Service Orientation as a Strategic Initiative: A Conceptual Model with Exemplars

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Abstract

This study examines the service orientation literature and identifies hierarchical factors that should act as antecedents to a service orientation. As a result of these investigations, the study proposes a conceptual model for an effective service orientation, and elaborates on the need for service firms to direct their service orientation according to factors external to the firm. It also posits that service orientation is an evolving construct that must change as the needs of customers change, and suggests that service orientation should be a strategic initiative, rather than serving only as a tool to measure service performance. Outcome factors emanating from the effective implementation of a service-orientation strategy are then proposed. Two case studies illustrate the conceptual model.

Introduction

In the modern global marketplace, businesses must continuously adopt innovative strategies to improve their competitiveness. Globalization, technological innovations, and changing customer requirements have dramatically changed the way that businesses operate. Indeed, these changes in the global marketplace have challenged traditional business paradigms and have fundamentally changed how businesses conduct themselves to compete (Collins, Smith, & Stevens, 2001; Hamel, 2002). To be competitive in such a dynamic marketplace, managers must develop strategies that will optimize their competitive advantages, while minimizing their vulnerability to external threats and emulation. In particular, it has become imperative that businesses, regardless of their size, improve services and fulfil the holistic needs of their customers if they are to compete successfully. According to Porter (1986), to differentiate itself and remain distinctive, a firm must provide better value (as perceived by customers) than its competitors do. In this regard, customer-focused service activities of high perceived value are essential to gaining customer loyalty and market leadership.

Customer-perceived service value is of major importance in service industries in which value is determined by intangible services, rather than by tangible products. Creating and maintaining customer-oriented service is a necessity, rather than a choice, for service firms that wish to survive and prosper. In essence, this requires employees to perceive the firm's activities, policies, and procedures as being genuinely focused on high-quality service outcomes for customers. A firm might profess to be customer-oriented, but a *true* service orientation is reflected in the opinions and attitudes of the firm's employees.

A service orientation therefore requires an ongoing process whereby the internal mechanisms of the firm are designed to meet the changing needs of the customers while simultaneously allowing the firm to differentiate itself from its competition through services. This requires the firm to identify and adopt service-oriented activities that are valuable to the customer, and to do so continually. A service orientation must be more than a passing comment, a wall poster, or an edict from management; rather, it must be embedded in the firm as a core strategic initiative. Such a systematic approach can help to minimize Hamel's (2002) contention that easily bored customers tend to be promiscuous in their loyalties, and can ensure that a firm is continuously renewing itself in remaining ahead of the competition.

Firms with a genuine customer orientation seek ways to create long-term relationships with both internal and external customers. Nurturing and maintaining service-oriented internal customers also enhances service-oriented external customer relationships (Berry, Parasuraman, & Zeithaml, 1994). To be truly customer-focused, firms must structure their core internal activities and internal culture to ensure that all employees act in accordance with a service-oriented predisposition to excellence.

The strength of service orientation within firms has often been studied through employee surveys (Schneider & Bowen, 1985; Schneider, Parkington, & Buxton, 1980; Schneider & White, 2004; Solnet & Paulsen, 2005). However, the premise of the present paper is that a genuine service orientation is the *vital link* between internal customers and external customers. In such a service-oriented culture the firm's employees and the firm's external customers effectively collaborate as partners in ensuring that marketing, operations, and human resources all enhance the efficiency and distinctiveness of the service offering. In this way, the firm's service-oriented business strategy becomes a proactive, embedded strategic initiative, rather than a transitory project that is simply monitored intermittently with employee surveys to detect shortcomings and institute short-term remedial actions.

According to the resource-based view (RBV), differences in firm profitability within a particular industry are due to the capabilities that are *internal* to a firm—including expertise, systems, and knowledge (Voola, Carlson, & West, 2004). Using the RBV approach, it has been found that firm-specific strategic variables explain more than twice as much profit variance as external (or industry-related) effects (Spanos, Zaralis, & Lioukas, 2004). Apart from the relatively rare scenario of a natural-resource monopoly, the intangible resources of a firm (especially its human resources) are more likely to produce a real competitive advantage, because it is committed people who render the services that are difficult for competitors to emulate (Hitt et al., 2001).

This paper argues that a service orientation must be market-driven. As shown in the central panel of Figure 1, market-related factors (including strategic service vision and service concept) are antecedents and continual drivers of a service orientation. A number of managerial practices (relating to leadership, service encounter, human factors, and service system) are centered on this service orientation. Once employees perceive that management practices are focused on service, the firm can then profess to be service-oriented. Once the firm has a market-driven, service-oriented strategy, and the employees see this in the actions of management, certain outcomes follow (as discussed below).

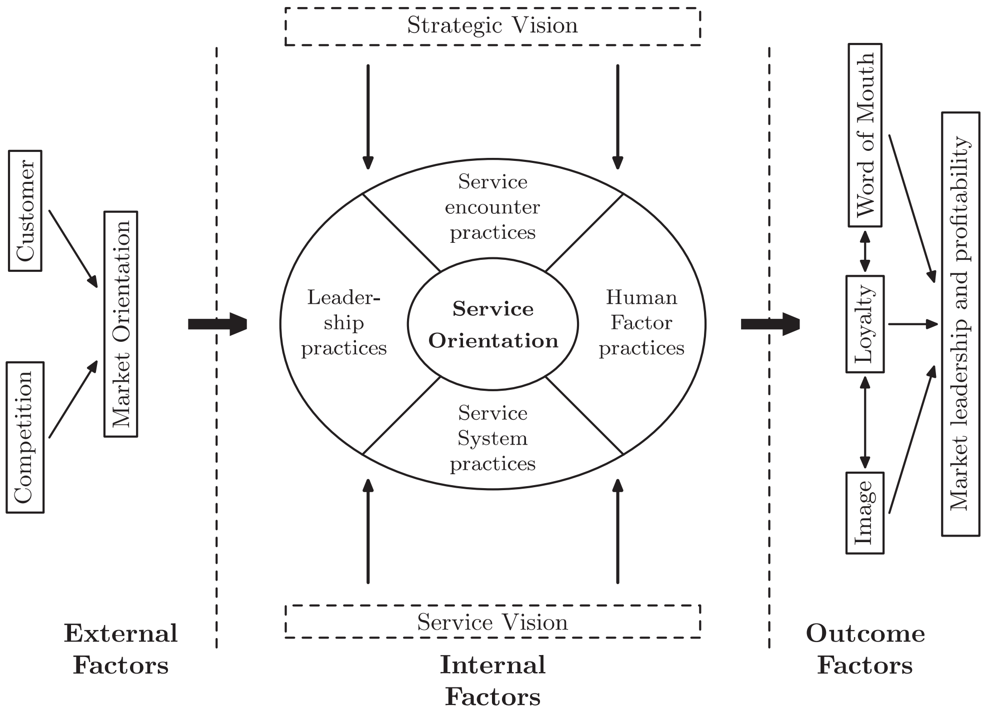
Although this study is conceptual in nature, the models proposed have strong theoretical support and practice-based evidence. The study makes three important contributions to the present body of knowledge in services management.

The first contribution is that a service-oriented strategy must receive its direction from factors that are external to the firm, mainly its customers and its competition. An effective service-oriented strategy cannot be based on research from other markets and other industries. Much of the previous literature on service orientation has failed to recognize the importance of service-oriented dimensions drawn from immediate external factors.

The second contribution is that a customer-focused service orientation must be developed on an ongoing basis as the needs of customers evolve. Today's marketplace is continuously changing, and service firms must ensure that specific aspects of their service delivery remain attuned with changing requirements. The dimensions of service orientation are evolving, not enduring.

The third contribution is that a strategic focus on service orientation should be seen as a proactive initiative. Although the literature has often described a service orientation as an organization-wide embrace of a basic set of policies, practices, and procedures that are intended to support behavior facilitating service excellence, this construct has been primarily used as a measurement tool, rather than as a strategic planning tool. In contrast, the present study suggests that a service orientation should represent a proactive strategic focus.

Figure 1
Showing the relationship between external, internal and outcome factors of the firm.



Conceptual Model

The present study develops a three-phase model of a service-oriented strategic path. The model incorporates the factors that enhance trust and commitment among service employees in fulfilling the firm's strategic vision of service orientation. The paper thus provides a theoretical framework for understanding how market-oriented evidence can enhance a firm's service orientation, organizational performance, customer-perceived value, and competitive advantage.

External Factors

The left panel of Figure 1 shows the external information (information about both customers and competing offerings) required for a market orientation. Such information provides a firm with a sound basis upon which to decide the direction that the firm is to follow.

A market orientation is widely considered to be the key to superior business performance (Baker & Sinkula, 1999; Day, 1994; Morgan, Katsikeas, & Appiah-Adu, 1998; Slater & Narver, 1995; Slater & Narver, 1994). Slater (1997) has argued that the provision of superior customer value is critical to superior market performance and profitability.

Knowledge of the competition and customers allows a firm to assess its market position and market trends, and facilitates setting higher performance standards in that market. A market orientation thus provides direction for the firm's service orientation.

Internal factors

Once the firm's market orientation is established, it must then focus on the internal factors that contribute to a service orientation (as shown in the central panel of Figure 1). The firm must select those dimensions of service orientation that best fit the changing needs of the marketplace (as identified above under "External Factors").

Nature of a Service Orientation

The term "service orientation" was used initially in relation to personality traits. It was assumed that people who possessed certain personality traits (such as concern, empathy, and conscientiousness) would be more adept at customer service (Martin & Fraser, 2002). The term has since evolved, and is now understood as a strategic dimension of management (Lytle, Hom, & Mokwa, 1998; Schneider & White, 2004; Lytle et al., 1998). The term thus carries two broad meanings: a reflection of employee perceptions about practices, policies and procedures in the workplace; and a dimension of an organization's overall strategy and culture.

Service orientation can be examined at these two levels: First, at the individual level, it can be examined regarding the service orientation of individual employees (Homburg, Hoyer, & Fassnacht, 2002). This includes concepts such as "empowerment" and "moments of truth," which assist in nurturing personal initiative in service orientation. The second level at which service orientation can be examined is at the organizational level; this refers to both internal organizational factors (such as internal design characteristics, organizational structure, training, policies, and the like) and external strategic factors (such as a firm's orientation toward service as a marketing strategy) (Homburg et al., 2002).

The concept of "service orientation" has certain parallels in the literature with the notion of "organizational climates." Because several climates can co-exist within an organization, the notion of "climate" is most effective when it is used as a specific construct that leads to a defined purpose-for example, innovation, safety, or service (Schneider, Bowen, Ehrhart, & Holcombe, 2000; Schneider, Gunnarson, & Niles-Jolly, 1994). In these terms, a firm can be said to have a service orientation when it has a recognizable and defined "service climate" (Lynn, Lytle, & Bobek, 2000; Lytle et al., 1998; Schneider & White, 2004).

Climates are measured by soliciting the collective perceptions of employees regarding certain practices, procedures, and behavior in the workplace that are expected, supported, and rewarded. A climate helps individuals to determine how they should behave, based on the way they think and feel about various aspects of the work environment. Employees rely on cues from the surrounding environment to interpret events and develop attitudes (Liao & Chuang, 2004). In a service orientation, the focal point is the degree to which employee efforts are directed toward service quality and customer satisfaction (Hogan, Hogan, & Busch, 1984; Schein, 1985; Schneider & Bowen, 1993; Schneider, Brief, & Guzzo, 1996; Schneider, White & Paul, 1998). In one example of a rigorously constructed scale of service climate, Lytle et al. (1998) reviewed the extant literature to identify the "best in class" service practices that represent a service climate (which they termed "organisational service orientation"). The review resulted in a framework of four dimensions and 10 fundamental elements of service orientation (see Table 1). On this basis, the authors developed an instrument ("SERV*OR") to measure the construct.

Service-climate dimensions are contextual factors that support the delivery of personal service. The dimensions are geared toward aspects of customer satisfaction that are related to person-to-person service encounters, rather than to other aspects of satisfaction, such as hours of operation, billing, and location (Johnson, 1996). However, the concept of climate has commonly been used for *measuring* employee opinions about a range of dimensions (such as those in Table 1), rather than as a *strategic initiative* to create a service orientation.

In addition, service-climate dimensions have usually been created qualitatively by asking employees and managers to assess the importance of various factors in creating an atmosphere conducive to the delivery of service. However, these factors are often carried over from one year to the next with minimal regard for the changing needs of customers. To be truly service oriented, a firm should constantly reassess customer and marketplace needs. Past research into both service climate and service orientation has not adequately addressed these changing requirements.

Table 1
Dimensions of Service Orientation, adapted from Lytle et al. (1998)

Dimension and Elements	Description
Service leadership practices	
- Servant leadership	Management setting the example and providing excellent service "internally" (internal service quality) (Berry et al., 1994)
- Service vision	Clear and effective articulation of the vision for service excellence (Albrecht, 1988)
Service encounter practices	
- Customer treatment	The ability of staff to enhance customer satisfaction through their "service performance." Positive customer perceptions of service enhance customer satisfaction, loyalty and profits (Bitner, 1990)
- Employee empowerment	Do employees have the responsibility and the authority to meet customer needs and to please customers? (Bowen & Lawler III, 1995)
Service systems practices	
- Service failure, prevention	Systems designed to prevent failure
- Service recovery	Systems respond to failure and avoid double disappointment (Berry et al., 1994)
- Service technology	The business (where appropriate) uses cutting-edge technology designed to enhance service quality (Heskett, Sasser, & Schlesinger, 1997)
- Communication of service standards	Service standards are communicated and understood by all members of the organization (Hallowell, Schlesinger, & Zornitsky, 1996)
Human resource practices	
- Service training	Human relations skills are emphasized in the organization (Albrecht & Zemke, 2002). Investment is made into training and developing the workforce (Schlesinger & Heskett, 1991)
- Service rewards	Link between service performance and compensation (Berry et al., 1994). Links between reward for service behavior and customer satisfaction (Johnson, 1996)

Importance of a Service Orientation

A service orientation is important because it is conceptually and empirically linked with customer satisfaction. Many studies have established links between the dimensions of a service climate or service orientation (regarding employees' perceptions of management practices) and customer perceptions of service (Johnson, 1996; Schmit & Allscheid, 1995; Schneider & Bowen, 1985; Schneider et al., 1980; Schneider et al., 1998; Wiley, 1991). A definite correlation has been demonstrated between *customers' experiences* (what employees say customers experience and what customers report that they experience); and *employees' experiences* (especially the specific aspects of employees' experiences that most strongly relate to customer satisfaction). Heskett, Sasser, and Schlesinger (1997) have used the term "satisfaction mirror" to describe this connection between employees' experiences and customers' experiences.

Factors Determining Service Orientation

Some argue that a service orientation is a gestalt of perceptions across a range of dimensions (Lytle et al., 1998; Schneider et al., 2000). This approach, based on the dimensions shown in Table 1, has merit; however, it might not adequately portray the whole picture. This is because the climate approach, which allows for direct measurement of employees' perceptions, represents a *final evaluation* of the service climate, rather than providing guidance on *how to achieve* the outcomes that reflect a "positive" service orientation. Although previous studies have provided contributions to this question of how to achieve a service orientation, the present study identifies a *market orientation* as the most important precursor to a successful service orientation. Figure 1 shows two primary antecedents of service orientation:

- a *strategic vision:* which is value-driven and which provides direction for every aspect of a firm's function; and
- *a service vision:* which is closely aligned to the strategic vision, but which focuses on the firms' service performance.

Each of these is discussed below.

Strategic Vision

In a competitive market, a firm that maintains market leadership has an overall vision that differs markedly from its competitors. This vision personifies the firm with a value-driven commitment and far-sighted strategic aim that goes beyond mere financial performance to serve as an example of leadership in the industry.

Such a distinctive and farsighted vision facilitates trusting relationships with both internal and external customers. The vision creates a mindset within the organization that is dedicated to customer satisfaction and service quality, and provides employees with motivation to take up the challenges and opportunities provided by empowerment in going beyond their job tasks and creating memorable "moments of truth." Companies such as Marriott, CISCO, Federal Express, Disney, Southwest Airlines and Dell are not temporary leaders in their market categories; rather, they are visionaries who have consistently outperformed their competitors against all odds. They do this by creating and maintaining genuine relationships with employees and customers alike. In doing so, they proactively seek opportunities to reorient the firms' internal processes, systems, and structures according to their vision. Such a strategic vision is imperative to harness and orchestrate the internal and external partners of the firm through relationships that create outcomes far superior to those of their competitors.

Service Vision

The service vision communicates to customers and stakeholders how the firm will innovatively create and consistently deliver its service promise. A service vision is not confined to what is written on wall posters or in staff handbooks; it should be conceptually and functionally ingrained in the organization from the boardroom to the "shop floor" (Kandampully, 2002). The service vision should communicate what the organization is, what it does, and what it values (Rust, Zahorik, & Keiningham, 1996; Rust, Zeithaml, & Lemon, 2000). The service vision represents the firm's awareness of itself as a service organization. This self-awareness is not so much a representation of the products and services that are offered; rather, it defines the results that the firm wishes to produce for customers regarding tangibles, intangibles, and experiences.

The service vision should be at the forefront of service-orientation strategies-an organizational manifesto that clearly articulates the goals and objectives of the firm (Lytle et al., 1998). According to Berry (1995), the firm's vision energizes the organization and defines the word "service." To customers, a service vision thus represents quality, superiority, and value; to employees, it represents nurture, motivation, and common goals. Moreover, a well-defined service vision creates service that is difficult for others to emulate. Leading service organizations meticulously fine-tune and orchestrate every employee, every process, and every system to produce a compelling vision of superior service. This uncompromising vision of superior service captures the attention of customers, enhances their perceptions of value, and ultimately gains their loyalty.

Dimensions of Service Orientation

The extensive literature on service orientation contains many variations on the number and nature of the practical dimensions of the construct (Johnson, 1996; Lytle et al., 1998; Schneider & Bowen, 1985; Schneider et al., 1980; Schneider et al., 1998). Drawing largely on the work of Lytle et al. (1998), the present study identifies four important practical dimensions of service orientation:

- service-encounter practices;
- leadership practices;
- human-factor practices; and
- service-system practices.

Each of these is discussed below.

Service-Encounter Practices

People play a significant role in service delivery and customers' perceptions of a service offering. These people include any person involved, directly or indirectly, in service provision (Kandampully, 2002). The employees who deliver the service obviously have a direct influence, as do owners, managers, and other stakeholders who indirectly contribute to the service. Moreover, other people in the service environment at the time of service delivery, including other customers, also play a part. The personal appearance, attitudes, and behavior of all involved (directly or indirectly) influence a customer's perception of a service (Zeithaml & Bitner, 1996).

From the customer's perspective, the most immediate evidence of service quality is the service encounter itself (Bitner, Booms, & Mohr, 1994). Interactions with service employees are the experiences that customers remember best, and employees who are uncomfortable in dealing with customers or who lack the training and expertise to meet customer expectations can cause customers to retain unpleasant memories of a service experience. Service employees are thus the primary resource through which service businesses can gain a competitive advantage (Lovelock & Wirtz, 2004; Schneider & Bowen, 1993). Service encounters with these employees are the critical moments during which customers develop an impression of a firm. Indeed, the encounter is often perceived by a customer as *being* the service (Bitner, 1990).

A service encounter can be defined as the interaction between a customer and a firm through its frontline employees (Bitner et al., 1994; Shostack, 1977; Bitner, Brown, & Meuter, 2000; Zeithaml, Berry, & Parasuraman, 1988). The outcomes of service encounters thus depend on the skills, knowledge, personality, behavior, and performance of these employees (Mills, 1986; Reisinger, 2001). If successful, these outcomes can include satisfaction, loyalty, and positive word-of-mouth recommendation. It is therefore imperative that service firms understand how to manage these critical service encounters (Bitner et al., 2000).

To ensure that the importance of service encounters is realized in practice, firms need well-developed service systems (see below).

Service Systems

An organization's rules, regulations, policies, and structures must be set in place to enable employees to serve their customers better. If such systems are not in place, systems should be created or redesigned to remove any obstacles that restrict employees' freedom to offer exceptional quality of service. It should not be necessary for employees to, in effect, work *against* the system in meeting their customers' special needs.

Empowerment of employees is an important aspect of developing quality service systems. However, effective empowerment is not conducted only at the level of individual employees; it involves the development of a creative culture within the whole organization. In this regard, service firms need to create innovative services to meet the needs of their customers, supported by a superior quality of service-every time, all the time.

However, the creative modification of services discussed above, together with the prevalence of the "human element" in service delivery, mean that mistakes are inevitable. Even the best service system cannot be expected to produce superior service every time, and a "zero defects" approach to services is unreasonable. The concepts of service guarantees and service recovery can be effectively employed in these circumstances. Service managers must prepare for corrective action well before mistakes occur. When mistakes do happen, adequate preparation concerning service recovery and service guarantees ensures that the firm makes its commitment to service clear to its customers (Zemke & Bell, 1990; Oliver, 1997). There is a natural interdependency among the three strategies of service empowerment, service recovery, and service guarantees. A collective focus for the three interrelated strategies is what constitutes an effective service system.

Leadership Practices

Leadership is a crucial ingredient in creating and maintaining a positive service orientation, because leadership attitudes and practices direct and shape the climate of an organization (Heskett et al., 1997; Lytle et al. 1998). If the leaders of a firm demonstrate, through their own actions, that they consider customer service of the greatest importance, employees will behave toward customers with a similar sense of commitment. In this way, management creates a service orientation through example, rather than by simply dictating policy.

This aspect of leadership is similar to the rationale of internal service quality, whereby managers aim to provide excellent service to their employees who, in turn, are motivated to provide excellent service to their external customers (Heskett et al., 1997).

The Human Factor (Human-Resource Practices)

A firm's service vision cannot be achieved without the input of the most important factor in service delivery: the service employees of the organization. Knowledgeable and talented employees are increasingly recognized as indispensable in the innovative world of modern business, and managers must nurture and develop "competitive intelligence" at every level of the organization if it is to build a competitive advantage (Peters, 1994; Hamel & Prahalad, 1989). A similar view was articulated by the chairman of Sony, Akio Morita (1988, p. 165), who stated that it is not the manual labor of employees that allows a company to dominate a global market, but the contributions of the employees' minds.

Many researchers have identified the crucial role of people in service organizations-including the delivery of superior service, the customer's perception of enhanced service value, and the dual role of service personnel in operational and marketing tasks (Albrecht & Zemke, 2002; Schlesinger & Heskett, 1991; Bitner, 1990; Kandampully, 2002; Grönroos, 2000; Parasuraman, Berry, & Zeithaml, 1988). Many services are designed to fulfil the personal needs of customers, and these naturally lend themselves to the establishment and maintenance of personal relationships with service providers (Parasuraman, Berry, & Zeithaml, 1991; Stauss, 1996). Such emotional bonds can cause customers to seek services repeatedly or exclusively from particular service providers (Butz & Goodstein, 1996). Indeed, these emotional bonds can mean that customers exhibit more loyalty to particular service employees than to the firm itself (Parkington & Schneider, 1979). In this regard, Parasuraman et al. (1991) demonstrated that although reliability is the most important dimension in *meeting customer* expectations, the human elements of assurance, responsiveness, and empathy are the most important in *exceeding* customer expectations.

Exceptional service that delights customers requires continuous development of service-not regarding *what* is being offered, but *how* it is being offered. The role of service personnel has thus become increasingly important in the customer's perception of service value (Grieves & Mathews, 1997). In this regard, empowerment is central in enabling employees to assume increased responsibilities and to be more accountable for their actions (Keenoy, 1990). Empowerment encourages employees to exercise initiative in every aspect of their work, and rewards them for taking self-directed action. Moreover, empowerment provides employees with confidence to be more imaginative in creating new solutions that meet the changing needs of customers (Antonacopoulou & Kandampully, 2000).

Outcome Factors

The right panel of Figure 1 shows the *outcome factors* of the conceptual model being presented here. From a services-management perspective, service outcomes-both positive and negative—are created in the customer's mind as experiences, and retained there as memories. Through such service experiences, customers recognize how much the firm values their business.

Firms that succeed in creating positive service experiences in the minds of their customers gain many benefits: reinforcement of customers' trust in the firm; willingness of customers to reciprocate the firms' service by acting as their most effective marketers through positive word-of-mouth recommendation; nurturing of customer loyalty; and enhancement of the firms' images in the marketplace. The literature clearly indicates that positive word of mouth, enhanced customer loyalty, and a positive image lead to improved market and financial performance.

Word of Mouth

The term "word-of mouth" (WOM) describes communication between persons regarding a product or service whereby positive or negative experiences affect future buying behavior of actual or potential consumers (Ennew et al., 2000). WOM plays a significant role in consumer attitudes and buying behavior; moreover, satisfied customers become loyal customers and engage in positive WOM (Anderson & Sullivan, 1993; Reichheld & Sasser, 1990; Brown & Reingen, 1987; Buttle, 1998).

WOM marketing is cost-efficient (or free). In addition, WOM is credible to consumers because the sender of the information usually has nothing to gain from the recipient's subsequent decision to buy or not buy (Bansal & Voyer, 2000). Customers believe what they hear from the public. It has been suggested that customers trust their friends and families, as well as other customers, more than they trust companies and their slogans and advertisements (Katz & Lazarsfeld, 1955; David, 1979).

WOM is especially significant in service industries because a service outcome is intangible and cannot be assessed before consumption. WOM is thus valued by prospective customers to reduce their perceived risk (Bansal & Voyer, 2000; Zeithaml & Bitner, 1996). Parasuraman et al. (1988) found a significant positive relationship between customers' perceptions of service quality and their subsequent willingness to recommend the company to others, and Ranaweera and Prabhu (2003) found that higher levels of customer satisfaction were associated with higher levels of positive WOM and customer retention.

However, WOM is a double-edged sword that can communicate negative experiences as effectively as it can communicate positive ones. Indeed, customers are more vocal with their opinions when they are dissatisfied than when they are satisfied (Theng Lau 2001). Evidence shows that when firms competently respond and resolve problems, customers with negative experiences become repeat purchasers and generate positive WOM (Brown & Reingen, 2001). Hence, firms must find ways to render superior service and practice service recovery to gain customers' goodwill on a consistent basis.

In some cases, consumers are satisfied with a particular product, but dissatisfied with the service associated with the product. In addition, it has been demonstrated that customers who were initially dissatisfied with a service can later spread positive WOM, provided they are satisfied with the way in which the organization handled the recovery process (Blodgett, Wakefield, & Barnes, 1995). However, in many instances, customers do not voice their dissatisfaction to the firm, but engage in negative WOM (Theng Lau, 2001).

Firms must empower employees, then, so that they can respond to customer needs promptly at the time of an unsatisfactory encounter. When firms respond to customer complaints promptly they can transform dissatisfied customers into loyal customers, and thus generate positive WOM (Brown & Reingen, 2001). Moreover, the existence of interpersonal relationships between employees and customers is a strong determinant of WOM communication (Gremler, Gwinner, & Brown, 2001). In summary, a service orientation allows empowered employees to "go out of their way" to satisfy customers and thus generate positive WOM.

Customer-focused superior service is thus a necessity if firms are to gain positive WOM. According to Johnston (2004), such superior service requires four essential outcome-oriented factors:

- delivery of the promise;
- providing a personal touch;
- going the extra mile for the customer; and
- dealing well with problems and queries.

In seeking to provide such superior service and thus gain positive WOM, the firm requires more than the efforts of service employees or designated marketers: It requires the combined efforts of the entire organization-including the firm's guiding vision; a service-oriented culture; service-oriented structures, systems, and processes; and empowered employees. In this way, firms are able to convince customers of their commitment to customer-focused service, and thus gain customer trust and loyalty.

Loyalty

A firm's ultimate goal of securing a good return on investment (ROI) primarily depends on a loyal customer base. The competitive markets of today provide customers with greater choice than ever before. As a result, attracting, satisfying, and retaining customers have therefore become essential if firms are to be successful. As Drucker (1973, p. 79) once observed: "...to satisfy the customer is the mission and purpose of every business."

Research by Reicheld and Sasser (1990) demonstrated that a 5% increase in customer retention results in a 25-85% increase in average customer lifetime value-thus producing a significant exponential boost to corporate profitability. They also found that up to 60% of increased sales to new customers can be attributed to customer recommendations-an indicator of customer loyalty. Furthermore, a study conducted by Heskett, Jones, Loveman, Sasser, and Schlesinger (1994) showed that, in some companies, loyal customers not only provide the profits but also cover the losses incurred in dealing with less loyal customers.

However, Bowen and Shoemaker (1998) indicated that loyalty extends beyond simple satisfaction. Although satisfying customers is essential for loyalty, studies have shown that satisfying customers, on its own, is not enough-because there is no guarantee that satisfied customers will return to purchase (Dube et al., 1994). Customer loyalty also involves the likelihood of a customer returning and that customer's willingness to perform "partner-like" activities for the service firm-that is, recommending the firm to friends. There are thus two dimensions to customer loyalty: behavioral and attitudinal (Julander et al., 1997). The former refers to a customer's making repeat purchases, thus indicating a preference for a brand or a service over time (Bowen & Shoemaker, 1998). The latter refers to a customer's intention to repurchase and recommend-which are good indicators of a loyal customer (Getty & Thompson, 1994).

The benefits of customer loyalty flowing to both the firm and the customer have been well established (Gremler & Brown, 1996; Hennig-Thurau, Langer, & Hansen, 2001; Reichheld, 1996). Grönroos (2000) demonstrated that, in most businesses, loyal customers are willing to pay a premium price and require less service support. Gummesson (1999, p.183) referred to the "return on relationship" in discussing how customer loyalty improved the firm's long-term financial outcome. Indeed, the concept of *relationship marketing* has become an important concept in seeking new strategies that might help to retain customers.

Image

Image is important for any organization because it influences customers' perceptions of the goods and services being offered, and thus affects their buying behavior (Zeithaml & Bitner, 1996). Researchers have identified a number of factors that determine image. Normann (1991) argued that image is built up in the customer's mind through the combined effects of advertising, public relations, physical image, WOM, and the customer's actual experiences with the goods and services. Of these, he deemed the customer's experience with the products and services to be the most important factor in the development of image. Similarly, Grnroos (1983) suggested that image is formed by the customer's perception of the quality of service and customer satisfaction.

Nguyen and Leblanc (2002) emphasized the importance of service encounters in defining the image of a service firm through tangible evidence (such as contact personnel and physical environment) whereby customers can infer the quality of the service before making their decisions. The intangible nature of services means that customers have limited opportunities to pre-test them. Service quality and customer satisfaction both therefore depend heavily on the so-called moments of truth—the service encounters during which customers experience the reality of what the firm's image promises.

Echtner and Ritchie (1991) identified two dimensions of image: "holistic" and "attributes." The former refers to a person's mental picturing of the phenomena as a whole, as opposed to a mere collection of independent stimuli (Bitner, 1992). The latter refers to the facilities and physical environment that forms and influences the phenomena (Echtner & Ritchie, 1991).

Kandampully and Suhartanto (2003) found that a firm's ability to establish a favorable image contributes significantly to customer loyalty. Indeed, positive WOM, loyalty, and image are interrelated. Customers who receive superior service experience will provide positive WOM to enhance the firm's image in the market and will be inclined to use the firm in the future as loyal customers.

Case Studies

Having presented and discussed the conceptual model illustrated in Figure 1, two case studies follow. The purpose is to analyze the corporate business strategy of the two firms with respect to service orientation, service vision, and market orientation. The case studies were developed from secondary data.

Dell

Dell has dominated the computer industry for the past two decades to the extent that it has become a business buzzword. Dell has revolutionized the computer industry by gaining the trust of its customers-in home offices, business of all sizes, educational institutions, and government. Dell's market dominance owes to its distinctive five-tiered customer-focused direct business model, which begins and ends with the customer. The five tiers consist of the most efficient path to the customer; a single point of accountability; build-to-order products; low-cost leadership; and standards-based technology.

Dell is founded on the principle of providing superior service by creating a direct relationship with the customer in an effort to provide a superior customer experience. Dell's entire business-from design to manufacturing to sales-has always been based on listening to the customer, responding to the customer, and delivering what the customer wants. Dell has become known for its direct link with its customers, and its superior knowledge of its customers allows Dell to distinguish itself from its competition.

Customizing every computer for its customers (so-called mass customization) had never previously been attempted in the computer industry, and was an extremely challenging task for any firm to undertake. Despite the difficulties, Dell chose this path of allowing customers to decide which features, accessories, warranties, and repair services they wished to add while being fully aware of the cost of each additional component. Such customized computers have provided customers with an alternative to the pre-built systems of the past. Customization at the point of sale has assisted Dell to develop products and services from the customer's perspective, and thus to gain an understanding of customers' core and peripheral needs.

Customer service is challenging for most computer firms because many users lack computer expertise and therefore require ongoing assistance throughout the lifetimes of their computers. For their part, already-anxious customers dreaded having to deal with middle dealers-sales people and technical-support people-who often increased the aggravation they felt. In contrast, Dell offers a consumer-friendly website and online technical support, allowing customers to obtain additional information about Dell products, as well as information about the firm. In addition, Dell provides special training for their technical-support people to ensure that they become "total customer-service personnel." This training equips technical-support staff with the knowledge and skills to answer questions ranging from billing problems to complex technical issues. This means that a Dell customer is never transferred from one person to another person.

The strategic service orientation of Dell's entire business has ensured that the company has an unmatched image for customer service. This, in turn, has led to customer loyalty, market leadership, and profitability.

Southwest Airlines

In the turbulent U.S. airline industry, few companies have been as successful as Southwest Airlines. Since government deregulation of the American airline industry in 1979, companies such as Pan Am and TWA have gone out of business; others such as Delta and United, which are among the largest airlines in the world, have filed for bankruptcy protection; and a majority of the other remaining U.S. airlines continue to post losses. Although Southwest is comparatively small, it has emerged as a leader in the U.S. airline industry and has generated consistent profits and high customer-service ratings. The mission of Southwest Airlines is "... dedication to the highest quality of customer service delivered with a sense of warmth, friendliness, individual pride, and company spirit." This customer-focused mission, supported by innovative service strategies, has enabled Southwest to gain and retain customers and employees.

Southwest was a pioneer in the airline industry in offering its customers the opportunity to purchase flight tickets online, which currently accounts for nearly 85% of its ticket sales. Whereas most airlines depend on travel agents, Southwest uses its website to allow customers to make reservations and to check in, thereby creating a direct relationship with them. Moreover, Southwest's online ticketing service allows customers to choose from a selection of ticket categories (such as "fun fares," "advance purchase fares," "restricted fares," and "refundable anytime fares"). Purchasing tickets in advance allows customers to save money; however, as time elapses and the departure date draws nearer, the only available fares are in the expensive "refundable anytime" category. The strategy of online categorization thus allows customers to review the options, and to make choices based on their needs and means. In addition to this service, Southwest offers e-tickets, online check-in, self-service kiosks, and an open-seating policy. These initiatives benefit both customers and employees because they decrease the time spent at check in, allowing employees additional time to interact with customers and to assist them with valuable friendly support.

Unlike most other airlines, Southwest's flight attendants clean the planes when the passengers have disembarked. Indeed, employees at all levels-including senior management and pilots-engage in various customer-service activities to minimize turnaround time (from landing to take-off) and costs. This allows Southwest to maintain consistent on-time arrivals and departures, which enhances customers' perceptions of service value and maintains the reliable image of the airline.

As a result of these initiatives, Southwest was the first airline, in 1988, to win the so-called "Triple Crown"—best on-time record, best baggage handling, and fewest customer complaints. Southwest has subsequently won this award five times (from 1992 to 1996).

The commitment and loyalty of its employees is what differentiates Southwest from the competition. A sense of employee "ownership" within a service-oriented culture has reaped significant dividends for the firm, and the loyalty of its internal customers is reflected in the loyalty of it external customers. To encourage its employees' sense of ownership, Southwest established, in 1974, the first profit-sharing plan in the U.S. airline industry, whereby its employees own 10% of the firm's shares. As a result of these initiatives, Southwest is listed by *Forbes* magazine as one of the best companies for which to work.

Southwest has a “keep-it-simple” strategy. Innovative tactics include point-to-point flights to less crowded airports, and “first-come first-served” seat assignments. Customers are divided into “boarding groups” (A, B, or C) on the basis of their time of arrival, thus expediting the boarding process and allowing customers to choose their own seats.

Although nothing that Southwest does is a secret, its competitors have been unable to match its success. Competitors can imitate planes, ticket counters, and so on, but they have not been able to duplicate the Southwest people and their positive attitudes. Southwest emphasizes employee-management-customer relationships, a unique combination that competitors find impossible to emulate. The close nature of the relationships between customers and employees enables Southwest to create and nurture an all-important service culture that no other competitor has been able to imitate. It is this seamless transition from internal customer to external customer to desirable outcome that enables Southwest to stand out from its “look-alike” competition.

Conclusion

This paper has argued for the importance of a service orientation as a strategic initiative that should be continuously informed by external (market) factors; internal (strategic vision and service vision) factors; and customer-outcome (image, loyalty, and WOM) factors (see Figure 1). Having explored each of these factors in detail, the study then took two leading service firms as case studies of the role of customer-focused service in producing market leadership and long-term success. The conclusions of the study can be summarized as follows.

First, service firms must not lose sight of the crucial external factors-customers, the marketplace, and the competition-and the importance of a committed and empowered workforce in attending to these factors. The case study of Dell demonstrates the importance of providing customized service and enhancing customer contact at every opportunity. Similarly, Southwest Airlines has built a culture of committed employees through its innovative profit-sharing program and its attention to internal service quality-thus satisfying its external customers and building long-term relationships with them. Committed and empowered employees are essential in attending to customers and the marketplace. However, when firms become successful, it becomes increasingly difficult to engender a customer focus in the workforce. This, it is suggested, can be overcome if firms build a customer-focused culture as part of their basic strategic orientation.

Second, using the conceptual model shown in Figure 1 the present study suggests that firms should take full advantage of customer information to ascertain (and continuously adjust) the relevant dimensions of service orientation. Subtle alterations in the dimensions of service orientation will occur as the needs and demands of customers change. To keep themselves aligned with the current dimensions relevant to service orientation, firms should frequently revise service dimensions; the measuring instruments used to gauge service climate; and reward-and-recognition programs.

Third, service firms should frequently measure their service orientation concerning service excellence. Researching the views of employees can help managers to identify, measure, and manage the relevant intra-organizational drivers required to enhance customer satisfaction. Managers should continuously ask themselves what they can change in their organization-such as internal structures, staffing arrangements, service processes, reward systems, and the like-to have a positive effect on the quality of service that customers will receive.

Fourth, managers and supervisors must understand that a service orientation does not exist unless it is perceived by the workforce through the attitudes and actions of management. Managers must ensure that their own actions do not contradict the firm’s general orientation to serve customers. This point is particularly salient in service businesses where face-to-face service encounters take place regularly, since the perceptions by front line employees as to the extent to which the firm’s leaders practice service excellence greatly influence the quality of their interactions with customers.

Finally, the study recommends the application of the conceptual model presented here in Figure 1. The model can be a useful visual aid when service organizations are considering the implementation of a service orientation in their firms in a quest for competitive advantage. The model outlines the more important antecedents of a service orientation and shows that a service orientation first requires attention to external factors before creating a vision that incorporates service delivery as a predominate part of the firm offering.

A number of issues have emerged from this study which make important contributions in both management theory and practice. Although the above arguments proffer conceptual understanding of a service-oriented business strategy, the authors recommend empirical research, across a range of service industry sectors, to complement the study and to explore the relationships among each of the elements of the proposed model.

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