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# Applying Service Performance Guarantees to Reduce Risk Perception in the Purchase and Consumption of Higher Education

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## ABSTRACT

*The intangible nature of education is one contributor to consumers' perception of risk prior to their purchase and consumption. This risk includes: functional risk, financial risk, temporal risk, physical risk, psychological risk and social risk. The presence of these risks often makes consumer evaluation prior to purchase and consumption difficult. Invoking a service guarantee is a platform available to enable higher educational institutions to minimize such risk perception so as to induce purchase. Specifically, service guarantee for higher education entails the application of teaching performance guarantee. This form of guarantee focuses on two important customer groups of higher educational institutions namely, students and faculty members, and focuses only on a specific performance aspect such as instructor's performance. Thus, if students are dissatisfied with an instructor's performance they are entitled to receive their money back. The imposition of such a teaching performance guarantee would implicate instructor's accountability for certain aspects of their performance. It also establishes a mechanism to solicit feedback to better understand why and how instructors fail. Consequently, service performance guarantee creates a high level of customer focus and signals instructors' care towards students.*

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## **Introduction: The Concept of Risk in Higher Education**

Education is a pure service, complex and high in experience or credence attributes. This makes its evaluation prior to purchase and consumption difficult (Kotler, 2000). Consumers pursuing this process often develop expectations of the service that are subjective and based on the needs and desires they wish to fulfil (Gronroos, 1992). Parasuraman et al. (1994, 1988, 1985) postulated that the intangible nature of services makes the management of consumers' expectations extremely important. Furthermore, the delivery of conventional education requires a human performance or deed that is subject to variability in the service provider's motivation, training, ability or mood. This contributes to fluctuation in the education quality delivered (Parasuraman et al., 1991). Collectively, these characteristics heighten perceived risk and uncertainty, especially if consumers are buying for the first time. Perceived risk is the function of two factors, the amount of uncertainty present in the information a consumer has about a product and the extent of the consequences of purchase a consumer perceives (Foxall, Goldsmith and Brown, 1998; Kurtz and Clow, 1998). According to Lovelock and Wright (1999), Kurtz and Clow (1998) and Kaplan, Jacoby and Szybillo (1974), among the different types of risk prevailing in the purchase and usage of service in general and education specifically are:

- a. Functional or performance risk – occurs when the product or service does not perform as desired or does not deliver the benefits promised. For instance, in higher education, students may feel that the curriculum's coverage is inadequate or important facilities are not up to standard.
- b. Financial risk – monetary loss, unexpected costs or overpayment. For instance, tuition fees once paid are neither refundable nor transferable.
- c. Temporal risk – wasting time, consequences of delays. For example, postponement of intake or class commencement.
- d. Physical risk – personal injury or damage to possessions resulting from the purchase. For example, security measures in college premises must minimise this risk.
- e. Psychological risk – personal fears and emotions. For example, ability to cope with the pressure of pursuing higher education.

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- f. Social risk – how others think and react if they do not approve a product/ service choice, which may result in social embarrassment or rejection. For example, what other students think of them.
- g. Sensory risk – unwanted impact on any one of the five senses.

### **Service Guarantee and Risk Studies: Goods and Services**

The presence of these risks in the exchange process creates an uncomfortable feeling among consumers. As such, consumers may attempt to reduce their perceived risk by buying brands with endorsements/ testimonials from consumers, buying well-known brands, buying the more expensive and elaborate services (Loudon and Bitta, 1993) or by seeking additional information about the service (Crocker, 1986). Notwithstanding this, service marketers too must employ a variety of methods to reduce risks perceived during the decision-making process. Foxall, Goldsmith and Brown (1998) suggested typical risk reduction techniques such as guarantees, personal service and detailed instruction (university handbook) be used by higher educational institutions. According to Marmostein, Sarel and Lassar (2001), an increasing number of companies have promoted and implemented service guarantees as a tool to overcome consumers' scepticism associated with purchase. Risk-sensitive customers too can be attracted through service guarantees (Boshoff, 2003). Research has indicated that a service guarantee can be used as a means to make services tangible, reduce consumer's perceived risk associated with service purchase and consumption and enable consumers to exit the purchase if they are unhappy for any length of time (Goodman, Yanovsky and Grimm, 2004; Tax and Brown, 1998; Hart, 1988). Service guarantees are often utilized as an effective tool to maintain superior quality levels and credibly signal high quality (Wirtz, 1998), leading to the formation of a favourable attitude and stronger purchase intention. Furthermore, higher education, which is characterized by high price and risk and the outcome of which has a great personal impact on the customer, has been rather receptive to the offering of service guarantees (Hart, 1998; Maher 1992). This makes it more manageable for higher educational institutions to invoke service guarantees as part of their marketing strategy to induce purchase.

Several studies for goods and services have established the influence of warranty on some risks mentioned above. Shimp and Bearden (1982) examined how warranty quality, warrantor reputation and price interact to affect consumers' judgements of the financial and performance risks associated with new products. They established that high warranty quality led to fewer perceived financial risks but moderate warranty quality was no different from a poor or nonexistent warranty. In addition, warranty quality, warrantor reputation or price does not significantly reduce the perception of performance risks. This implied that consumers are not confident that the product would work but they would be compensated if the product fails. Erevelles (1993) found similar results pertaining to the use of warranties for tennis rackets. This suggests the presence of a relationship between warranties and risks. Innis and Unnava (1991) found a significant relationship between warranty quality and brand name. In the absence of brand information (new brands), a warranty reduces uncertainty thus resulting in a more favourable product evaluation. Hart (1993) argued that a guarantee leads to greater customer feedback which helps a firm in identifying failure points in the service delivery process. Wirtz (1998) found that firms who are first to offer a guarantee in their industry stand a better chance of the guarantee being salient and are better able to attract new customers.

## **Teaching Performance Guarantee for Higher Education**

The employment of service guarantee for goods has been well discussed conceptually in the literature as well as empirically. However, this is not true for services, especially higher education. In fact, Fabien et al. (2003), in their analysis of service guarantee practices among 56 firms found that a minimum commitment is made on the final outcome of their service. This implies that there is plenty of room for effective implementation of service guarantees among service organizations.

Going back to the basics, what exactly is a service guarantee? According to Hays and Hill (2001), Kashyap (2001) and Hart, Schlesinger and Maher (1992), a service guarantee encompasses two promises, namely a statement explaining the service an organization promises to deliver (consumer's expectations), followed by a payment that an organization would execute if the service fails (Berry, 1995). Wagner (1994), cited by Levy (1999), advocates that the crux of a service

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guarantee lies in its ability to transform an intangible product into a measurable expectation for a consumer prior to receiving the service. Moreover, a service guarantee has often been viewed as an effective tool to jump-start quality improvements and serve as a platform to maintain superior quality levels and to credibly signal high quality (Wirtz, Kum, Khai, 2000). The implication here is twofold: firstly, it contributes to making tangible a service that reduces the consumer's level of perceived risks associated with the service (Liden and Edvardsson, 2003) and secondly, it heightens the consumer's purchase intention which increases purchase probability. Consequently, the characteristics of higher education as a service create a profound suitability for such a guarantee. Among them are the high price for tertiary level education, the negative impact of having to repeat a subject, change a major or drop out of college. Furthermore, a first time entrant has no or low expertise of higher education. The image of higher education may be tarnished by negative reputation such as "a diploma mill" and "colleges depending on a high retention rate" (returning students), etc. as higher education is a business deeply affected by word of mouth (Hayes, 2006). These array of reasons serve as a fairly concrete platform for higher education to introduce a service performance guarantee.

The purpose of this article is to introduce the concept of a teaching performance guarantee in higher education. Delineation of this short-term teaching guarantee coupled with real-life applications in higher educational institutions offer a framework to explore and implement this as a risk reduction strategy which in turn promote the purchase and consumption of higher education particularly among first time college entrants (Hayes, 2006). The incorporation of descriptions pertaining to its related benefits and risks would shed light in ascertaining the potential use of teaching performance guarantees for higher educational institutions.

In providing a guarantee, there is a need to clearly identify the recipient of the guarantee. Higher education, obviously, serves multiple stakeholders namely students, parents, employers, graduates, alumni, taxpayers, legislators and society as a whole. Students, on the other hand, can assume positions such as product-in-process, co-producers in the learning process, consumers and customers of the service (Nachlas, 1999; Wallace, 1999). The type of teaching performance guarantee addressed here focuses on two important customer groups of a higher educational institution that is students and faculty members. The offering of this guarantee would be effective immediately upon a student's completion of a class and each guarantee proposed would be a specific

results guarantee. This form of guarantee warrants only specific performance aspects (Hart et al., 1992). For instance, in higher education, students could invoke the guarantee only if they are dissatisfied with an instructor's performance with respect to the classroom learning environment such as not providing students with feedback on their class progress. However, the guarantee cannot be invoked if they are dissatisfied with the instructor's choice of curriculum content addressed in the course, dissatisfaction with facilities or dissatisfaction with their grades (Lawrence and McCollough, 2001).

This specific result guarantee would warranty only the instructor's performance. This is because students become overwhelmingly frustrated when instructors are late for class, unprepared for class or fail to create a suitable learning opportunity for their students. This short term teaching performance guarantee is designed to address these types of issues as students can reasonably evaluate them at the end of a course (Lawrence and McCollough, 2001). An illustration of a teaching performance guarantee offered by McCollough and Gremler (1999a) and McCollough and Gremler (1999b) at the University of Idaho for two marketing electives namely retailing and distribution management reads, "If you are dissatisfied with performance of the instructor, you are entitled to receive your money back". Details of the guarantee clearly outline that the guarantee only covers the performance of the instructor and students dissatisfied with the performance of their instructor during the class are given their money back. Out of 250 students, only one student invoked the guarantee; thus, displaying its financial practicality and lack of abuse. Hayes (2006) has proposed a more productive alternative to a money-back guarantee, that is, to offer a credit refund at the individual class level. A student dissatisfied with any particular class, for any reason can request a credit. The class would still appear on their transcript but does not apply towards graduation. However, their tuition and fees would be deferred to the next semester as a credit resulting in a no cash outlay to the university. Nevertheless, to minimize abuse, students could be limited to three credit hours worth of refund per year for a full-time attendance.

### **Benefits and Limitations of Teaching Performance Guarantee for Higher Education**

Lawrence and McCollough (2001) have postulated that the imposition of such a teaching performance guarantee can offer significant benefits.



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Firstly, instructors are clearly accountable to their students for certain aspects of their performance. Hence mandating instructors to sustain a high level of focus on their classroom and regard students as an important customer group is important. This is essential as instructors perform an array of duties from research to service that leads to the fragmentation of their time. As such, a service performance guarantee of this nature enforces the need for priority setting among instructors. Secondly, the guarantee serves as a mechanism to solicit feedback and to better understand what has attributed to an instructor's failure in the classroom and how often the failure takes place (Goodman, Yanovsky and Grimm, 2004). An incident of students invoking the guarantee is an indication that instructors have failed to meet their students' expectation. In addition, students can be called upon to further explain why they feel an instructor's performance is unsatisfactory. Such feedback can serve as a valuable input to consistently drive on-going improvements in the classroom. Thirdly, guarantees create a high level of customer focus and clearly signals to students that an instructor intends to work hard and cares about them. It is also an indication of the instructor's confidence in his/her teaching ability and helps to make tangible previously intangible teaching qualities such as instructor's concern and confidence. Consequently, an added benefit derived through such guarantees is the presentation of pre-purchase signals that may reduce perceived risk and generate the much needed enrolment to justify the offering of certain courses. Fourthly, implementing such guarantee raises students' expectations of instructors and commands the instructor's total commitment which in turn drives students to work harder and perform better in class (McCollough and Gremler, 1999). This is possible as the guarantee clearly stipulates the need for students to be good customers and what it takes to be a good instructor. Furthermore, discussions and a clear definition of both the students' and the instructor's roles create a more positive attitude among students towards the class and promotes a sense of partnership between students and instructors. By far, this is the most significant benefit of the guarantee as any learning outcome that is manifested is the function of both the instructor and the students. Consequently, on a macro level offering, such a service performance guarantee can persuade and create customers' willingness to consume the education service if they are uncertain with the service performance. It would also be able to persuade customers to channel complaints that are valuable to both the customers as well as the service organization. This could result in problems surfacing more quickly as customers are

encouraged to complain and are assured that the organization wants to hear their problem. Goodman, Yanovsky and Grimm (2004) advocate that service performance guarantee provides employees with a ready solution and makes them feel effective as they are readily equipped to respond to customers' complaints of dissatisfaction since the service performance guarantee clearly outlines actions to rectify the problem. This may in turn minimize customers' dissatisfaction and defection. Additionally, a service guarantee too is able to motivate employees who in turn perform better and deliver a higher level of service quality (Hays and Hill, 2001).

Contrastingly, implementing a service performance guarantee of this nature lends itself to numerous obstacles. McCollough and Gremler (1999a) found that faculty members are utterly concerned about instructor-student partnership in the education process and many are against the imposition of this teaching performance guarantee. The reason is that instructors are primarily responsible for their students' education although students too must take responsibility to ensure their success in the education process. Levy (1999) postulated that faculty members may feel pressurised to improve their performance continuously to implement all the promises. The service organization too needs to ensure that facilities and employees are adequate, appropriate service standards are in place and backups are available for the service guarantee. In addition, high commitment from top management and instructors is critical. In realizing this, instructors need the appropriate training and empowerment to facilitate their implementation of the service guarantee. These infrastructures are critical to ensure that the service performance guarantee would be able to attract, recapture, retain and deliver customer satisfaction.

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