias also enters the conduct of experiments and surveys.

There are according to Yin (1994) three principles that when used correctly can help to deal with the problems of establishing the construct validity and reliability of a case study.

4.7.1 Principle 1: use of multiple sources of evidence

It is argued by Yin (1994) that the need to use multiple sources of evidence in case studies far exceeds that in other research strategies as it allows an investigator to address a broader range of historical, attitudinal, and behavioural issues.

He further argues that probably the most important advantage presented by using multiple sources of evidence is the development of converging lines of enquiry -- a process of triangulation where any finding or conclusion in a case study is likely to be that much more convincing and accurate.

With triangulation, the potential problems of construct validity can also be addressed because multiple sources of evidence essentially provide multiple measures of the same phenomenon.

4.7.2 Principle 2: Create a case study database

The second principle revolves around the way of organising and documenting the data collected for case studies.

Yin (1994) calls for the documentation to be collected in two separate collections, namely the data or evidentiary base and the report of the investigator. He argues that although this practice is not an established one in case study research, the case study project should strive to develop a formal, presentable database so that in principle other investigators can review the evidence directly and not be limited to the written reports. He argued that in this manner, a case study database markedly increases the reliability of the entire case study.

Yin (1994) described the database as consisting of case study notes, case study documents, tabular materials and narratives.

4.7.3 Principle 3: Maintain a chain of evidence

The final principle to increase the reliability of the information in a case study according to Yin (1994) is to maintain a chain of evidence. The principle here is to allow the reader of the case study to follow the derivation of any evidence from initial research questions to ultimate case study conclusions.

Yin (1994) contends that if this objective is met then a case study will have addressed the methodological problem of determining construct validity, thereby increasing the overall quality of the case.

Notwithstanding these three principles espoused by Yin (1994), there are others who maintain a different view to the quality and rigour of case study research.

According to Wolcott (1990:30) the practice of checking multiple sources of data (i.e. triangulation) "sounds great in a research seminar" but poses real problems in the field and believes that "you should give readers enough information about how the research was conducted to enable them to discount your findings".

This is supported by Seidman (1991) who argues that the issue is not whether the researcher can generalise the findings of an interview study to a broader population but instead it is his task to present the experience of the people interviewed in compelling enough detail and in sufficient depth that those who read the study can connect to that experience, learn how it is constituted, deepen their understanding of the issues it reflects.

4.8 Ethics

As with most qualitative work, case study research shares an intense interest in personal views and circumstances. Our manners should be good and our ethics above reproach. Poor judgement can affect later researchers' access and undermine the whole research enterprise (Stake 1994:244, in Smith 2004).

According to Remenyi (1998:110), in the business and management environment "how the research should be conducted is perhaps of greater concern in an ethical sense to the typical masters and doctorate candidate than the question of what is being researched". Remenyi (1998) argues that there are three major aspects to this "how" question, namely the issue of the collection of evidence, the problems associated with processing the evidence and finally the use of the findings.

The principal ethical consideration in this paper is the issue of anonymity. Yin (1994) asked the question of whether the case study and its informants be accurately identified or should the names of the entire case and its participants be disguised?

Disclosure produces two helpful outcomes. Firstly, the reader is able to recall any previous information he may have learned about the same case – from previous research or other sources – in reading and interpreting the case report. Secondly, the entire case can be reviewed more readily.

According to Yin (1994), there are overriding considerations for anonymity. The first consideration being when the case study is on a controversial topic and the second is that the publication of the final case report may affect the subsequent actions of those that were studied.

However in this instance it is deemed appropriate to ensure anonymity not of the organisation but of the individuals who participated in the study. It is believed that the anonymity of the individuals alone is sufficient thereby leaving the case itself to be identified accurately and is a compromise recommended by Yin (1994).

4.9 Conclusion

The case study is but one of several ways of doing social science research.

Each of the five strategies (being case study, experiments, histories, surveys or the use of archival information) has its own advantages and disadvantages depending on three conditions espoused by Yin (1994). The first condition is the type of research question, secondly the control an investigator has over actual behavioural events and finally the focus on contemporary as opposed to historical events.

According to Yin (1994), case studies are the preferred strategy when "how" or "why" questions are being posed, when the investigator has little control over events, and when the focus is on contemporary phenomenon within some real life context.

It is acknowledged that there are valid criticisms of the use of case studies as a research strategy which include the supposed lack of rigour of case study research, that they provide little basis for scientific generalisation and that they take a long time to produce.

These criticisms have been addressed by using multiple sources of evidence and maintaining a chain of evidence throughout the write up of the research project. The research project was furthermore guided by the theoretical propositions introduced in the literature review.

The remaining sections of this research project will now be built on the back of the theoretical propositions introduced in Chapters 2 and 3 using the case study methodology introduced in the body of this chapter.

Chapter 5: Analysis and Interpretation of the data

In this chapter, the results of the interviews conducted with the six staff members and five clients of Standard Bank Properties, as well as three surveys (Research Surveys, Synovate and Markinor) and the financial records of the business unit, will be reviewed against the theory examined as part of the literature review.

As per the preceding literature review chapter, this section will be opened by an introduction and followed by an examination of the three central themes in the thesis being the dyadic interactions and the service encounter, followed by the concepts surrounding the Service Profit Chain and finally the theory of Relationship Marketing.

5.1 Introduction

There is general consensus that inherent differences between goods and services exist and that they result in unique or at least different management challenges for service businesses and for manufacturers that sell services as a core offering.

In the preceding literature review chapters, four distinct differences were identified.

5.1.1 Intangibility

Intangibility is the most basic and universally cited difference in view of the fact that because services are performances rather than objects, they cannot be seen, felt, tasted or touched in the same manner that one can sense tangible goods.

This was supported in the following customer interview: -

"Property financing is a commodity so it is not generally to do with the actual finance as such. It has more to do with the trust and comfort and the fact that you can work together. If something is not right, then the Bank and I should be able to rectify the problem. So, it's a building up of a partnership" – (Customer 1, 2006).

The fact that a relationship is ongoing and that trust is something that needs to be nurtured was mentioned in the Customer 2 (2006) interview where it was stated that "trust is a very delicate thing (and) it can take years and years to build up and one sentence or action to destroy".

The trust aspect was supported by several staff with the following extracts considered appropriate: -

"It's about building relationships with developers and clients. It is about building the trust between the two parties" – (Structured Finance Team Leader 1, 2006).

"At the end of the day, you are relating to another human being across the table and if you can't gel, then that person will not want to do business with you quite frankly. So it's all about how you conduct yourself and how you service your customers" – (Property Finance Consultant 1, 2006).

5.1.2 Heterogeneity

In the preceding literature review, it was held that two employees similar in training and experience and receiving the same salary may differ greatly in their effectiveness in dealing with customers.

This heterogeneity characteristic may partly explain why there would appear to be a reluctance on the part of clients to engage with the support staff. It is apparent from the several client interviews conducted that an unreasonable reliance is placed on a few key personnel at the business unit as clients channel all queries and requests through the three most senior members of staff.

This was evident from the following interviews: -

"There is always one key person we go to and that is to the structured finance team leader"- (Customer 2, 2006).

"No, I do not have any contact with administration staff. I deal through the structured finance team leader" – (Customer 3, 2006).

"We prefer to deal with the long term finance team leader as we have a good relationship with him" – (Customer 4, 2006).

The concept of heterogeneity can also be viewed from the point of view of the employees. Although clients by definition are all different with their own particular set of circumstances, a bond administration officer made the point that two directors from the same client company may respond in completely different ways as per the following extract: -

"But then sometimes you may have two directors in the same group and one may be a honey and knows what to do and the other may be a real pain" – (Bond administration officer 1, 2006).

Zeithaml (1981, in Smith, 1990) stated that consumers perceive greater risks when buying services than when buying products and accordingly banks are adopting many principles of production-orientated quality management in terms of 'getting things right the first time', as well as the standardisation of routine tasks. An example would be the speed of answering the telephone.

In 2002 the Standard Bank Group embarked on a customer satisfaction study as part of their commitment to deliver service excellence to their clients. During the following three years, Research Surveys, an independent research company, conducted this survey on behalf of the Standard Bank Group. The primary objective of the study was to measure customer satisfaction on service delivery both internally and externally and specifically for business units of the Standard Bank Group. Standard Bank Properties was one of ten business units of the Bank that participated in the survey throughout the four years.

A total of 17 delivery gaps, originally identified in a Gap analysis exercise carried out in the first survey in 2002 by the Standard Bank Group, were surveyed and of the three that showed the largest decrease in performance from the previous years survey were two that were incidentally highlighted by Zeithaml (1981, in Smith, 1990) above, namely, the promptness in answering phones and making errors and mistakes.

5.1.3 Simultaneous production and consumption

The third differentiating characteristic between goods and services is that the creation or the performance of the service may occur at the same time as full or partial consumption of it and thus implicit in this is therefore the importance of the service process itself.

In a series of staff interviews, the question of whether Standard Bank Properties followed a customer centric approach to the loan application process was put to the respondents.

> "I think that there can definitely be improvements especially where we have to depend on our Johannesburg staff – our legal and credit departments – as that causes a whole backlog which makes it difficult in trying to explain to customers why it is taking so long. So that area can definitely improve. I therefore believe with the legal post being created here that there is going to be a huge improvement in turnaround times and efficiencies as the current system of faxes and couriers does not work well" – (Accounts officer 1, 2006).

"(It) would be nice if it was simpler. Although something may be legally correct it may not necessarily be correct in terms of Bank procedure" – (Accounts officer 2, 2006).

"No I do not think that we are focused on the customer. I think that we are too hell-bent on crossing the t's and dotting the i's. It is a zero tolerance approach which is a painstakingly slow but meticulously careful"– (Property Finance Consultant 2, 2006).

From the client's perspective, it would appear that the principal complaint to the actual process itself is the timing of it with the following commentary highlighting this: -

"...a faster turnaround time. I know there are checks and balances but surely my good man this process could be expedited?" – (Customer 5, 2006).

"By the time we get to the final stages and have signed our lives away and provided our identity documents...and I am not complaining about it as it's a necessary process for the Bank to go through but it just takes such a long time" – (Customer 1, 2006).

5.1.4 Perishability

Unlike in a manufacturing context, there is no buffer available to a manager in the financial services industry. The position is exacerbated by the fact that client's themselves play a key role in the loan application process.

Although already alluded to in the section above, speed in the decision making process is a primary concern and the additional time it takes for a client to sign the actual facility letter after such approval process places the Bank in a difficult position with little room to 'wow' the customer in the application process. The application process is often placed on a "stop watch" scenario when a client purchases a property and the client has a certain number of days to provide the seller with written approval and actual guarantees.

The second section of this chapter revolves around the first of three central themes of this paper, namely dyadic interactions and the service encounter.

5.2 Dyadic interactions and the service encounter (theme 1)

5.2.1 The service encounter

It was evident from the literature review that the service encounter is reciprocal and an on-going process with each party having a role to fulfil. In view of the fact that the Bank has many customer interfaces, a number of employees may come into contact situations with a client. These employees often come from different social, economic and cultural backgrounds and although a multi-cultural workforce can be highly effective, an alignment of these employees with the Bank's culture and psyche is very important.

The successful enactment of employee / client roles involves a mastery of a wide range of behaviours and a certain number of skills. This has become an issue at Standard Bank Properties because of a high staff turnover over the past two years. In addition to the high turnover, the business unit was simultaneously in the process of filling the new posts that it had created (support staff and legal) and now in addition to this, existing posts that had become vacant also had to be filled.

It is arguable that the exodus of experienced staff and the employment of new staff would have lead to a variety of problems including but not limited to: -

1. Role scripting problems – new employees would need to acquire the relevant knowledge and understanding of how 'things are done at the business unit' and would need to become competent in their own particular roles and responsibilities

2. Culture issues – the Bank's commitment to the Financial Services Sector Charter and Employment Equity laws could cause alignment issues at least initially as an increasing number of new employees would need to be of a certain demographic order "versus" the largely "white" existing workforce.

3. Stress on remaining employees – remaining employees would need to train and assist new comers as well as meet their own respective targets and responsibilities.

4. Remaining employees to transfer skills to new employees - time issues and volume issues were regularly expressed by staff and this additional "burden" could become problematic. The position is also exacerbated by the fact that there is no formal skill transfer program at the business unit.

5. Making of errors – this was evidenced in the Research Surveys (2005) findings where the score dropped from 7.8 to 7.4 versus an expectation mean score of 7.7 for the year 2006).

   This finding of Research Surveys (2005) was supported by the findings of the Synovate South African Satisfaction Index Banking Study (Barnhoorn, 2005) which found that there were three areas where all major Banks in South Africa could improve their service and one of these included service with minimal referrals.

6. Promptness in answering telephone calls - this was evidenced in the Research Surveys (2005) findings where the score dropped from 8.1 to 7.8 versus an expectation mean score of 6.1 for the year 2006

7. Provide all information required - this was evidenced in the Research Surveys (2005) findings where the score dropped from 7.9 to 7.6 versus an expectation mean score of 6.7 for the year 2006

8. Poor problem resolution – a key finding of the Research Survey (2005) was that clients had a particular high expectation on errors and were to be avoided and if they did occur needed to be corrected. What the findings revealed was that Standard Bank Properties had a relatively high incidence of problems not being resolved which is partly explained by the fact that there is no formal customer complaint handling system at the business unit.

   This finding was also supported by the Synovate South African Satisfaction Index Banking Study (Barnhoorn, 2005) which found that all Banks could improve their service by providing full rectification of problems.

9. Client concerns re staff competency – this was specifically mentioned in the customer 1 interview where it was joked that he would consider switching if the structured finance team leader left the business unit unless there was a smooth transition and provided the "incumbent was up to scratch" (Customer 1, 2006). This was also supported in previous research undertaken by Bendapudi *et al.* (2001) which highlighted three customer concerns when a key contact employee leaves namely: the loss of an important point of contact with the company, the concern that the replacement employee won't be as good as the previous contact and the third concern that the client would have to re-build the relationship again.

In support of the above, an independent Markinor OBS Pulse Financial Services Industry Benchmark study quoted in the 2004 Standard Bank Sustainability Report (Maree 2005) indicated that the primary complaint reasons cited for Standard Bank were: a lack of communication/feedback, errors/administration, pricing/charges, time delays and attitude of staff. The mitigating factor here is that this survey was for Standard Bank across all divisions.

During the write up of this research project, arguably one of Governments most onerous pieces of legislation, the Financial Intelligence Centre Act, 2001 (FICA), was launched. This legislation placed an obligation on Financial Institutions to fulfil a regulatory role on behalf of the Government.

Two of the initial problems experienced were uncertainty in what documentation to obtain and secondly the physical storing of this data. It is a business rule of Standard Bank Properties that before an application for finance is presented to the Credit department, the client has to be identified in terms of the FICA process. Thus a client had to provide a host of documentation to the Bank before the Bank would even consider a loan proposal via its Credit department. As was expected, FICA elicited quite a response from clients and staff alike with the principal complaint by clients including clients numbered 4, 2 and 1 that the request for FICA documentation was repeated by various divisions within the Bank and that the process was not centralised or more thought through.

The central reason for each division calling for its own set of FICA documents from clients was that certain types of loan agreements called for FICA documents to be kept for a certain period and the period to hold data at Standard Bank Properties is a period of 5years as opposed to a much shorter period at branch banking for instance. The reason for this has to do with the type of legal agreements that this business unit enters into as opposed to bank overdraft facilities that are typically not secured by covering mortgage bonds.

Staff do sympathise with clients with the Director of the business unit having the following to say about the FICA process: -

> "I suppose customers understand why it's done (FICA) but perhaps get frustrated in the way it's carried out. I think part of the frustration is having to do it two or three times. Once we can all live with, but they can't deal if it is not done efficiently and on a centralised basis. We should have a central database and if a client has been done once then that should suffice" – (Director 1, 2006).

The independent research by the Synovate South African Satisfaction Index Banking Study (Barnhoorn, 2005) indicated that satisfaction across the banking industry as a whole declined from 81.3% to 77.1% with the so called "big-four" banks all seeing a decline in their individual customer satisfaction ratings. It was reported in the Synovate South African Satisfaction Index Banking Study (2005) study that given this uniform decline it was highly possible albeit speculative, that frustration with the FICA identification requirements had an adverse affect on public perception of banks in general and that although the impact of these laws was not direct, negative sentiment caused by these laws could have spilled over to all aspects of the relationship with the Bank.

5.2.2 Monitoring of the service encounter

One of the implications of Bitners (1990) findings in the literature review is that it is very important to manage and control every individual service encounter to enhance overall perceptions of service quality and that even when the experience is not what the customer expects, there may be an opportunity to turn the encounter into a more satisfying one through understanding the customers attribution process.

Attributions are what people perceive to be the causes behind their own behaviour, the behaviours of others, or the events they observe. For instance, in cases of service failure, when customers perceive that the firm has control over the cause, they are more dissatisfied than when they believe the firm has no control. Alternatively, in cases of service failure when customers perceive the cause likely to recur, they are more dissatisfied than when they believe the failure is a rare event.

It is however very difficult and impractical for the business unit to monitor each and every individual service encounter and therefore this measurement generally takes the form of staff performance reviews. Although historical in nature it does provide management with a tool to assess staff performance. In addition, numerous surveys are undertaken throughout the year where existing clients are contacted telephonically to establish their satisfaction with the business unit.

In the performance appraisal for a manager, the behavioural index contributes 40% to the overall score and within that 40% is a section that deals with customer service on which the employee is rated. This subsection covers three points with an appraisee rated from 1 to 5 on each point, namely: -

a) Demonstrates a customer orientation by actively and consistently going out of his way to service customers and address their monetary, financial, process efficiency and documentation needs / queries both quickly and effectively in line with Service Level Agreements and customer expectations
b) Is reliable and diligently follows up on customer requests and service commitments
c) Takes ownership of service delivery in the portfolio by proactively co-ordinating admin support provided by other areas of the business to ensure that customer service requests / problems are responded to in a holistic and efficient manner.

With respect to a non-managerial staff member, there is no direct measurement of customer satisfaction and complaint handling although these employees are indirectly affected by any negative performance in the annual value added bonus where non-managerial staff receive a discretionary bonus dependent on several key areas including customer satisfaction scores and general financial performance of the business unit.

Thus, although there is a measurement tool in place in the form of these performance appraisals, there is no formal customer complaint handling system at Standard Bank Properties. There is an informal customer complain channel with the recent appointment of a business development manager who via her extensive network provides feedback to management. The shortcoming of this informal process is that not everyone knows her or her role at the business unit.

5.2.3 Recovery of the service encounter

Bitner's (1990) study show that providing customers with logical explanations for service failures and compensating them in some way can mitigate dissatisfaction.

The Standard Bank Group recognises the above as evident in the following extract from its 2004 Sustainability Report "We encourage customers to express their concerns about unsatisfactory service and also share compliments concerning service highlights. Experience has shown that complaints and compliments provide us with opportunities to better understand our customers and to refine and improve our service offerings to them" (Maree, 2005).

Bitner (1990) is supported in later research by Anderson *et al.* (1993) where it was held that an important component of managing satisfaction is the ability to control the impact of negative disconfirmation through complaint handling and effective customer service.

From a financial perspective, according to Tax and Brown (1998), studies on the return on investment in complaint-handling units in several industries including Banking indicated that service-recovery investments provided substantial returns ranging from 30 per cent to 150 per cent.

The lack of a formal customer complaint handling system at the business unit is a shortcoming acknowledged by the Director of the business unit:-

> "We do not have a formal complaint handling system in place. It gets done by the individual managers and then it obviously gets escalated if it does not get resolved at a management level until it reaches a point where it is resolved. Other than concessions, apologies and replacement of consultant, I in my capacity as director will also go out and see the client to show that customer satisfaction is important and that we take it seriously. The Bank has a formal system in place but we do not have a specific one for ourselves" – (Director 1, 2006).

The lack of a formal customer complaint handling system at the business unit is particular striking as it is in direct contravention of the Standard Bank Groups stated policy as per its 2004 Sustainability Report "Standard Bank supports the Ombudsman for Banking Services as an alternative for customers, to assist in bringing about final resolution of complaints that cannot be resolved. We actively support the guidelines of the Code of Banking Practice to ensure that we serve customers fairly" (Maree, 2005).

In addition, with the introduction of FAIS and the newly launched National Credit Act there is an onus on Banks to be responsible lenders and provide clear and accessible dispute and query mechanisms.

When questioned on what Standard Bank Properties could do to resolve this shortfall, the Director responded: -

"Well I suppose you could have a customer complaints area or someone with a mandate. The problem with that however is that they have to be empowered to handle the situation, for if they are not empowered to handle the situation then it's really a wasted exercise isn't it" – (Director 1, 2006).

This introduces a very topical subject into the customer satisfaction debate and that is the concept of empowerment. Earlier it was stated as per Bitner (1990), that it was very important to manage and control every individual service encounter but what does that mean for the empowerment of employees?

5.2.4 The empowerment of staff at Standard Bank Properties

In the literature review the debate centred on whether to follow the production line approach or empowerment approach. In order to understand the distinction between these two different paradigms, it is important to have an understanding of what it really means to empower employees.

In order to make a call on how empowered staff at the business unit is, it is relevant to analyse the four points of Bowen *et al.* (1992) definition introduced in the literature review.

Firstly, with respect to sharing information about the organisations performance, the business unit and Bank overall is very good at celebrating success stories and financial performance. Operational fan-outs via email convey general group wide performance whilst monthly feedback on the business unit's performance in particular is enthusiastically received by staff. Furthermore each Property Finance Consultant receives a monthly income statement showing his individual financial contribution to the net income of the business unit. However, this type of financial feedback is limited to a few individuals.

Secondly, with respect to rewards based on the organisations performance, the Bank and hence the business unit follows a typical "corporate" approach. Based on their performance appraisal, non-managerial staff receives a 13th cheque whilst managerial staff receive a performance or incentive payment based on their performance as measured in the income statement above.

However, in a small departure from corporate norms, an additional value sharing bonus is also payable once a year to all non-managerial staff. This bonus is however dependant on the overall financial performance of the Bank and the individual business unit's customer satisfaction ratings. In terms of the rules of the value added bonus, 90% of the top ranked employees (via performance appraisal) receive a once off bonus of 4% of package whilst performers in the bottom 10% receive discretionary bonus payments.

Thirdly, with respect to knowledge that enables employees to understand and contribute to organisational performance, the business unit actively encourages an employee to drive their own career development.

This is supported by various staff who indicated: -

"...if you ask to go on a course, then you go. There has never been a why do you want to go" (Bond administration officer 1, 2006).

"The Bank always supports reasonable requests for an employee to further and enhance their skills" – (Structured Finance Team Leader 1, 2006).

The local Director who ultimately authorises such requests confirmed this: -

"There is always training courses available which one can go on when employees are fairly new, so courses are not a problem. Even existing employees have courses available. It is up to individuals to bring to the attention of management the courses desired and if business related will receive (my) support" – (Director 1, 2006).

Lastly, with respect to power to make decisions that influence organisational direction and performance, the business unit despite having a very flat structure is considered by some to be autocratically run by its Managing Director. This was evidenced in several staff interviews: -

"We all know that this business is run by the Managing Director. He has been so long at the Bank that he is an institution and things have not really changed have they?" – (Accounts officer 2, 2006).

"I think though that everything largely revolves around head office and Johannesburg" – (Structured Finance Team Leader 1, 2006).

Following on from the analysis of Bowen *et al.* (1992) definition of empowerment above, the issue of empowerment was put to staff and elicited a strong response: -

> "No, I am not empowered to do anything. Anything that the client wants, that I am not sure of, I have to ask a higher power. It's fine however the way its working as I am still learning, but it might be different if I knew everything, then a lack of empowerment might become a problem. Hopefully I shall have more leeway once I become knowledge empowered. I never commit the Bank anyhow, but rather make sure from someone who is authorised" – (Accounts officer 2, 2006).

"Power has been centralised. Employees can't make a decision. If we talk about a pricing issue then that would have to be dealt with myself or the local director. Any credit related issue is centralised, there is no give… its black or white. You get the answer from the person empowered; it's as simple as that" – (Structured Finance Team Leader 1, 2006).

"Yes. It's always been like that. It's the way the procedural manual is, the way banking has been done over the years" – (Bond administration officer 1, 2006).

"We are mostly pawns. We try to re-assure clients and we hate giving our names as they hold us accountable" – (Accounts Officer 1, 2006).

The question or issue rather of empowerment is best summed up by Director 1 (2006):

> "I think the reason for this observation (possible lack of empowerment) is because it is the nature of the business we are in because we are governed by certain things like Basel II in terms of how you run a bank and how you empower and which ones you empower. Now the obvious one is that you cannot empower a front line sales staff member with mandates to lend and change conditions and approve facilities; that has to be done in another area. It is division of duty principle, proper procedure and a paper trail. Yes, to say that proper procedure was followed so it is very frustrating and even I find that I can't make promises to clients other than 'I promise to do my best' and set a timeframe upon which you will respond".

5.2.5 Transfer skill programme at the Business Unit

Although the business unit supports staff in participating in external or third party training programs, the business unit adopts a reactive position as evidenced by Director 1 (2006) statement: -

"Up to individuals to bring to the attention of management the courses desired and if business related will receive (my) support" – (Director 1, 2006).

In addition, these third party training courses are external based and program specific – for example a Microsoft Excel or Word computing course. These external courses whilst providing employees valuable experience, do not give employees invaluable insights in their day-to-day functions and roles at the workplace. What is needed instead is an internal skills transfer program or mentorship which is especially relevant considering the influx of new employees at the business unit.

The question of whether the business unit had an acceptable skill transfer program was put to staff and elicited the following response: -

"What program? Does one exist?" – (accounts officer 1, 2006)

"Have we got one?" – (bond administration officer 1, 2006).

"Its good/useful but only if the people who want it make the effort. It should be informal however as anything you force on someone will face resistance" – (Structured Finance Team Leader 1, 2006)

"It doesn't exist... maybe because of time pressures. It might also be because people do not want to diffuse their power base. In other words people with knowledge do not want to empower others as they see this as a threat" – (Property Finance Consultant 1, 2006).

"Not enough has been done. It is not a time issue as one can always find the time. It is more the inclination to want to and it should be informal. Maybe the existing approach is too formal and maybe that is why it doesn't work. It is an item on the Executive Committee agenda" – (Director 1, 2006).

The issue of a lack of internal transfer skill programme is clearly an issue as it is to be raised on the Agenda of the upcoming Executive Committee, a committee comprising senior bankers within the business unit.

The reason why it is an issue is that the lack of a suitable programme not only affects empowerment of new staff but also of existing staff who wish to develop their career further within the business unit.

Following from this shortfall of internal skill transfer program and lack of empowerment in general, Bowen *et al.* (1992) suggest a variety of empowerment options available for firms namely: suggestion involvement, job involvement and high involvement. Based on the findings above, it is apparent that this business unit follows a middle road approach in following a job involvement approach. This is considered logical as the unit operates in teams and gives a relative amount of freedom to employees to get the job done. However, very little input to the long term strategy of the business is taken in by top management.

Whatever the degree of empowerment or suggested empowerment option above, the findings of this study strongly supported the findings of Bowen *et al.* (1992) who concluded that empowerment is the best approach when service delivery involves managing a relationship and where participants may build rapport with each other on a professional and social basis based on their common "specialised" knowledge.

This was supported by Customer 3 (2006) who stated:

> "I have always said that Standard Bank Properties has the most fantastic arrangement in terms of customer relations. The Property Finance Consultants are at the same sort of level as us developers" and later "to me the ending is when we have the annual function. You know I always appreciate being invited to those events and that is when you feel that you are a client and that they enjoy having you as a client. Another great social event is the rugby

invites at the Bank's box at Newlands. It is no big thing in itself but is an acknowledgment that they appreciate doing business with me".

This was also supported by Customer 1 (2006) where the client stated that "we know three quarters of the staff in the office and believe in the importance of putting a face to an individual and a human element to banking".

The strong relationship aspect was also supported by staff member Property Finance Consultant 1 (2006) who stated "It gets to a point where you see them so often that eventually you get to know them so well that you see them on a social basis and I enjoy that".

5.2.6 Termination of the service encounter

Irrespective of the approach followed by a business – empowerment or traditional – an organisation will always have customers whose satisfaction will range along a continuum from "not satisfied" to "extremely satisfied". The problem however is that although a client may appear to be satisfied, he may not be loyal as he may be tied or committed to a Financial Institution and the switching costs prevent him from exiting the relationship.

From a commercial property financing perspective, these switching costs typically take the form of exit fees that range up to 5% of the loan amount. Thus, even if a client was disillusioned with the service, to take action and move financiers could cost a significant amount of money in the form of wasted costs such as bond cancellation, exit fees and re-registration fees. There would also be the settling in period at an alternate financial institution and the inevitable disruption to his business.

In the property finance industry, it is probably apt to reflect on the type of financing transaction. There are essentially two scenarios.

- Firstly, a case where a property investor (whether individually or via a legal entity) purchases an existing property. These clients generally tend to be once off clients and referred to as the Commercial Property Loan book.

- The second scenario involves either the purchase of vacant land or a building which is partly or wholly demolished to make way for a new residential, industrial or retail development. This typically involves a project that can last anything up to 18 months (i.e. the construction period). These clients are typically repeat clients who will come back and finance their next development unless a really serious service issue is experienced during the construction period. This is known as the Structured Finance Book.

The issue of switching service providers elicited the following responses from client interviews: -

> "It's the service, or rather the unacceptability thereof that would cause us to switch. If things just did not get done and the service levels dropped down to totally unacceptable levels, then we would move, or if the Structured Finance Team Leader left. Yes, jokes aside unless there was a smooth transition. But overall it's a long-term thing, not one particular thing that will cause a sudden change. Initially a certain failure aspect may raise awareness and if this aspect wasn't addressed or if service levels continued to drop then that would be reason to consider switching. The only other thing that would happen is if someone would try to poach us" – (Customer 1, 2006).

> "I believe that if you slowly build up a reliable track record that they must be open to any development project as long as I have a sound business plan. Sometimes I get frustrated and so does the Structured Finance Team Leader because sometimes credit as they are similar to most other banks, balk at certain factors such as no pre-sales etc but credit need to think like the Structured Finance Team Leaders and directors of this world" – (Customer 3, 2006).

"Property financing is a long term thing. If it transpired that I could not get along with the Bank representatives whether on a professional or social basis, then that would be cause for concern. Strong enough to switch I am not sure" – (Customer 4, 2006).

Customer 4's comments above were supported by Property Finance Consultant 1 (2006) who stated "at the end of the day, you are relating to another human being across the table and if you can't gel then that person will not want to do business with you quite frankly. So it's all about how you conduct yourself and how you service your customers because that is what life is all about."

This draws the discussion around the service encounter to a close. Should a client not terminate the service encounter, the Bank would expect to begin making some money from the client in the ongoing maintenance of the client. Thus the second central theme of the research project namely the numerous concepts of the Service Profit Chain will now be explored in further detail.

5.3 Service Profit Chain concepts (theme 2)

The literature pertaining to relationships among customer satisfaction, customer loyalty and profitability can be divided into the services management literature and the marketing literature. The common denominator from both camps is the notion that loyalty creates increased profits through enhanced revenues, reduced costs to acquire customers, lower customer-price sensitivity and decreased costs to serve customers familiar with a firm's delivery system (Hallowell, 1996).

In the 1960's the 4 P's marketing theory was undoubted but slowly the market began to question this approach in favour of building or creating lasting and enduring relationships with its client base. The Service Profit Chain developed from the analysis of these emerging companies by Heskett *et al.* (1994) where various links were identified: -

(i) Customer loyalty drives profit and growth
(ii) Customer satisfaction drives customer loyalty
(iii) Value drives customer satisfaction
(iv) Employee productivity drives value
(v) Employee loyalty drives productivity
(vi) Employee satisfaction drives loyalty
(vii) Internal quality drives employee satisfaction

An analysis of several of these links with reference to Standard Bank Properties will be explored.

5.3.1 Analysis of the links in the Service Profit Chain

In terms of the link "value drives customer satisfaction" above, it is argued that customers are strongly valued orientated. In prior research undertaken by Franco (1990), it was held that customers valued things such as dedication and account guidance more highly than tangibles such as price, product performance and quality and that these factors had more to do with the performance of the salespeople itself.

This was supported in the Customer 1 interview when the client responded to the question of whether he believed Standard Bank Properties had a good understanding of his business and needs and provided the appropriate guidance and advice: -

> "No, no they know their business, make no error. Markets are very different so obviously it's very difficult to persuade someone in say Johannesburg (where large credit decisions are made) about market dynamics in Cape Town but the Structured Finance Team Leader will know pretty early on whether this thing is going to fly or not. It does not help to be strung along like we have been with other Banks for a couple of months with them saying yes to this and that and then eventually not getting approval because they did not believe in the scheme in the first place" – (Customer 1, 2006).

This was supported in the Customer 3 interview: -

"I feel that I am in a position to set up a development and that the Structured Finance Team Leader knows that I have got enough of a track record so that if he can see what I am suggesting and that the development makes sense, I know that I can count on him 100%" – (Customer 3, 2006).

These two sentiments expressed by clients largely mirror some of the findings of the Research Surveys (2005) study on customer satisfaction at Standard Bank, in which Standard Bank Properties had extensive participation. The two largest increases in performance in terms of expectancy versus actual delivery (over the previous survey period) were 'understanding client needs' and 'flexibility'. The former scored 8.0 up from 7.8 the previous year (with a mean score of 6.7) and the latter improving from 7.2 to 7.4 (with a mean score of 6.3). These Research Survey (2005) findings support the above client statements significantly.

In terms of the link "employee loyalty drives productivity" above, Heskett *et al.* (1994) and Schlesinger (1989, in Sellers, 1990) associate low productivity and poor service with employee turnover.

What came through strongly in the customer interviews was the dependence on a few key personnel at Standard Bank Properties. Although Customer 1 (2006) in his interview stated that he probably "knows three-quarters of the floor here" he is quick to add that he will try and get what needs to be done before the Structured Finance Team Leader 1 goes on holiday as "we don't want to deal with somebody else on these issues". Customer 1 added that if the Structured Finance Team Leader 1 for instance was transferred to Gauteng, then "obviously the whole picture changes the trust and the comfort". He went on to then ask the question of whether "this new employee would understand where we are coming from to make us feel comfortable where we are going and naturally whether the new incumbent would be up to scratch".

Customer 1's concerns above largely mirror the findings of the Bendapudi *et al.* (2001) study which concluded that customers had genuine concerns when a key contact employee left the employment of the service provider.

The reliance on key personnel also came through in the Customer 3 interview namely:

"I know that if something needs to be done, the Structured Finance Team Leader will make sure that it gets done" and "alternatively if there is anything wrong then I can contact the Structured Finance Team Leader and he will sort it out" and finally when asked if (this developer) dealt directly with the Administration department the respondent replied "no, not directly, I deal through the Structured Finance Team Leader" – (Customer 3, 2006).

This reliance on key personnel also received commentary in Customer interview 4 where the respondent stated "It has all to do with ability. I am not saying that we can't deal with the support staff but generally these people have to refer to people like the director and the Structured Finance Team Leader in any event. So I go straight to the top as it saves time for me" – (Customer 4, 2006).

This apparent weakness (of having reliance on key personnel) also came through in several staff interviews, namely: -

"... before I do anything I will first go talk to the administration team leader or to the credit manager or one of the senior's like the director or the Structured Finance Team Leader" – (Bond administration officer 1, 2006).

"It does add a little extra pressure as one tends to receive "routine calls" that could be handled by bond administration even when on holiday" – (Property Finance Consultant I, 2006).

One of the suggested improvements that came from the Research Surveys (2005) findings was a "focus on areas of being able to deal with a customer query, following through with it and provide the necessary feedback in a short space of time".

This suggested improvement by the Research Surveys (2005) study is understandable in the context of Standard Bank Properties reliance on key personnel as these key players, despite having their own roles to perform, are in actual fact reliant on bond administration, legal, credit and other stakeholders to perform or action the client's initial query in the first place. This is a likely role scripting issue that has become a self fulfilling one for if the client directed the query straight to the relevant department or person then this situation would not be such an issue it has become. So clients will continue to contact these key personnel until such time as most probably these key personnel themselves, take the time to re-enforce with repeat clients the correct or proper lines of communication with respect to the routine matters in order for the unit to follow through on the suggested improvement as suggested by the Research Survey (2005) finding above.

An independent survey of the South African banking industry conducted by the Synovate South African Satisfaction Index Banking Study (Barnhoorn, 2005:1) found that there existed a "zone of opportunity" throughout the entire industry of providing necessary feedback on queries and problems. This would seem to indicate that either Banks in general do not provide the necessary feedback on queries and problems or the Banking Industry in general has the same issue of clients possibly not following the correct channels of communication. It is common practice that a client will come across or be helped by an employee and whenever there is a problem or issue then that particular employee is inadvertently contacted first irrespective of the nature of the complaint and the fact that that particular employee may not be able to assist in the first instance.

According to a media release in the Sunday Times (2007), Nedbank has recently launched its AskOnce Campaign where that Bank has "given its commitment that the person you speak to will take responsibility for your request and ensure that the matter gets resolved". This campaign was launched by Nedbank as they realise that it is frustrating to be "pushed from pillar" to post to get a response.

It is an interesting response to a problem that is considered widespread in Banking.

With respect to the link "employee satisfaction drives loyalty", Sellers (1990) graphically illustrated the positive correlation between customer retention and employee retention where higher profits are recorded.

Subsequent to the interviews conducted with clients and staff, and during the write up of this research project, there has been a significant turnover of staff at Standard Bank Properties in Cape Town with nine staff members resigning within a 12 month period.

The underlying reason for staff leaving was ultimately a decrease in employee satisfaction. It is not within the scope of the paper to explore the multitude of possible reasons for this except to say based on discussions with these staff members that on the face of it reasons would have included, anticipated remuneration versus actual remuneration and lack of further promotions (in view of the flat structure).

Interestingly, only one was considered by management to be a key staff member with share options and other performance incentives offered in an attempt to secure his services.

Although not measured, there can be little doubt based on the various theories espoused during the literature review that customer satisfaction was affected by this mass exodus (albeit over a few months) of customer and non-customer facing employees. For instance to quantify it, the Heskett *et al.* (1994) study of a property and insurance company found that when a service worker left the company, customer satisfaction levels dropped sharply from 75% to 55%.

Furthermore the Bendapudi *et al.* (2001) study found three consistent customer concerns when a key contact employee left and some of these concerns were raised by clients as follows: -

> "For example when one of the Property Finance Consultants moved across to the Joint Ventures section either he made a point of meeting me and explaining that he was going across to a new section and that he enjoyed working with me and that he hoped we could maybe do a joint venture at some point in the future. So that was the kind of right way to handle it. And now I would like to think that if the Structured Finance Team Leader had to leave for whatever reason that I wouldn't simply call in only be told that he had left" – (Customer 3, 2006).

"We would consider switching if the Structured Finance Team Leader left (nervous chuckle). Yes, jokes aside unless there was a smooth transition and provided of course the new employee was up to scratch" – (Customer 1, 2006).

The final link in the Service Profit Chain 'internal quality drives employee satisfaction' may partly explain the mass exodus of staff highlighted above other than the possible explanations of remuneration and promotions offered above.

Heskett *at el.* (1994) held that it was internal quality that was the main driver of employee satisfaction where internal quality is measured by the feelings that employees have toward their jobs, colleagues and company. Heskett *et al.* (1994) data, although preliminary, pointed out that employee's value most the ability and authority of service workers to achieve results for customers whilst internal quality is also characterised by the attitudes that people have toward one another and the way people serve each other inside the organisation.

From the numerous staff interviews conducted, it would appear on the face of it that there was an underlying attitude between the bond administration team and the account officers where a degree of friction was observed: -

"It is the same thing with bond administration, no matter how urgent I tell them a payment is, they will not listen to me but only to the Structured Finance Team Leader" – (Accounts officer 2, 2006).

"I feel maybe the account analysts can deal a little bit more with problems, which they don't at the moment" – (Bond administration officer 1, 2006).

Although there would appear to be an underlying tension at the workplace between the administration and sales orientated account officers, this would seem to appear to be a role or job tension and not a social one.

The general feeling within the office environment was one of pride and general goodwill with many office friendships continued beyond office hours. A staff member summed up this overall relationship well with a comment "(what I like about my job) is probably my colleagues I work with and the atmosphere" – (Accounts officer 1, 2006).

5.3.2 Examining the shortcomings of the Service Profit Chain

In the literature review, several criticisms or shortcomings of the Service Profit Chain were highlighted.

The central argument of the Service Profit Chain is that customers who purchase steadily over time are cheaper to serve, less price sensitive and effective marketers for the company. These three claims were investigated to see whether the detractors from the Service Profit Chain argument had merit in the case of Standard Bank Properties.

5.3.2.1 It costs less to serve loyal customers

Reinartz *et al.* (2002) argued that it was not because client's upfront costs were amortised over the duration of the relationship with a service provider that made loyal clients less costly to service but a more likely argument that these loyal clients would be familiar with the company's transaction processes and thus the company would find it cheaper to deal with them.

However, Reinartz *et al.* (2002) research of 4 companies' could not support this (decreasing servicing costs over time argument) and instead were surprised by the weak correlation between customer loyalty and lower costs. It was suggested that the link between loyalty and lower costs was industry specific.

What about the case with Standard Bank Properties?

From the numerous staff interviews conducted, there was a mixed reaction as to whether repeat clients (read loyal customers as customers in the property finance industry do not have to finance each building through the same financier and thus if they continually use Standard Bank Properties as their preferred financier, then it would be a realistic assumption to refer to them as loyal customers) were easier to handle and thus cheaper to serve. By cheaper, we are talking from a time management perspective and also from the point of view of less paperwork to process a loan application.

The general response from the Property Finance Consultants who are the front line and client facing interface of the unit was that repeat clients were generally easier to serve with the following comments relevant: -

"...with respect to the demanding aspect, repeat clients know what the Banks want as us Banks or property financiers all need the same type of information to process a deal. So on a balance of probability I'd say repeat clients are less demanding and easier to serve" – (Structured Finance Team Leader 1, 2006).

"Repeat clients are definitely easier to handle as they know the system and are familiar with how slow things are and what it takes to get something through the system" – (Property Finance Consultant 1, 2006).

"On the face of it, I would say that repeat clients would surely be less demanding as they know exactly how the system works and what is required to make a deal work" – (Director 1, 2006).

These customer facing views were generally supported by the supporting staff who gave the following feedback: -

"I think that repeat clients know what to provide but sometimes they just pretend that they don't know" – (Bond administration officer 1, 2006).

"Some once off clients are demanding and again it boils down to the size of the loan but generally speaking it is the repeat client that is more demanding. Even though most of the time the repeat clients do know what information to provide there are a few who you can tell 10 times, give them a checklist or email the requirements and still some even try and tell you how to do your job" – (Accounts Officer 1, 2006).

The general response from client interviews was that they saw themselves in partnership with the Bank with specific roles to play and summed up well in the Customer 3 (2006) interview:

"Well the way I do it is that I don't want the bank to be seen to be doing me a favour by giving me money I see it as a partnership. They lend me money and hopefully I am making money for them as well. Hopefully I make more money than the Bank does! But the point is that it is a partnership and that I must do my side of things just like the Bank has to do its side of things" – (Customer 3, 2006).

This partnership viewpoint was not shared by all clients as per following extract: -

"The Bank has its checklists and paper trails so they should be guided by that. I have a fair idea of what is necessary but always try and buck the system wherever possible" – (Customer 4, 2006).

Thus, although it has not been measured as such, it would appear from the interviews conducted that loyal clients of Standard Bank Properties cost less to service than once off clients. The general consensus is that these repeat clients know what is expected of them (i.e. role script theory perspective) and what they need to provide to facilitate a loan application although some clients do attempt to take short-cuts and act ignorant as to their roles and obligations in the loan application process.

5.3.2.2 Loyal Customer are less price sensitive

The Service Profit Chain argues that customers who stick to one company do so because the cost of switching to another supplier is too high and will therefore be willing to pay higher prices up to a point to avoid making the switch.

However, as was demonstrated by Reinartz *et al.* (2002) in the preceding chapter, loyal customers are potentially more price sensitive than an occasional one.

In the case of Standard Bank Properties the evidence would seem to support Reinartz *et al.* (2002).

This was confirmed by Director 1 (2006) who responded that "... repeat clients are however more sensitive to pricing and this is where our margins are smaller than the typical once-off transactions".

This statement was supported by actual data which is reflected in table 5.1 below: -

	Opening balance	**1 Jan 2006**	**Closing balance**	**31 Dec 2006**
	Actual	**Budget**	**Actual**	**Budget**
Structured	1.98%	1.82%	1.98%	1.92%
CPL	3.15%	3.30%	2.80%	3.30%

Table 5.1: Margins achieved for the year 2006 (Director 1, 2006)

What table one above demonstrates is that the margins achieved on the structured loan book is substantially less than what was achieved on the Commercial Property Loan book. Structured loans are generally repeat clients whereas Commercial Property Loans are generally once off transactions with clients and thus this table serves as a useful guide to the price sensitivity of repeat clients.

This would appear to support the findings of a US high-tech corporate service provider who in 1997 discovered that about half of those customers who made regular purchases for at least two years – and were therefore designated as "loyal" – barely generated a profit whereas half of the most profitable customers were blow-ins buying a great deal in a short period of time before disappearing (Reinartz, *et al.*, 2002).

5.3.2.3 Loyal customers serve as effective marketers

Reinartz *et al.* (2002) held that the link between customer longevity and the propensity to market by word-of-mouth was not that strong.

The results in Standard Bank Properties case would seem to support the view that there is some positive correlation between loyalty and advertising, thus supporting this particular Service Profit Chain claim as can be seen from the extracts from the following staff interviews: -

"I do receive a few approaches from clients who have been referred to us by our existing customer base" – (Structured Finance Team Leader 1, 2006).

"We do, but I am sure we should get more. Maybe we are a bit too thorough in our approach or there is something else that is influencing why we perhaps are not getting more direct referrals?" – (Property Finance Consultant 1, 2006).

"Referral business is not something we have measured per se. But intuitively I think it contributes a material factor to our bottom line" – (Director 1, 2006).

These comments from staff and management are supported in a sense from clients who had the following to say about recommending Standard Bank Properties as a financial services provider: -

> "It is a very difficult thing to recommend to someone to go to Standard Bank Properties. All I would say is that I deal with Standard Bank Properties and I feel that they are very good. I would never say go and see the Structured Finance Team Leader. I would say that this is the guy we deal with and if you want to phone him, phone him, but don't mention me please. I think it is a difficult one though" – (Customer 1, 2006).

"… I have never had a problem so yes I have recommended Standard Bank Properties to my friends" – (Customer 3, 2006).

"Yes I would recommend but only if I knew that the development is feasible and viable from a banking point of view. I have my own reputation with the Bank to uphold" – (Customer 5, 2006).

"You know that it is quite a difficult question (to recommend Standard Bank Properties). It is difficult in the sense not because they are not good, but what happens if what I am recommending is not a good but a bad development. I don't want to sully my name for someone else's benefit or waste the Bank's time" – (Customer 4, 2006).

The common characteristic in these client responses seems to be reluctant on their part to openly canvas Standard Bank Properties if it has the potential or side effect of damaging their own relationship with the business unit.

With the above in mind, it is considered appropriate to discuss the final theme in this research project, namely the concept of Relationship Marketing.

5.4 Relationship Marketing (theme 3)

As discussed in the literature review, marketing's focus as recently as up to the nineteen eighties was on acquiring customers. Formally marketing to existing customers to secure their loyalty was neither a top priority of most businesses nor a research interest of marketing academics.

During the nineties and building on Berry's (1983) definition of relationship marketing of attracting, maintaining, and enhancing customer relationships, Gronroos (1994:9) added the perspectives of non-customer partnerships, mutual benefit, promise keeping, and profitability:

> "Marketing is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involves are met... achieved by a mutual exchange and fulfilment of promises"

This was supported by Mary Jo Bitner who suggested that service relationships are built on promises the service organisation makes to its customers. Dr Bitner (1998) defined three types of promise-related actions that will strengthen customer relationships, namely: -

- The act of making promises to customers.
- The act of enabling promises.
- The act of keeping promises.

The problem however in the Banking industry is that Legislation such as Basel II and traditional principles governing banking practice such as division of duty make it extremely difficult for staff to follow the three pronged action of making, enabling and keeping promises as advocated by Bitner (1995).

This was evident in the staff interviews covering all three facets, namely: -

5.4.1 Inability or unwillingness to make promises

"Yes. I don't make promises. I rather say that I will take it up with so and so and come back. It is a question that I can't keep promises (beyond my control) and that I do not have the capacity to make promises" – (Accounts officer 1, 2006).

"I am always loath to make promises, as you do not have the element of certainty in the delivery process" – (Property Finance Consultant I, 2006).

"We work within a certain framework of constraints and it's about a situation of your knowledge and experience which will only come over time. So it's a question of then being able to assess then and there if a particular deal is doable but at the same time you cannot promise anything" – (Structured Finance Team Leader 1, 2006).

"...even I find that I can't make promises to clients other than 'I promise to do my best'..." – (Director I, 2006).

5.4.2 Prohibitive environment preventing enablement

"Power has been centralised. Employees can't make a decision. If we talk about a pricing issue then that would have to be dealt with myself or the local director. Any credit related issue is centralised, there is no give... its black or white. You get the answer from the person empowered; it's as simple as that" – (Structured Finance Team Leader 1, 2006).

"Well I don't promise anything... because I can't. I am not authorised to. So before I do anything I will first go talk to the administration manager or the credit manager. I first check to see if before I say something if I am allowed to say such a thing" – (Bond administration officer 1, 2006).

"Yes. It's always been like that. It's the way the procedural manual is, the way banking has been done over the years" – (Bond administration officer 1, 2006).

"We are mostly pawns. We try to re-assure clients and we hate giving our names as they hold us accountable" – (Accounts officer 1, 2006).

> "I think the reason for this observation (lack of empowerment to make promises) is because it is the nature of the business we are in because we are governed by certain things like Basel II in terms of how you run a bank and how you empower and which ones you empower. Now the obvious one is that you cannot empower a front line sales staff member with mandates to lend and change conditions and approve facilities as that has to be done in another area. It is division of duty principle, proper procedure and a paper trail. Yes, to say that proper procedure was followed so it is very frustrating" – (Director 1, 2006).

This prohibitive environment has worsened over the past few years with the introduction of legislation and this was confirmed by the Director of the local business unit who stated: -

"...in fact it's got worse in terms of empowering staff. I mean I just look at my own situation for example I have less power than when I started to make decisions and to make concessions to clients" – (Director 1, 2006).

So it would appear that the inherent nature of the banking industry would seem to make the act of promises restricted to the more mundane activities as evidenced below.

5.4.3 Keeping of promises

"So (the act of keeping promises) it is left more to the routine things such as undertaking to fax a client a statement – the more routine things" – (Bond administration officer 1, 2006).

"Yes, I think you definitely try and be as honest as you can with the clients without offending them or giving them false expectations. You don't want to give them false hope and they then hold you accountable" – (Accounts officer 1, 2006).

"...and even I find that I can't make promises to clients other than 'I promise to do my best' and set a timeframe upon which you will respond" – (Director 1, 2006).

The above extracts from staff interviews would seem to indicate that Standard Bank Properties is in a very difficult position of trying to individualise customers in a relationship based paradigm whilst faced with legislative restrictions making the act of making and keeping promises inherently difficult.

It thus falls to reason because of legislation covering all Banks that the Banking Sector in general is on a level playing field with respect to the promise concept.

However, two observations from relatively senior employees at Standard Bank Properties need to be reflected on. The first was the introduction of the concept of selling oneself as a competent individual:

"I am always loath to make promises...so a lot of your relationship building revolves around the ability to sell yourself as a person. Bearing in mind that we offer a commodity, it is the service that differentiates us from our competitors...your client wants to know that if there is any problem that you are there to sort it out for them" – (Property Finance Consultant 1, 2006).

The second concept was the ability to build up trust within internal stakeholders:

"But it is then also a question about internal relationships, about trust within the internal organisation. So it's important to build a relationship of trust within internal stakeholders" – (Structured Finance Team Leader 1, 2006).

The reason why these two observations were found to be particular striking as they are both relationship-based observations and are central to Beatty et al's (1996) relationship formation model introduced in the literature review. It is furthermore of relevance in view of the fact that the former one is an external or client centred observation whereas the latter observation is an internally focussed one but equally important for the individual employee to in turn fulfil and develop his relationship with his client.

5.4.4 The Marketing Continuum

In the literature review the concept of referring to marketing along a marketing strategy continuum was introduced. Along this continuum, relationship marketing is placed on one end with a general focus on building relationships whilst on the other end is transaction marketing where the focus of marketing is on one transaction at a time.

Standard Bank Properties could be viewed along such a continuum with the Commercial Property Loan book typically once off financing transactions where an individual purchases the commercial building from where he conducts his business, to the Structured Finance Book which typically has repeat clients or investors who purchase multiple commercial properties within portfolios and / or residential / commercial developments.

It was seen in the literature review, because of the lack of personal contacts and their focus on mass markets, firms pursuing a transaction-type strategy will probably benefit most from a traditional marketing mix approach where the 4P model will give guidance in most cases.

In transaction marketing, there is not much more than the core product, sometimes image or its brands, which keeps the customer attached to the seller. When a competitor introduces a similar product, price usually becomes an issue. Accordingly a firm that offers a lower price or better terms is a dangerous competitor, because in transaction marketing the price sensitivity of customers is often high. For instance, a cheque account is a product that is uniform across the banking sector. But assume what would happen to the industry if a Bank introduced a free cheque account with 'no strings attached'. The key differentiator would then become price. It is acknowledged however that even if a Bank did introduce a substantially cheaper cheque account, most people still have a relationship with their bankers and it is thus the "degree" of the importance placed on the transaction or relationship that is likely to become the overriding trigger of what a client would do in a scenario where a new entrant introduced free or substantially cheaper banking.

This was seen in table one above where the margins for the Commercial Property Loan book although significantly higher than the relationship based Structured Book, came under severe pressure falling from 3.15% to 2.80% during the course of the year. This was largely the aggressive book building exercise that Nedbank undertook during that particular year (Director 1, 2006).

However, for a firm applying a relationship strategy the marketing mix often becomes too restrictive as the most important customer contacts from a marketing success point of view are the ones outside the realm of the marketing mix and the marketing specialists. The customer contacts with people, technology and systems may determine whether he will continue doing business with a given firm or not.

It was demonstrated in the literature review that a firm pursuing a relationship marketing strategy created more value for its customers than that which is provided by the core product alone and thus develops tighter ties with its customers. These ties may be technological, knowledge related or information related or social in nature and if well handled provide customers with added value thus relationship marketing makes customers less price sensitive.

With respect to the Structured Book which one can consider a relationship based business within a business, its margin remained unchanged despite the transaction based Commercial Property Loan books margins coming under pressure. The consistency of the Structured Books interest rate margins at a consistent 1.98% is understandable as repeat clients generally tend to receive the same interest rate as per their previous deals.

This is supported by the Structured Finance Team Leader 1 (2006) who stated "No, I think it is a question of whether it is a fair deal on the table. You give a bit, they give a bit. But once you have set a level, you have set a precedent and they (being repeat clients) will expect that."

The argument then of being able to charge higher prices to loyal customers was largely discounted by the findings of the Reinartz *et al.* (2002) study and from the analysis of the interest rate margins of the Commercial Property Loan book versus the Structured Finance Book in Table 1 above.

The final concept introduced in the literature review was the Beatty et al (1996) relationship based formation model. According to the findings of the Abratt *et al.* (1999) study, it was demonstrated that the Beatty *et al.* (1996) model, originally developed for the retail industry, can also be applied to the private banking environment in South Africa.

As highlighted in the literature review, in view of the similarity between the Private Bank offering of Standard Bank and the Structured Finance unit at Standard Bank Properties (in terms of the relationship based approach), the Beatty *et al.* (1996) model should be applicable to relationship formation at Standard Bank Properties.

5.4.5 Beatty *et al.* (1996) relationship formation model

Beatty *et al.* (1996) developed a relationship formation model which outlined four major steps in the relationship formation process.

5.4.5.1 Facilitating conditions

Here top management, employee customer orientation and relationship-motivated customers were three factors identified by Beatty *et al.* (1996) which facilitate the development of long-term customer relationships.

Top management at Standard Bank recognised the importance of relationships with its customer base and in line with Beatty *et al.* (1996) model introduced several facilitating conditions including relationship management behavioural targets in managerial performance appraisals and value added performance based incentives for non managerial staff.

With respect to managerial performance appraisals at Standard Bank Properties, the behavioural score contributed 40% to the overall performance rating and within the behavioural score was a section on Relationship Management (Joubert, 2006). An extract from the performance appraisal demonstrates top management's view and commitment to relationship formation: -

1. "Demonstrates and maintains a sound knowledge of client profiles in the portfolio through regular contact, probing and on-site visit
2. Maintains a visible, active and credible presence in the local property market. Has a good network of key players in the local property market and uses this network for business growth opportunities
3. Actively builds and maintains an internal network with stakeholders in Standard Bank Properties"

With respect to non-managers, although the concept of relationship management was not scored in their individual performance appraisals, the Bank introduced the valued added incentive bonus.

The remaining facilitating condition of relationship-motivated customers was evident throughout the client interviews as already highlighted in the body of this chapter.

5.4.5.2 Relationship formation

According to Beatty *et al.* (1996) in the early stages of the relationship, service which exceeded the customer's expectations affected the relationship development process positively whilst team work between sales associates and various departments enhanced the relationships with clients.

The area of concern at Standard Bank Properties is the team work aspect as noted in several staff interviews including: -

"Sometimes I think it tends to be someone else's problem. I feel that maybe the account analysts can deal a little bit more with problems, which they don't at the moment" – (Bond administration officer 1, 2006).

The problem seems to stem from a shortage of staff and is exacerbated by the exodus of staff and the business units' difficulty to replace them and fill the new posts created.

5.4.5.3 Relationship enhancement

According to Beatty *et al.* (1996) this occurs when customers perceive trust, friendship and functionality on a sustained basis throughout the relationship.

It was evident from the various client interviews conducted that this aspect of the model is well in place. The trust and friendship may have been assisted by the fact that the commercial property market is a relatively small industry and although a commodity type financing is assisted by relationships whether formal or social in nature.

5.4.5.4 Relationship outcomes

According to Beatty *et al.* (1996) the customer becomes pleased with and committed to a relationship and increases pressure on the employee to be even more committed to the client than ever. The implication is that relationship selling entails ongoing one-on-one client-consultant relationships and this works better in a service environment in which customers want personalised service.

This pressure on the employee has largely resulted in two strategic decisions of the business unit. Firstly, the unit appointed the business development manager who picks up client satisfaction / dissatisfaction via her extensive network and which is in turn fed to management.

The second strategic decision is the creation of several new posts in the Cape Town office, namely that of a legal representative to check the validity of the Bank's security documents and the creation of several support roles in the form of additional account officers and bond administration officers. These additional non-client facing appointments were to ease the burden of existing staff and free up the marketing staff to concentrate on sales. This should lead to improved turnaround times of new loan applications and the resolution of queries.

5.5 Conclusion

In the introduction to the Chapter, the differences between goods marketing and services marketing was highlighted.

With respect to the intangibility of services marketing, it was apparent that trust between service provider and customer was equally important to both parties and that such concept provides the foundation from which relationship based transactions grow and develop over time. However, the turnover of staff and the creation of new posts at the business unit would lead to a situation where new relationships and trust would need to be created, built and developed.

With respect to heterogeneity, it was evident that there is a key reliance on a few individuals who happen to be the senior members of staff. Although there is a key reliance on these staff members, this does not necessarily imply that the business unit would not be able to function without them. What featured strongly in the findings was the behaviour in many clients in first and foremost contacting these key individuals rather than routing their queries to the appropriate individuals who in the background act in the all important support roles. It is possibly more of an issue to change the paradigms of the client's and these key personnel so that non material issues are routed to the appropriate supporting roles like bond administration or the account officers.

With respect to the production and consumption of services, the slow turnaround times were identified by clients as a frustrating factor in the overall service experience.

The three central themes of the paper highlighted several problem areas and issues with the first being the high staff turnover at the business unit. It was proposed that the 'influx' of new staff members could create role script issues and place the remaining staff members under pressure to maintain existing customer service levels as well as to transfer the requisite skills and culture to the new comers. The transfer of skills to new employees would be hampered by the lack of an internal skill transfer program at the business unit.

These problems seem to have support in the Research Surveys (2005) study which highlighted specific areas of concern at the business unit including making of errors, promptness in answering telephone calls and poor problem resolution. Several of these issues were also identified in the countrywide banking survey, the Synovate South African Satisfaction Index Banking Study (Barnhoorn, 2005).

Another area of concern in the service encounter was the process of the identification of individuals and legal entities in terms of FICA. It is apparent that the process initially was not well thought through. FICA is not 'going away' and accordingly new ideas to its implementation need to be investigated.

A further area of concern to all levels of employees from non managerial to the director is the lack of empowerment. This is however not unique to the business unit but an industry wide phenomena and largely a result of South Africa following International best practice in the form of BASEL II. Thus, although all Financial Institutions are on the same 'playing field', there may be areas where the business unit could re-structure its processes and workflow to make employees more empowered either individually or within teams to render exceptional service and to compensate for the lack of empowerment or to improve empowerment of the business unit as a whole (by for instance acting in a team).

A further problem area is the lack of a formal customer complaint handling system at the business unit. Such mechanism is useful not only in the ongoing monitoring of the service encounter (one could rectify problems and turn the event into a customer satisfaction victory) but also in the termination of the service encounter (one could prevent loss of clients by addressing issues and compensating client). However, more importantly having a recognised and formal customer complaint handling system is a necessity in terms of new legislation such as FAIS and BASEL II.

The final chapter will attempt to address some of these issues.

Chapter 6:

Recommendations

6.1 Introduction

The problems and / or issues identified in Chapter 5 were as follows: -

1. Problems associated with a high staff turnover and the induction of new employees into the business unit
2. Problems with the initial and ongoing process revolving around the identification of clients in terms of FICA
3. Lack of a formal customer complaint handling system at the business unit.
4. Lack of empowerment at all levels of the business unit
5. Slow turnaround times
6. Reliance on key staff

The rest of the Chapter will be devoted to making recommendations to address these problems and or issues.

This research project has taken the view of Krishan *et al.* (1999) that the financial services industry falls somewhere in between manufacturing industries, which offer tangible products and full-service industries and as such is characterised by the concepts of intangibility, perishability, simultaneous production and consumption and heterogeneity. Standard Bank Properties operating within the financial services industry is no exception.

Several observations have been made during the course of this research project and several recommendations will now be introduced in this chapter.

6.2 New employees and the service encounter

The service encounter whether between employee and customer or between employee and employee is a reciprocal and ongoing process with each party having a role to fulfil.

The business unit has witnessed a substantial exodus of staff whilst simultaneously having several new roles to fill such as additional support staff and a new legal role. The implication of this is that customer satisfaction could be negatively affected by the performance of new staff as well as the performance of the remaining staff members who will be under pressure to initially keep service levels consistent.

Some of these potential negative experiences by customers have already been documented in detailed surveys such as the Research Surveys (2005) findings which highlighted three areas showing the largest decrease in performance at the business unit over the preceding year namely: -

1. Lack of promptness in answering telephones,
2. Making of error and mistakes, and
3. Requesting the incorrect information from clients.

Recommendations to improve these shortfalls in service delivery include: -

1. Having a policy to have telephone calls answered within a certain number of rings by setting caller groups where a phone won't ring more than 4 times without being picked up by someone.
2. Implementing an internal skills transfer or mentorship program between 'old' and 'new' employees in an effort to reduce the making of errors and mistakes. Alternatively but probably less successful would be the use of external third party training vendors who as indicated in the previous chapter are better geared for specific areas such as an Excel computer course. It was evidenced in the interviews that the Bank actively supports formal training (when requested by an employee) and receives Department of Trade and Industry rebates in any event for these formal courses.
3. Having a clear guideline for staff of what information and supporting documents are needed to process an application for the variety of legal entities that seek finance. For instance, if a Close Corporation approached the Bank for finance, then the employee needs to understand that he must call for a Founding Statement and not the Articles and Memorandum of Association for instance. An easy guide would assist new employees

especially. Another area where clear guidelines are needed is in the identification process involving FICA. This aspect is discussed below.

The service encounter between employees, and more specifically between the account officers of the Property Finance Consultants and the bond administration officers, was seen to be a little strained even prior to the exodus of staff mentioned above. It was further observed that this tension was a job specific one and not social or personality issues. The implication going forward is that the position may not necessarily improve in the near term as the new staff will be less experienced and uncertain of their daily tasks and responsibilities. On the other hand, the influx of new staff could also present the business unit with a unique opportunity to clarify the roles and lay down new roles.

6.3 FICA

The problems initially experienced with the FICA process were highlighted with concerns raised by staff and customers alike. These FICA related concerns could have contributed to the overall decline in customer satisfaction as measured by the Synovate South African Satisfaction Index Banking Study (Barnhoorn, 2005).

When this Act was introduced there was a responsibility on the banks to identify their customers within a limited time frame. Initially, the share volume of clients and the uncertainty in which source documents were needed most probably contributed to the 'chaotic' manner in which the banks approached this task.

The initial identification process is over and therefore one would think that this identification process should no longer have a material impact on customer satisfaction in the years ahead.

The problem however for the business unit since the initial introduction of the Act is that clients continue to perceive it as a major 'hassle factor'. What is happening in practice is that it is frequently the case that new clients are existing clients of the greater Bank and hence they would have already been identified in terms of the FICA identification process with that other business unit within the Bank. There is however an element of distrust between the business units as to whether the client has in fact been identified correctly in terms of legislation. What tends to happen then is that the various business units simply call for all the supporting documents again and re-identify the client in terms of their interpretation of the Act. The business unit then experiences further complaints from these existing clients of the Bank as they quite rightly have already been identified.

There are calls to have this identification process centralised and for there to be a team that is dedicated to the compliance of the Act. Thus, for example if a client approaches any business unit of the Bank, that customer should be able to give an identification number or a company registration number to that business unit who in turn could confirm with this dedicated team as to whether that party has been probably identified. The centralised team could then issue inter business unit FICA certificates confirming this and these could be placed in the customers file.

6.4 Customer Complain Handling System and service recovery

As noted in the preceding chapters the importance of service recovery cannot be understated and is recognised by the Bank itself as an opportunity for customers to express their concerns and also share compliments concerning service highlights.

The business unit does not have a formal customer complaint handling system which is an important part of the service recovery process but rather addresses these issues as they arise via line management (the property finance consultants) and the use of the new business development manager. It is an informal system that has several shortfalls in the sense that not every client is aware of the informal feedback mechanism through the new business development manager and one can also read the fact that this individual is weighted or measured more towards new business than service recovery. In addition clients who have a grievance may not wish to discuss the issue with the property finance consultants but rather with someone perceived to be in higher authority or someone with the authority and ability to make "right".

However, the implication to the business unit if these recommendations are not followed through and the shortfalls in performance persist, is that without an effective and formal service recovery process, how do clients address and voice their concerns and / or complaints (without a formal system in place)?

A further reason why the business unit needs to have a formal system in place is in terms of newly introduced legislation such as FAIS and the National Credit Act. If a dispute reaches the banking adjudicator and it is held that the business unit had no formal system in place, the business unit would be hard pressed to present its case before such regulatory body.

Another important reason why the business unit should introduce a formal system is to have the opportunity to engage with clients when they decide to terminate their relationship with the Bank. Termination may result because of service failure of the business unit and as a result of which the client goes to a competitor bank or alternatively a customer will terminate the relationship when he sells the property that is bonded to the business unit.

In the case where the client terminates the relationship to move to another bank, a formal complaint system may identify this intent earlier on in the process and give the bank the opportunity to exercise some service recovery with the intention of keeping the client on the 'books' of the business unit.

The recommendation is such that a formal customer complaint handling system needs to be implemented as it is generally accepted that great service recovery cannot compensate for poor service delivery but it can go a long way towards limiting the damage.

In order to achieve that, Boshoff (1997) argues that the service firm's customer complaint handling system must be geared to move rapidly and ensure that the customer is not financially disadvantaged due to the poor service delivery. It is hence argued that the importance of speed implies that front-line staff should be involved in the process especially since Boshoff's findings reveal that it is not overly important at what organisational level the person performing the service recovery is.

Furlong (1993, in Boshoff and Leong, 1998:42) offers the following guidelines to empowerment to ensure that service failure problems are solved speedily: -

1) Top management's genuine commitment is essential;
2) Understand that middle management and particularly many supervisors will not react favourably to "their" jobs being diminished;
3) Accept that front-line staff know best when it comes to customer needs and give them the opportunity to contribute;
4) Use staff input and, if not, provide feedback. Without feedback, staff will not see the purpose of it all and will withdraw;
5) Remove any barriers that could restrict staff ingenuity;
6) Recognise good performance but do not punish mistakes.

With respect to the likely costs involved in implementing a formal customer complaint handling system, it is estimated that these would not be onerous considering the importance that is placed on this element of the service recovery program. Although an American Study, Patton (2002) estimates that the training costs for personal bankers is $289.73 and branch managers training costs of $312.81.

This merely highlights the relatively low cost of training in relation to potential income not lost through poor service recovery efforts. Training costs would be furthermore largely carried out in-house at the Bank's training Head Quarters in Morningside, Johannesburg.

6.5 Empowerment

The empowerment concerns raised and noted in the preceding chapters is a problem area for the Banks in general but generally unavoidable as per the legislation specific to the financial services industry such as FAIS and BASEL II.

It was evident that some staff felt that they were mostly pawns who did not want to give their names to customers for fear of reprisals later on. As a result, staff could seldom follow through with Bitners (1998) three 'pronged approach' of making, enabling and keeping of promises.

Although the issue of empowerment may be common within the sector, the business unit could become more proactive in the implementation of an internal skills transfer program. Such a program would be of assistance not only to existing staff but of particular importance to new staff at the business unit. These programmes could be implemented in a group setting. For instance, once a month a particular section of the business could be discussed on a round table basis encouraging participation and sharing of knowledge or alternatively the programme could run on an individual on-going mentoring type basis.

For either event to be successful, the business unit needs to appoint a "champion" to drive the process and achieve critical momentum thus ensuring further buy-in from staff.

Another way to improve empowerment in a broad and far reaching way is discussed below in the section 'changing the structure of the business unit'.

6.6 Turnaround times

Turnaround times were a further general area of concern expressed by staff and customers alike which will continue to negatively impact the customer's experience of the business unit.

The business unit identified this as a concern some time ago and is at the time of writing this research project in the process of creating several new posts including that of a legal person to improve the turnaround times of the legal issues such as the issuing of the letter of grant and the checking of security documentation once signed by clients.

Other than the creation of the new legal role, an appropriate skills transfer program as identified above is also critical in assisting the business unit improve turnaround times. For instance, the Credit Department of Standard Bank Properties could become more involved in giving workshops to the property finance consultants in certain areas where there is believed to be a shortfall of knowledge. An example is appropriate: -

> When the business unit finances a commercial property development such as an office block that is going to be sold off on a sectional title scheme (each office could be bought by the person who occupies it for instance), the Bank would undertake a pre-sale audit. This audit would entail the Bank going

through the agreements to ensure that they were completed correctly and constituted a proper and legally binding sale. The function is normally performed by credit analysts (once the deal has been approved and pending registration of the Bank's security) but by sharing the information and knowledge with the property finance consultants, any potential problems could become evident sooner in the process. In this way, problems identified could be rectified before an application is even made to the credit analysts and if a major issue is identified early enough, problems down the line could be largely eliminated.

Other areas where turnaround times need to improve are in cases where the business unit is resolving customer queries. Again, in order to effect improvement it is recommended that an internal skill transfer program be implemented and championed by a relatively senior member of staff. A further way of improving turnaround times in the event of client dissatisfaction is with the formal implementation of a complaint and customer resolution system as identified above.

The final way in which turnaround times could be substantially reduced is with the introduction of teams as highlighted in the section 'changing the structure of the business unit' discussed further below.

6.7 Reliance on key staff

The dangers of relying on key staff have been highlighted in the literature review and in the case of the business unit there is strong evidence from the staff and customer interviews to suggest that this is a potential problem area.

During the course of 2001 the assistant General Manager of Standard Bank Properties left the employ of Standard Bank to assume the position of General Manager at ABSA Commercial Property Finance. A significant number of key employees from Standard Bank Properties in Cape Town and Johannesburg were offered positions at ABSA and a large proportion (in excess of 20 employees) left the services of Standard Bank Properties. The employees who were approached but did not leave Standard Bank stayed primarily as a result of restraint of trade payments and bonus payments offered by Standard Bank Properties.

Standard Bank Properties would appear to be particularly vulnerable to the loss of further key personnel especially in light of the recent exodus of staff. It could thus be argued that the remaining key staff are particularly important to the sustained success of the business unit.

Recommendations to mitigate against the possible loss of these employees and their intellectual capital is to actively engage in skills and learnership transfer programmes for the benefit of new staff as discussed above.

Alternative recourse available to management includes the use of monetary means via further restraint of trade payments and the issuing of Standard Bank share options to employees considered vital to the ongoing success of the business unit.

Other than the threat of losing intellectual capital as described above, there is a reliance on key staff by customers as it would appear from the interviews conducted that customers contact a specific individual irrespective of the nature of the query. Thus if a client is seeking a statement, the key staff member (from the clients perspective) would be contacted with such a request. These key members of staff identified are all client facing individuals and invariably out of the office so they will most probably only be in a position to act on these queries when they get back to the office. They in turn would then request one of the support staff to provide or resolve the particular query.

If the customer had contacted the appropriate support staff directly, the turnaround times to resolve their queries would most probably improve and importantly they would also be exposed to different members of staff. This could potentially reduce the threat of customers going to another financial institution if one of these key members of staff had to leave the employ of the business unit. It is thus recommended that customers need to be advised as early in the 'relationship' with the business unit as possible, that queries of a general nature need to be routed through the support staff. In this way by making the customer contact the support staff direct, it is hoped that new relationships can be established between customers and support staff.

As stated in Chapter 2, the business unit has grown exponentially as demonstrated by the number of employees increasing from 13 in 2000 to 27 with a further 4 posts in the process of being filled by 2005/6. In addition, the size of its book and client base had shown similar degrees of exponential growth.

A critical question at this juncture needs to be asked: "is the business unit structured correctly to best service it's existing and future customers?"

This leads to the final and far reaching recommendation of changing the structure of the business unit.

6.8 Changing the Structure of the business unit

A new and potentially far reaching recommendation would be to consider the way the office is structured specifically with respect to the bond administration officers and the account officers of the property finance consultants. Currently, these two sets of employees follow a separate performance appraisal system with their own set of key performance areas and are essentially in two distinct camps each with management in control of their respective day to day operations. Thus, the bond administration officers would report to the Bond Administration Manager and the account officers to the various property finance consultants whom they support on a day to day basis. The problem however is that the client is not always at the centre of the Bank's thinking. A practical example illustrates this: -

> A new deal is approved and goes through the system and reaches the desk of a bond administration officer. A client's identity document is not attached in the information pack. The bond administration officer rejects the deal and hands the information pack back to the accounts officer in order for him to obtain the necessary document. The bond administration officer is acting according to his procedure and role. The accounts officer in turn may be on sick leave or busy with other matters and the provisioning of a simple matter such as an identity document could take several days. If the application made by the client is an 'offer to purchase' one, the buyer has a specific time frame to issue guarantees to the seller. A simple issue such as highlighted above could place the customer in breach of contract making the deed of sale null and void.

An alternative approach would be for the sales and administration function to act in collaborative teams and for their individual key performance areas to be re-aligned with one another. In this case one would have sales orientated employees (the property finance consultants and account officers) and the non sales orientated employees (the bond administration officers) act in teams for the common good of the client. So in the case above, although the bond administration officer was well within rights to hand the file back, he could have realised that the client had another deal in another legal entity for instance and could have taken a copy of the required identity document from another file without needing to give the file back to the accounts officer.

The proposed new set up could include a number of teams with each property finance consultant as a team leader with members of the "team" including an accounts officer and a bond administration officer. The overall team leader of the property finance consultants would still play a strategic and management role as all property finance consultants (with their respective teams) would continue to report to him. Instead of the bond administration officers reporting to the bond administration manager they would now report to the property finance consultant. The independence or rather the compliance function that administration largely fulfils (checking of legal documents, checking of pre-sale agreements etc) would still be in place as the bond administration officer would still be required to fulfil these roles. However, the bond administration officer would now more likely take a "lets try and make this work" approach as opposed to "we can't accept this document" approach. The administration head would still be responsible for the compliance of documentation submitted to him by the bond administration officers which is prudent and accepted banking practice.

It is a subtle change in paradigm but a customer centric one.

This proposal (to re-align the roles and structure) would assist the business unit in addressing several other areas of concern raised by customers and staff in the preceding chapters namely:

- **Customer complaint handling system**
  The establishment of a formal system is the catalyst whilst the establishment of teams could in the first instance reduce the number of customer complaints and secondly assist the business unit resolve issues that do get voiced through the formal complaint system.
- **Empowerment**
  The creation of several small teams could assist internal skills transfer programmes as members of these teams would work in close collaboration with key result areas re-aligned. This re-alignment would lead to a common goal (of say being the best financier of commercial and industrial property finance in South Africa) and further motivation for sharing of skills and knowledge within these teams.
- **Turnaround times**
  The example of the provisioning of the identity document above illustrated this point.
- **Reliance on key staff**
  The creation of teams and sharing of knowledge and empowerment could assist the business unit in addressing the issue of having an over-reliance on a few key staff members. The formation of small teams provides fertile ground for employees to move through the 'ranks'. It could be quite conceivable for a bond administration officer to become suitably skilled and equipped to become an accounts officer and then to a more sales orientated property finance consultant.

6.9 Overview

The case study has revealed several areas of concern namely: new employees and the service encounter, issues pertaining to FICA, lack of a formal customer complaint handling system, lack of empowerment at all levels of the business unit, slow turnaround times and reliance on key staff.

These shortfalls were initially identified in the literature review and confirmed in the numerous customer and staff interviews and supported by the findings of several independent surveys.

The situation that the business unit finds itself in is very similar in a way to South Africa's much debated policy with respect to its exchange control policy. Some commentators call for a "big bang" approach where all remaining exchange controls are abolished to a more "gradual relaxing or easing" approach, which is and remains the favoured approach of the authorities.

Similarly to this dilemma for the South African authorities, Standard Bank Properties has the potential to follow a piecemeal approach to the recommendations above or alternatively the "big bang" approach of implementing the introduction of small teams and changing the very nature of its business operations.

6.10 Suggestions for further research

Three areas of further research are recommended and this includes: -

- The establishment of a formal customer complaint handling system

Standard Bank Properties needs to research the best practices of the business units within the Bank who have successfully adopted and implemented a formal customer complaint handling system. This should be undertaken under the leadership of the risk consultant of the business unit.

- The streamlining of the identification process in terms of FICA;

Standard Bank Properties needs to undertake a thorough analysis of the FICA identification process by again considering the best practices of the Bank.

- The recommendation to change the structure of the business unit.

The potentially destabilising "big bang" approach of introducing small teams which will in effect change the operating nature of the business unit needs to be carefully considered. The business unit is relatively autonomous and successful unit in its own right and there would be resistance to introduce wholesale changes. It is thus recommended that a pilot project be introduced in one of the smaller regional offices to determine the success or otherwise of introducing such a radical change. If the pilot project is successful then a countrywide roll-out could be implemented.

The reasons for suggesting these three areas are because of the critical importance that each plays in the initial and on-going service encounter with the business unit whilst two of these areas are also fundamentally important to the Bank in terms of its statuary obligations as a financial services provider.

6.11 Limitations of the Research

The first limitation of this paper is its specificity. It is limited to the research undertaken for a regional office of a specific business unit within a major South African banking group and as such its interpretations and associated implications and recommendations are specific to this case study.

This is however not to say that the results and findings could not be generalised to other financial institutions. Yin (1994) argues that case studies, like experiments, are generalisable to theoretical propositions and not to populations or universes. He goes on to argue that the case study, like the experiment, does not represent a "sample" and the investigator's goal is to expand and generalise theories (analytic generalisation) and not to enumerate frequencies (statistical generalisation).

The second limitation could be seen to be the research strategy adopted, namely a case study. There are valid criticisms of the use of this method of research with the primary concerns being that of bias on the part of the investigator and lack of rigour. The writer is aware of these criticisms and made extensive use of Yin's (1994) guidance in the compilation of this case study in an effort to ensure quality and rigour of the research project by using multiple sources of evidence, creating a case study database and maintaining a chain of evidence.

With respect to the use of multiple sources of evidence, the research project included documentation, archival records, participant-observation and interviews.

With respect to the use of a case study database, the writer created a case study database which consisted of a separate collection of the "raw" data or evidentiary base and the report itself in the form of the research project. Yin (1994) argues that every case study project should strive to develop a formal, presentable database, so that, in principle, other investigators can review the evidence directly and not be limited to the written reports. In this manner, a case study database markedly increases the reliability of the entire case study. For the purposes of this research project, the database consisted of four components namely notes, documents, tabular materials and narratives and has been stored in such a manner that other persons, including the investigator, can retrieve them efficiently at some later date.

The final principle to follow to increase the reliability of the information in a case study, is to maintain a chain of evidence. The principle is to allow an external observer – the reader of the case study for example – to follow the derivation of any evidence from initial research questions to ultimate case study conclusions.

--- The end ---

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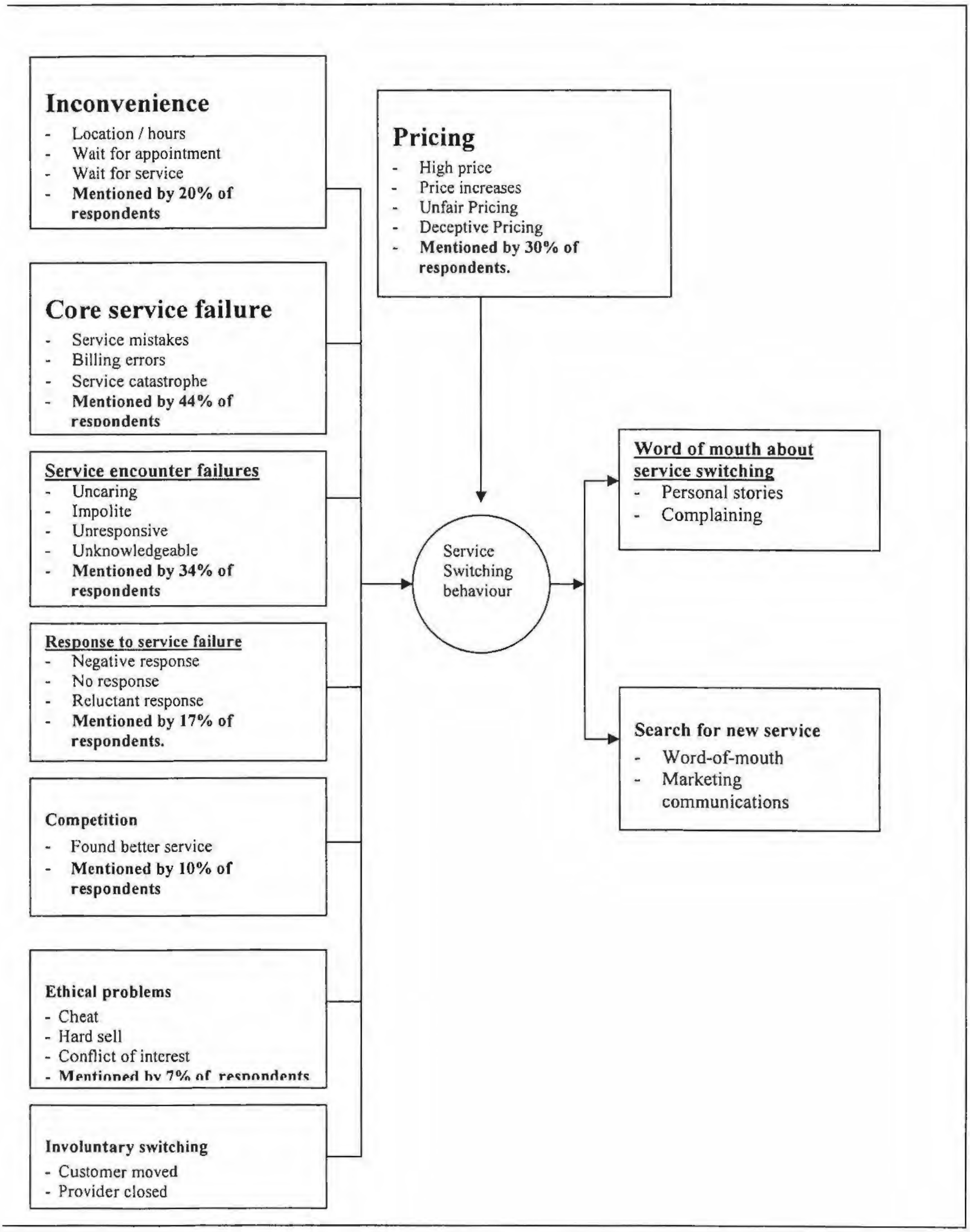

Annexure 1: Customers' Switching Behaviour (Keaveney 1995)